AMERICAN STATES WATER CO
Form 10-Q
May 05, 2015
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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 2015
or
¨ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from to

Commission file number 001-14431
American States Water Company
(Exact Name of Registrant as Specified in Its Charter)

California	95-4676679
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)
630 E. Foothill Blvd, San Dimas, CA	91773-1212
(Address of Principal Executive Offices)	(Zip Code)

(909) 394-3600
(Registrant's Telephone Number, Including Area Code)
Not Applicable
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)
Commission file number 001-12008
Golden State Water Company
(Exact Name of Registrant as Specified in Its Charter)

California	95-1243678
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)
630 E. Foothill Blvd, San Dimas, CA	91773-1212
(Address of Principal Executive Offices)	(Zip Code)

(909) 394-3600
(Registrant's Telephone Number, Including Area Code)
Not Applicable
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether 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 preceding 12 months (or for such shorter period that Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

American States Water Company	Yes x No ¨
Golden State Water Company	Yes x No ¨

Indicate by check mark whether 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 such shorter period that the Registrant was required to submit and post such files).

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American States Water Company Yes x No ¨
Golden State Water Company Yes x 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. (Check one):

American States Water Company

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

Golden State Water Company

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

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

American States Water Company Yes ¨ Nox
Golden State Water Company Yes ¨ Nox

As of May 1, 2015, the number of Common Shares outstanding, of American States Water Company was 37,779,984 shares. As of May 1, 2015, all of the 146 outstanding Common Shares of Golden State Water Company were owned by American States Water Company.

Golden State Water Company meets the conditions set forth in General Instruction (H)(1)(a) and (b) of Form 10-Q and is therefore filing this Form, in part, with the reduced disclosure format for Golden State Water Company.

AMERICAN STATES WATER COMPANY
and
GOLDEN STATE WATER COMPANY
FORM 10-Q

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PART I
Item 1. Financial Statements

General

The basic financial statements included herein have been prepared by Registrant, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, all adjustments consisting of normal recurring items and estimates necessary for a fair statement of results for the interim period have been made.

It is suggested that these financial statements be read in conjunction with the financial statements and notes thereto in the latest Annual Report on Form 10-K of American States Water Company and its wholly owned subsidiary, Golden State Water Company.

Filing Format

American States Water Company (hereinafter “AWR”) is the parent company of Golden State Water Company (hereinafter “GSWC”) and American States Utility Services, Inc. (hereinafter “ASUS”) and its subsidiaries.

This quarterly report on Form 10-Q is a combined report being filed by two separate Registrants: AWR and GSWC. For more information, please see Note 1 of the Notes to Consolidated Financial Statements and the heading entitled General in Item 2 - Management’s Discussion and Analysis of Financial Condition and Results of Operations. References in this report to “Registrant” are to AWR and GSWC collectively, unless otherwise specified. GSWC makes no representations as to the information contained in this report relating to AWR and its subsidiaries, other than GSWC.

Forward-Looking Information

This Form 10-Q and the documents incorporated herein contain forward-looking statements intended to qualify for the “safe harbor” from liability established by the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on current estimates, expectations and projections about future events and assumptions regarding these events and include statements regarding management’s goals, beliefs, plans or current expectations, taking into account the information currently available to management. Forward-looking statements are not statements of historical facts. For example, when we use words such as “anticipate,” “believe,” “plan,” “estimate,” “expect,” “intend,” “may other words that convey uncertainty of future events or outcomes, we are making forward-looking statements. We are not able to predict all the factors that may affect future results. We caution you that any forward-looking statements made by us are not guarantees of future performance and those actual results may differ materially from those in our forward-looking statements. Some of the factors that could cause future results to differ materially from those expressed or implied by our forward-looking statements or from historical results include, but are not limited to:

- The outcome of pending and future regulatory, legislative or other proceedings, investigations or audits, including decisions in our general rate cases and the results of independent audits of our construction contracting procurement practices or other independent audits of our costs

- Changes in the policies and procedures of the California Public Utilities Commission ("CPUC")

- Timeliness of CPUC action on rates
- Availability of water supplies, which may be adversely affected by the California drought, changes in weather patterns in the West, contamination and court decisions or other governmental actions restricting the use of water from the Colorado River, the California State Water Project, and/or pumping of groundwater
- Our ability to efficiently manage GSWC capital expenditures and operating and maintenance expenses within CPUC authorized levels and timely recovery of our costs through rates
- The impact of increasing opposition to GSWC rate increases on our ability to recover our costs through rates
- The impact of condemnation actions on the size of our customer base

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- Our ability to forecast the costs of maintaining GSWC’s aging water and electric infrastructure
- Our ability to recover increases in permitting costs and in costs associated with negotiating and complying with the terms of our franchise agreements with cities and counties and other demands made upon us by the cities and counties in which GSWC operates
- Changes in accounting valuations and estimates, including changes resulting from our assessment of anticipated recovery of regulatory assets, liabilities and revenues subject to refund or regulatory disallowances
- Changes in environmental laws and water and wastewater quality requirements and increases in costs associated with complying with these laws and requirements
- Our ability to obtain adequate, reliable and cost-effective supplies of chemicals, electricity, fuel, water and other raw materials that are needed for our water and wastewater operations
- Our ability to recover the costs associated with the contamination of GSWC’s groundwater supplies from parties responsible for the contamination or through the ratemaking process, and the time and expense incurred by us in obtaining recovery of such costs
- Adequacy of our electric division's power supplies and the extent to which we can manage and respond to the volatility of electric and natural gas prices
- Our electric operation's ability to comply with the CPUC’s renewable energy procurement requirements
- Changes in GSWC long-term customer demand due to changes in customer usage patterns as a result of conservation efforts, regulatory changes affecting demand such as mandatory restrictions on water use, new landscaping or irrigation requirements, recycling of water by the customer or purchase of recycled water supplied by other parties, unanticipated population growth or decline, changes in climate conditions, general economic and financial market conditions and cost increases
- Changes in accounting treatment for regulated utilities
- Changes in estimates used in ASUS’s revenue recognition under the percentage of completion method of accounting for construction activities at our contracted services business
- Termination, in whole or in part, of one or more of our Military Utility Privatization Subsidiaries' contracts to provide water and/or wastewater services at military bases for the convenience of the U.S. government or for default
- Termination of contracts and suspension or debarment for a period of time from contracting with the government due to violations of federal law or regulations in connection with military utility privatization activities
- Failure of the U.S. government to make timely payments to ASUS for water and/or wastewater services at military bases as a result of fiscal uncertainties over the funding of the U.S. government
- Delays in obtaining redetermination of prices or equitable adjustments to our prices on one or more of our contracts to provide water and/or wastewater services at military bases

- Disallowance of costs on any of our contracts to provide water and/or wastewater services at military bases as a result of audits, cost reviews or investigations by contracting agencies

- Inaccurate assumptions used in preparing bids in our contracted services business

- Failure of the wastewater systems that we operate on military bases resulting in untreated wastewater or contaminants spilling into nearby properties, streams or rivers

- Failure to comply with the terms of our military privatization contracts

- Failure of any of our subcontractors to perform services for us in accordance with the terms of our military privatization contracts

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- Issues with the implementation, maintenance and/or upgrading of our information technology systems
- General economic conditions which may impact our ability to recover infrastructure investments and operating costs from customers
- Explosions, fires, accidents, mechanical breakdowns, the disruption of information technology and telecommunication systems, human error and similar events that may occur while operating and maintaining water and electric systems in California or operating and maintaining water and wastewater systems on military bases under varying geographic conditions
- The impact of storms, earthquakes, floods, mudslides, drought, wildfires, disease and similar natural disasters, or acts of terrorism or vandalism, that affect customer demand or that damage or disrupt facilities, operations or information technology systems owned by us, our customers or third parties on whom we rely
- Potential costs, lost revenues, or other consequences resulting from misappropriation of assets or sensitive information, corruption of data, or operational disruption in connection with a cyber-attack or other cyber incident
- Restrictive covenants in our debt instruments or changes to our credit ratings on current or future debt that may increase our financing costs or affect our ability to borrow or make payments on our debt
- Our ability to access capital markets and other sources of credit in a timely manner on acceptable terms

Please consider our forward-looking statements in light of these risks (which are more fully disclosed in our 2014 Annual Report on Form 10-K) as you read this Form 10-Q. We qualify all of our forward-looking statements by these cautionary statements.

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AMERICAN STATES WATER COMPANY
CONSOLIDATED BALANCE SHEETS
ASSETS
(Unaudited)

(in thousands)	March 31, 2015		December 31, 2014	
Property, Plant and Equipment				
Regulated utility plant, at cost	$1,506,244		$1,492,880	
Non-utility property, at cost	10,903		10,879	
Total	1,517,147		1,503,759	
Less - Accumulated depreciation	(509,584	)	(500,239	)
Net property, plant and equipment	1,007,563		1,003,520	
Other Property and Investments				
Goodwill	1,116		1,116	
Other property and investments	17,505		17,536	
Total other property and investments	18,621		18,652	
Current Assets				
Cash and cash equivalents	74,675		75,988	
Accounts receivable — customers (less allowance for doubtful accounts of $717 in 2015 and $803 in 2014)		397,500		
NET CASH PROVIDED BY FINANCING ACTIVITIES	365,000		397,500	
NET (DECREASE)/INCREASE IN CASH	(53,844	)	39,945	
CASH, BEGINNING OF PERIOD	61,628		15,937	
CASH, END OF PERIOD	$7,784		$55,882	
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION				
Interest paid	$134		$1,077	
Taxes paid	$-		$-	
SUPPLEMENTAL DISCLOSURES OF NON CASH TRANSACTIONS				
Issuance of common stock upon conversion of convertible notes	$83,124		$1,675,402	
Issuance of common stock upon cashless conversion of warrants	$-		$54,847	

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

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HYPERSOLAR, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

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

Going Concern

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Revenue Recognition

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

Cash and Cash Equivalent

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the accompanying financial statements. Significant estimates made in preparing these financial statements include the estimate of useful lives of intangible assets, and the deferred tax valuation allowance. Actual results could differ from those estimates.

Fair Value of Financial Instruments

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments (Continued)

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 established a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 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, 2015:

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

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

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

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loss per Share Calculations

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

Income Taxes

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

Stock based Compensation

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

Recently issued pronouncements

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently issued pronouncements (Continued)

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

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

3. CAPITAL STOCK

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

4. STOCK OPTIONS

Options

On March 31, 2015, the Company granted 250,000 non-qualified stock options to an employee. As of March 31, 2015, 500,000 non-qualified common stock options were outstanding. Each option is exercisable to the nearest whole share, in installments or otherwise, as the respective agreements may provide. Notwithstanding any other provisions of the Option agreement, each Option expires on the date specified in the Option agreement, which date shall not be later than the fifth (5^{th}) anniversary from the grant date of the options. The stock options outstanding as of June 30, 2014 are fully vested and are exercisable for a period of five years from the date of grant at an exercise price $0.04 per share. The stock options granted on March 31, 2015 shall become exercisable after fifty (50%) percent of the options vest on the one year anniversary and the remaining fifty (50%) on the second anniversary, which are exercisable for a period of five years from the date of grant at an exercise price of $0.02245 per share.

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

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

5. CONVERTIBLE PROMISSORY NOTES

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

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

5. CONVERTIBLE PROMISSORY NOTES (Continued)

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

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

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

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

6. DERIVATIVE LIABILITIES

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

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

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

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

7. SUBSEQUENT EVENTS

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

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

Cautionary Statement Regarding Forward-Looking Statements

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

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

Overview

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

Hydrogen is the lightest and abundant chemical element, constituting roughly 75% of the universe's chemical elemental mass (Palmer, D. (13 September 1997). "Hydrogen in the Universe".NASA). However, naturally occurring elemental hydrogen is relatively rare on earth and hydrogen gas is most often produced using fossil fuels. Industrial production is mainly from the steam reforming of natural gas and is usually employed near its production site, with the two largest uses being crude oil processing (hydrocracking) and ammonia production, mostly for the fertilizer market. We are developing what we believe is a cleaner and greener way to produce this high value product.

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

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

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

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

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

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Market Opportunity

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

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

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

<u>Critical Accounting Policies</u>

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

Use of Estimates

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

Fair Value of Financial Instruments

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

Recently Adopted Accounting Pronouncements

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

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

Operating Expenses

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

Other Income/(Expenses)

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

Net Loss

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

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

Operating Expenses

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

Other Income/(Expenses)

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

Net Loss

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

Liquidity and Capital Resources

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

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

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

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

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

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

PLAN OF OPERATION AND FINANCING NEEDS

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

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

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

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

N/A

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

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

PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings

None.

ITEM 1A. Risks Factors

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

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

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

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

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

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

* Filed herewith

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SIGNATURE

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

HYPERSOLAR, INC.

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