Hypersolar, Inc.
Form 10-Q
May 15, 2018

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 MARCH 31, 2018

TRANSITION REPORT UNDER 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.

(Name of registrant in its charter)

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

<u>510 Castillo St., Suite 320, Santa Barbara, CA 93101</u>

(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 the 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 (Do not check if smaller reporting company)	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 May 14, 2018 was 842,912,630.

HYPERSOLAR, INC.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HYPERSOLAR, INC.

CONDENSED BALANCE SHEETS

	March 31, 2018 (Unaudited)	June 30, 2017
ASSETS		
CURRENT ASSETS		
Cash	$74,673	$80,133
Prepaid expense	-	4,167
TOTAL CURRENT ASSETS	74,673	84,300
PROPERTY & EQUIPMENT		
Computers and peripherals	8,100	6,218
Less: accumulated depreciation	(6,270)	(6,218)
NET PROPERTY AND EQUIPMENT	1,830	-
OTHER ASSETS		
Deposits	900	900
Domain, net of amortization of $3,425 and $3,160, respectively	1,890	2,155
Patents, net of amortization of $3,676 and $0, respectively	87,639	78,478
TOTAL OTHER ASSETS	90,429	81,533
TOTAL ASSETS	$166,932	$165,833
LIABILITIES AND SHAREHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable	$152,782	$103,112
Accrued expenses	452,813	401,626
Derivative liability	15,988,897	2,482,842
	247,583	238,665

Convertible promissory notes, net of debt discount of $47,417 and $66,335, respectively		
TOTAL CURRENT LIABILITIES	16,842,075	3,226,245
LONG TERM LIABILITIES		
Convertible promissory notes, net of debt discount of $17,758 and $38,514, respectively	1,501,742	1,189,486
TOTAL LONG TERM LIABILITIES	1,501,742	1,189,486
TOTAL LIABILITIES	18,343,817	4,415,731
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; 1,000,000,000 authorized common shares 810,438,893 and 699,483,259 shares issued and outstanding, respectively	810,439	699,483
Additional Paid in Capital	7,686,204	6,850,736
Accumulated deficit	(26,673,528)	(11,800,117)
TOTAL SHAREHOLDERS' DEFICIT	(18,176,885)	(4,249,898)
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT	$166,932	$165,833

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

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HYPERSOLAR, INC.

CONDENSED STATEMENTS OF OPERATIONS

FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2018 AND 2017

(Unaudited)

	Three Months Ended		Nine Months Ended	
	March 31, 2018	March 31, 2017	March 31, 2018	March 31, 2017
REVENUE	$-	$-	$-	$-
OPERATING EXPENSES				
General and administrative expenses	108,869	144,152	381,794	377,036
Research and development cost	61,295	19,736	181,458	114,708
Depreciation and amortization	1,066	88	3,994	425
TOTAL OPERATING EXPENSES	171,230	163,976	567,246	492,169
LOSS FROM OPERATIONS BEFORE OTHER INCOME (EXPENSES)	(171,230)	(163,976)	(567,246)	(492,169)
OTHER INCOME/(EXPENSES)				
Gain on debt conversion and change in derivative liability	(12,788,892)	2,679,773	(14,070,817)	3,803,154
Interest expense	(59,004)	(99,915)	(235,348)	(274,325)
TOTAL OTHER (EXPENSES) INCOME	(12,847,896)	2,579,858	(14,306,165)	3,528,829
NET (LOSS) INCOME	$(13,019,126)	$2,415,882	$(14,873,411)	$3,036,660
BASIC (LOSS) EARNINGS PER SHARE	$(0.017)	$0.004	$(0.020)	$0.005
DILUTED (LOSS) EARNINGS PER SHARE	$(0.017)	$0.004	$(0.020)	$0.005
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING				
BASIC	777,258,065	652,153,322	732,858,301	620,783,642
DILUTED	777,258,065	655,078,772	732,858,301	623,709,092

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

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HYPERSOLAR, INC.

CONDENSED STATEMENTS OF SHAREHOLDERS' DEFICIT

FOR THE NINE MONTHS ENDED MARCH 31, 2018

	Preferred stock		Common stock		Additional Paid-in	Accumulated	
	Shares	Amount	Shares	Amount	Capital	Deficit	Total
Balance at June 30, 2017	-	$ -	699,483,259	$699,483	$6,850,736	$(11,800,117)	$(4,249,898)
Issuance of common stock for conversion of debt and accrued interest	-	-	110,955,634	110,956	806,755	-	917,711
Stock compensation	-	-	-	-	28,713	-	28,713
Net loss for the nine months ended March 31, 2018	-	-	-	-	-	(14,873,411)	(14,873,411)
Balance at March 31, 2018 (unaudited)	-	$ -	810,438,893	$810,439	$7,686,204	$(26,673,528)	$(18,176,885)

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

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HYPERSOLAR, INC.

CONDENSED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED MARCH 31, 2018 AND 2017

(Unaudited)

	Nine Months Ended March 31, 2018	Nine Months Ended March 31, 2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$(14,873,411)	$3,036,660
Adjustment to reconcile net income (loss) to net cash used in operating activities		
Depreciation & amortization expense	3,994	425
Stock compensation	28,713	2,688
(Gain) Loss on debt conversion and change in derivative liability	14,071,817	(3,803,154)
Amortization of debt discount recorded as interest expense	121,566	55,725
(Increase) Decrease in change in assets:		
Prepaid expense	4,167	(6,717)
Increase (Decrease) in change in liabilities :		
Accounts payable	49,670	37,841
Accrued expenses	112,744	218,600
NET CASH USED IN OPERATING ACTIVITIES	(480,740)	(457,932)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(1,883)	-
Purchase of intangible assets	(12,837)	-
NET CASH FLOWS USED IN INVESTING ACTIVITIES:	(14,720)	-
NET CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from convertible notes payable	490,000	390,000
NET CASH PROVIDED BY FINANCING ACTIVITIES	490,000	390,000
NET DECREASE IN CASH	(5,460)	(67,932)
CASH, BEGINNING OF PERIOD	80,133	119,887
CASH, END OF PERIOD	$74,673	$51,955
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	$-	$-

Taxes paid	$-	$-
SUPPLEMENTAL DISCLOSURES OF NON CASH TRANSACTIONS		
Issuance of common stock upon conversion of convertible notes and accrued interest	$392,305	$440,575

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

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HYPERSOLAR, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS - UNAUDITED

MARCH 31, 2018

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 S-X Regulation Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all normal recurring adjustments considered necessary for a fair presentation have been included. Operating results for the nine months ended March 31, 2018 are not necessarily indicative of the results that may be expected for the year ending June 30, 2018. 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, 2017.

<u>Going Concern</u>

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, derivatives, and the deferred tax valuation allowance. Actual results could differ from those estimates.

Intangible Assets

Intangible assets consist of patents that are initially measured at the lower of cost or fair value. 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. Patents are amortized straight-line over 15 years.

Net Earnings (Loss) per Share Calculations

Net earnings (Loss) per share dictates the calculation of basic earnings (loss) per share and diluted earnings per share. Basic earnings (loss) per share are computed by dividing by the weighted average number of common shares outstanding during the year. Diluted net earnings (loss) per share is computed similar to basic earnings (loss) per share except that the denominator is increased to include the effect of stock options and stock based awards (Note 4), plus the assumed conversion of convertible debt (Note 5).

For the nine months ended March 31, 2018, the Company calculated the dilutive impact of the outstanding stock options of 10,250,000, and the convertible debt of $1,814,500, which is convertible into shares of common stock. The stock options and the convertible debt were not included in the calculation of net earnings per share, because their impact was antidilutive.

For the nine months ended March 31, 2017, the Company calculated the dilutive impact of the outstanding stock options of 250,000, and the convertible debt of $1,427,500, which is convertible into shares of common stock. The stock options and the convertible debt were included in the calculation of net loss per share, because their impact was dilutive.

HYPERSOLAR, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS - UNAUDITED

MARCH 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 March 31, 2018, 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 March 31, 2018 (See Note 6):

	Total	(Level 1)	(Level 2)	(Level 3)
Liabilities				
Derivative liability	15,988,897	-	-	15,988,897
Total derivative liabilities measured at fair value	$15,988,897	$-	$-	$15,988,897

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, 2017	$2,482,842
Fair value of derivative liabilities issued	81,892
Loss on change in derivative liability	13,424,163
Balance as of March 31, 2018	$15,988,897

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 Binomial lattice formula 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.

HYPERSOLAR, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS - UNAUDITED

MARCH 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncements

In August 2017, FASB issued accounting standards update ASU-2017-12, “D” (Topic 815) – “Targeted Improvements to Accounting for Hedging Activities”, to require an entity to present the earnings effect of the hedging instrument in the same statement line item in which the earnings effect of the hedged item is reported. The amendments in this update are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods with the fiscal years beginning after December 15, 2020. Early adoption is permitted in any interim period after issuance of the update. The Company is currently evaluating the impact of the adoption of ASU-2017 on the Company’s financial statements.

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

3. CAPITAL STOCK

During the nine months ended March 31, 2018, the Company issued 110,955,634 shares of common stock upon conversion of convertible notes in the amount of $208,500 in principal, plus accrued interest of $62,556, with an aggregate fair value loss on settlement of $646,654, based upon conversion prices of $0.0070 and $0.0165.

4. STOCK OPTIONS

Options

As of March 31, 2018, 10,250,000 non-qualified common stock options were outstanding. Each option expires on the date specified in the option agreement, which date is not later than the fifth (5^{th}) anniversary from the grant date of the options. As of March 31, 2018, 250,000 options are fully vested with a maturity date of March 31, 2020, and are exercisable at an exercise price of $0.02245 per share, and 10,000,000 non-qualified common stock options, which vest one-third immediately, and one-third the second and third year, whereby, the options are fully vested with a maturity date of October 2, 2022, and are exercisable at an exercise price of $0.01 per share.

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

	3/31/2018		3/31/2017	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Outstanding, beginning of period	10,250,000	$ 0.01	500,000	$ 0.03
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited/Expired	-	-	(250,000)	$ 0.04
Outstanding, end of period	10,250,000	$ 0.01	250,000	$ 0.02
Exercisable at the end of period	3,583,333	$ 0.01	250,000	$ 0.02

The stock based compensation expense recognized in the statement of operations during the nine months ended March 31, 2018 and 2017, related to the granting of these options was $28,713 and $0, respectively.

5. CONVERTIBLE PROMISSORY NOTES

As of March 31, 2018, the outstanding convertible promissory notes are summarized as follows:

Convertible Promissory Notes, net of debt discount	$1,749,325
Less current portion	247,583
Total long term liabilities	$1,501,742

HYPERSOLAR, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS - UNAUDITED

MARCH 31, 2018

5. CONVERTIBLE PROMISSORY NOTES (Continued)

Maturities of long-term debt for the next three years are as follows:

Year Ending 3/31/2018	Amount
2020	$231,917
2021	540,000
2022	585,131
2023	144,694
	$1,501,742

At March 31, 2018, the $1,814,500 in convertible promissory notes had a remaining debt discount of $65,175, leaving a net balance of $1,749,325.

On May 23, 2014, the Company issued a 10% convertible promissory note (the "May Note") in the aggregate principal amount of up to $500,000. Upon execution of the convertible promissory note, the Company received a tranche of $50,000. The Company received additional tranches in the amount of $415,000 for an aggregate sum of $465,000. The May Note matured on May 23, 2015 and was extended to February 23, 2016. A second extension was granted to November 23, 2016. On January 19, 2017, the investor extended the May Note for an additional sixty (60) months from the effective date of each tranche, which matures on November 23, 2021.The May Note is convertible into shares of common stock of the Company at a price equal to a variable conversion price of the lesser of $0.0048 per share or fifty percent (50%) of the lowest trading price after the effective date to acquire common stock. If the Company fails to deliver shares in accordance with the timeframe of three (3) business days of the receipt of a notice of conversion, the lender, at any time prior to selling all of those shares, may rescind any portion, in whole or in part of that particular conversion attributable to the unsold shares and have the rescinded conversion amount returned to the principal sum with the rescinded conversion shares returned to the Company. In no event shall the lender be entitled to convert any portion of the May Note such that would result in beneficial ownership by the lender and its affiliates of more than 4.99% of the outstanding shares of common stock of the Company. In addition, for each conversion, in the event that shares are not delivered by the fourth business day (inclusive of the day of conversion), a penalty of $1,500 per day shall be assessed for each day after the third business day (inclusive of the day of the conversion) until the shares are delivered. The Company issued 110,955,634 shares of common stock upon conversion of $208,500 in principal, plus accrued interest of $62,556, with an aggregate fair value loss of $646,654. The remaining balance of the May Note as of March 31, 2018 was $19,500.

On April 9, 2015, the Company issued a 10% convertible promissory note (the “April Note”) in the aggregate principal amount of up to $500,000. Upon execution of the convertible promissory note, the Company received a tranche of $50,000. The Company received additional tranches in the amount of $450,000 for an aggregate sum of $500,000. The April Note matured nine (9) months from the effective dates of each respective tranche. A second extension was granted to October 9, 2016. On January 19, 2017, the investor extended the April Note for an additional (60) months from the effective date of each tranche. The April Note matures on October 9, 2021. The April 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 since the original effective date of each respective advance or the lowest effective price per share granted to any person or entity after the effective date to acquire common stock. If the Company fails to deliver shares in accordance with the timeframe of three (3) business days of the receipt of a notice of conversion, the lender, at any time prior to selling all of those shares, may rescind any portion, in whole or in part of that particular conversion attributable to the unsold shares and have the rescinded conversion amount returned to the principal sum with the rescinded conversion shares returned to the Company. In no event shall the lender be entitled to convert any portion of the May Note such that would result in beneficial ownership by the lender and its affiliates of more than 4.99% of the outstanding shares of common stock of the Company. In addition, for each conversion, in the event that shares are not delivered by the fourth business day (inclusive of the day of conversion), a penalty of $1,500 per day shall be assessed for each day after the third business day (inclusive of the day of the conversion) until the shares are delivered. The balance of the April Note as of March 31, 2018 was $500,000.

On January 28, 2016, the Company issued a 10% convertible promissory note (the “January Note”) in the aggregate principal amount of up to $500,000. Upon execution of the convertible promissory note, the Company received a tranche of $10,000. The Company received additional tranches in the amount of $490,000 for an aggregate sum of $500,000. The January Note matures twelve (12) months from the effective dates of each respective tranche. On January 19, 2017, the investor extended the January Note for an additional sixty (60) months from the effective date of each tranche, which matures on January 27, 2022.The January 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 since the original effective date of each respective tranche or the lowest effective price per share granted to any person or entity after the effective date to acquire common stock. If the Company fails to deliver shares in accordance with the timeframe of three (3) business days of the receipt of a notice of conversion, the lender, at any time prior to selling all of those shares, may rescind any portion, in whole or in part of that particular conversion attributable to the unsold shares and have the rescinded conversion amount returned to the principal sum with the rescinded conversion shares returned to the Company. In no event shall the lender be entitled to convert any portion of the May Note such that would result in beneficial ownership by the lender and its affiliates of more than 4.99% of the outstanding shares of common stock of the Company. In addition, for each conversion, in the event that shares are not delivered by the fourth business day (inclusive of the day of conversion), a penalty of $1,500 per day shall be assessed for each day after the third business day (inclusive of the day of the conversion) until the shares are delivered. The Company recorded amortization of debt discount, which was recognized as interest expense in the amount of $38,514 during the nine months ended March 31, 2018. The balance of the January Note as of March 31, 2018 was $500,000.

HYPERSOLAR, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS - UNAUDITED

MARCH 31, 2018

5. CONVERTIBLE PROMISSORY NOTES (Continued)

On February 3, 2017, the Company issued a 10% convertible promissory note (the "February Note") in the aggregate principal amount of up to $500,000. Upon execution of the convertible promissory note, the Company received a tranche of $60,000. The Company received an additional tranches in the amount of $440,000 for an aggregate sum of $500,000. The February Note matures twelve (12) months from the effective dates of each respective tranche. The February Note matures on February 3, 2018, with an automatic extension of sixty (60) months from the effective date of each tranche. The February 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 since the original effective date of each respective tranche or the lowest effective price per share granted to any person or entity after the effective date to acquire common stock. If the Company fails to deliver shares in accordance with the timeframe of three (3) business days of the receipt of a notice of conversion, the lender, at any time prior to selling all of those shares, may rescind any portion, in whole or in part of that particular conversion attributable to the unsold shares and have the rescinded conversion amount returned to the principal sum with the rescinded conversion shares returned to the Company. In no event shall the lender be entitled to convert any portion of the May Note such that would result in beneficial ownership by the lender and its affiliates of more than 4.99% of the outstanding shares of common stock of the Company. In addition, for each conversion, in the event that shares are not delivered by the fourth business day (inclusive of the day of conversion), a penalty of $1,500 per day shall be assessed for each day after the third business day (inclusive of the day of the conversion) until the shares are delivered. The Company recorded amortization of debt discount, which was recognized as interest expense in the amount of $80,226 during the nine months ended March 31, 2018. The balance of the February Note as of March 31, 2018 was $500,000.

On November 10, 2017, for the sale of a 10% convertible promissory note (the "November Note") in the aggregate principal amount of up to $500,000. Upon execution of the convertible promissory note, the Company received a tranche of $45,000. The Company received an additional tranches in the amount of $250,000 for an aggregate sum of $295,000. The November Note matures twelve (12) months from the effective dates of each respective tranche. The November Note matures on November 9, 2018, with an automatic extension of sixty (60) months from the effective date of each tranche. The November 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 since the original effective date of each respective tranche or the lowest effective price per share granted to any person or entity after the effective date to acquire common stock. If the Company fails to deliver shares in accordance with the timeframe of three (3) business days of the receipt of a notice of conversion, the lender, at any time prior to selling all of those shares, may rescind any portion, in whole or in part of that particular conversion attributable to the unsold shares and have the rescinded conversion amount returned to the principal sum with the rescinded conversion shares returned to the Company. In no event shall the lender be entitled to convert any portion of the May Note such that would result in beneficial ownership by the lender and its affiliates of more than 4.99% of the outstanding shares of common stock of the Company. In addition, for each conversion, in the event that shares are not delivered by the fourth business day (inclusive of the day of conversion), a penalty of $1,500 per day shall be assessed for each day after the third business day (inclusive of the day of the conversion) until the shares are delivered. The Company recorded amortization of debt discount, which was recognized as interest expense in the amount of $2,826 during the nine months ended March 31, 2018. The balance of the November Note as of March 31, 2018 was $295,000.

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 nine months ended March 31, 2018, 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 $81,892, based upon the Binomial lattice formula. 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 nine months ended March 31, 2018, the Company recorded a net loss in change in derivative of $13,424,163, plus the loss on settlement of debt in the amount of $646,654 for an aggregate of $14,070,817 in the statement of operations due to the change in fair value of the remaining Notes. At March 31, 2018, the fair value of the derivative liability was $15,988,897.

HYPERSOLAR, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS - UNAUDITED

MARCH 31, 2018

6. DERIVATIVE LIABILITIES (Continued)

For purpose of determining the fair market value of the derivative liability for the embedded conversion, the Company used the Binomial lattice formula. The significant assumptions used in the Binomial lattice formula of the derivatives are as follows:

Risk free interest rate	1.79% - 2.59%
Stock volatility factor	46.0% - 146.0%
Weighted average expected option life	1 year - 5 year
Expected dividend yield	None

7. SUBSEQUENT EVENTS

Management evaluated subsequent events as of the date of the financial statements pursuant to ASC TOPIC 855, and reported the following events:

On April 16, 2018, the Company issued 4,782,256 shares of common stock upon conversion of principal in the amount of $19,500, plus interest of $6,085.

On April 23, 2018, the Company issued 27,691,481 shares of common stock upon conversion of principal in the amount of $112,000, plus interest of $33,380.

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

At Hyper Solar, we are developing an innovative NanoParticle technology to produce low cost renewable hydrogen using solar. For over a century, splitting water molecules into hydrogen and oxygen using electrolysis has been well known. This technology can be used to produce an unlimited amount of clean and renewable hydrogen fuel to power a carbon-free world. However, in practice, current commercial electrolysis technologies require (a) expensive electricity and (b) highly purified water to prevent fouling of system components. These are the major barriers to affordable production of renewable hydrogen. We believe our process, using earth abundant elements, in a nanoscale structure can overcome these barriers.

On November 15, 2011, we filed a provisional patent application with the U.S. Patent and Trademark Office to protect the intellectual property rights for "Photoelectrochemically Active Heterostructures, Methods for Their Manufacture, And Methods And Systems For Producing Desired Products." On March 14, 2017, this patent was granted as United

States Patent No. 9,593,053. The patent protects the Company's proprietary design of a self-contained solar-to-hydrogen device made up of millions of solar powered water-splitting nanoparticles, per square centimeter. In March of 2018, we were issued Patent No. 9,935,234 from the United States Patent and Trademark Office for "Methods of Manufacturing Photoelectrosynthetically Active Heterostructures." This patent is critical to protecting the intellectual property related to the development of our nanoparticle technology. We have multiple other patents pending for the methods of manufacturing these particles and a system to house them.

Our strategy has been to partner with major universities for the research and development or our technology. Currently we have agreements with the University of California, Santa Barbara and the University of Iowa.

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 March 31, 2018, 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

Management reviewed currently issued pronouncements during the nine months ended March 31, 2018, and does not believe that any recently issued, but not yet effective, accounting standards if currently adopted would have a material effect on the accompanying condensed financial statements. Pronouncements disclosed in notes to the financials.

Results of Operations for the Three Months Ended March 31, 2018 compared to Three Months Ended March 31, 2017.

Operating Expenses

Operating expenses for the three months ended March 31, 2018 were $171,230 and $163,976 for the prior period ended March 31, 2017. The net increase of $7,254 in operating expenses consisted primarily of an increase in research and development cost in the amount of $23,559, overall increase in other general and administrative expenses of $5,025, with a decrease in advertising in the amount of $5,009, and professional fees in the amount of $16,321.

Other Income/(Expenses)

Other income and (expenses) for the three months ended March 31, 2018 were $(12,847,896) and $2,579,858 for the prior period ended March 31, 2017. The increase in other expenses of $(15,427,754) in other income and (expenses) was the result of an increase in net loss on debt conversion and change in fair value of the derivative instruments of $15,049,774, increase in loss on settlement of debt of $418,891, with an increase in interest expense of $40,911, which includes a net change of $28,189 of amortization of debt discount.

Net Income/(Loss)

For the three months ended March 31, 2018, our net loss was $(13,019,126) as compared to net income of $2,415,882 for the prior period March 31, 2017. The increase in net loss of $15,435,008 was related primarily to the increase in other income and (expenses) associated with non-cash cost of the fair value of the derivative instruments, with an overall decrease in operating expenses. The Company has not generated any revenues.

Results of Operations for the Nine Months Ended March 31, 2018 compared to Nine Months Ended March 31, 2017.

Operating Expenses

Operating expenses for the nine months ended March 31, 2018 were $567,246 and $492,169 for the prior period ended March 31, 2017. The net decrease of $75,077 in operating expenses consisted primarily of an increase in research and development cost in the amount of $66,750, and an increase in non-cash stock compensation expense of $26,026, with a decrease in professional fees of $30,470, investor relations of $17,650, advertising of $8,637, an overall decrease in other general and administrative expenses of $36,019.

Other Income/(Expenses)

Other income and (expenses) for the nine months ended March 31, 2018 were $(14,306,165) and $3,528,829 for the prior period ended March 31, 2017. The increase in other expenses of $(17,834,994) in other income and (expenses) was the result of an increase in net loss on debt conversion and change in fair value of the derivative instruments of $17,227,316, increase in loss on settlement of debt of $646,655, with an increase in interest expense of $38,977, which includes a net change of $33,592 of amortization of debt discount.

Net Income/(Loss)

For the nine months ended March 31, 2018, our net loss was $(14,873,411) as compared to net income of $3,036,660 for the prior period March 31, 2017. The increase in net loss of $17,910,071 was related primarily to the increase in other income and (expenses) associated with non-cash cost of the fair value of the derivative instruments, with an overall 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 March 31, 2018, we had a working capital deficit of $16,767,402 as compared to $3,141,945 as of June 30, 2017. This increase in working capital deficit of $13,625,457 was due primarily to a decrease in cash, and prepaid expense, and current portion of convertible notes, offset by an increase in other assets, accounts payable, accrued expenses, and non-cash derivative liability.

Cash used in operating activities was $480,740 for the nine months ended March 31, 2018 and $457,932 for the prior period ended March 31, 2017. The increase in cash used in operating activities was due to an increase in research and development cost. The Company has had no revenues.

Cash used in investing activities during the nine months ended March 31, 2018 and 2017 was $14,719 and $0, respectively. The increase in investing activities was due to an increase in the purchase of tangible and intangible assets in the current period.

Cash provided by financing activities during the nine months ended March 31, 2018 and 2017 was $490,000 and $390,000, respectively. The increase is a result of an increased in borrowing to cover our general expenses, research related expenses and protection of our intellectual property. Our ability to continue as a going concern is dependent upon raising capital through financing transactions and future revenue. Our capital needs have primarily been met from the proceeds of private placements of our security, as we currently have not generated any revenues.

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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 nine months ended March 31, 2018, we did not generate any revenues, incurred net loss of $14,873,411, which was primarily associated with the net change in derivative instruments, and cash used in operations of $480,740. As of March 31, 2018, we had a working capital deficiency of $16,519,819 and a shareholders' deficit of $18,176,885. 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, 2017, expressed substantial doubt about our ability to continue as a going concern. Our ability to continue as a going concern ultimately is dependent on our ability to generate revenue, which is dependent upon our ability to obtain additional equity or debt financing, attain further operating efficiencies and, ultimately, achieve profitable operations. We have historically obtained funds from our shareholders 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 believe that our current cash balances will be sufficient to support development activity, intellectual property protection, and all general and administrative expenses for the next 30 days. Management estimate that we will require additional cash resources during 2018, based upon its current operating plan and condition. We have entered into a convertible note with an investor which provides us access to additional capital in the aggregate remaining balance of $135,000. However, the convertible note contains a beneficial ownership blocker which limits conversions which would result in the holder owning more than 4.99% of our outstanding common shares. We are investigating additional financing alternatives, including continued equity and/or debt financing. There can be no assurance that capital in any form would be available to us, and if available, on terms and conditions that are acceptable. If we are unable to obtain sufficient funds, we may be forced to reduce the size of our operations, which could have a material adverse impact on, or cause us to curtail and/or cease the development of our products.

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 person 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 21, 2017.

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

During the three months ended March 31, 2018, the Company issued 50,528,807 shares of common stock upon partial conversion of principal of $81,600, plus accrued interest of $24,915 on an outstanding convertible promissory note.

The Company relied on an exemption pursuant to Section 4(a)(2) of the Securities Act of 1933, as amended, in connection with the foregoing issuance.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

No disclosure required.

ITEM 5. OTHER INFORMATION

ITEM 6. EXHIBITS

Exhibit No.	Description
10.1*	Convertible Promissory Note dated May 23, 2014
10.2*	Convertible Promissory Note dated April 9, 2015
10.3*	Convertible Promissory Note dated January 28, 2016
10.4*	Convertible Promissory Note dated February 3, 2017
10.5*	Convertible Promissory Note dated November 10, 2017
31.1*	Certification by Chief Executive Officer and Acting Chief Financial Officer pursuant to Sarbanes-Oxley Section 302 (filed herewith).
32.1*	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

* Filed herewith
** Furnished herewith

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.

May 15, 2018 **HYPERSOLAR, INC.**

By: /s/ Timothy Young
Timothy Young

Chief Executive Officer and
Acting Chief Financial Officer

(Principal Executive Officer and
Acting Principal Financial Officer and
Accounting Officer)