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.)

510 Castillo St., Suite 320, Santa Barbara, CA 93101

(Address of principal executive offices) (Zip Code)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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.

INDEX

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

1

HYPERSOLAR, INC.

CONDENSED STATEMENTS OF OPERATIONS

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

(Unaudited)

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017	Nine Months Ended March 31, 2018	Nine Months Ended 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

2

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

3

HYPERSOLAR, INC.

CONDENSED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED MARCH 31, 2018 AND 2017

(Unaudited)

	Nine Months Ended	
	March 31, 2018	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

4

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.

Going Concern

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Cash and Cash Equivalent

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the accompanying financial statements. Significant estimates made in preparing these financial statements include the estimate of useful lives of intangible assets, 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.

5

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				