

Hypersolar, Inc.
Form 10-K
September 28, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

- ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
- 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 304, Santa Barbara, CA 93101
(Address of principal executive offices) (Zip Code)

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

Securities registered under Section 12(b) of the Exchange Act: None.

Securities registered under Section 12(g) of the Exchange Act: common stock, par value \$0.001 per share

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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 during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements

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incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

Large accelerated filer []

Accelerated Filer []

Non-accelerated filer [] (Do not check if a smaller reporting company)

Smaller reporting company[x]

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

The aggregate market value of the common stock held by non-affiliates of the registrant, based upon the last sale price of the common stock of the Company as of the last business day of its most recently completed second quarter was approximately \$3,853,201.

The number of shares of registrant’s common stock outstanding, as of September 24, 2012 was 168,585,170.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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PART I

ITEM 1. BUSINESS.

Unless otherwise stated or the context requires otherwise, references in this annual report on Form 10-K to “Hypersolar”, the “Company”, “we”, “us”, or “our” refer to Hypersolar, Inc.

Overview

Inspired by the photosynthetic process that plants use to harness the power of the sun to create energy molecules, Hypersolar, Inc. we are developing a novel solar-powered nanoparticle system that mimics photosynthesis to separate hydrogen from water. On November 15, 2011, we filed a patent application to protect the intellectual property rights to the production of renewable hydrogen and natural gas using sunlight, water, and carbon dioxide. Our technology will allow free hydrogen to be reacted with carbon dioxide to produce methane, the primary component in natural gas.

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

In addition to the many industrial uses of hydrogen, one of the most intriguing uses, is for fuel cells for transportation. A fuel cell is a device that converts the chemical energy from a fuel into electricity through a chemical reaction with oxygen or another oxidizing agent, using hydrogen as the most common fuel. Although there are currently no fuel cell vehicles available for commercial sale, carmakers are hopeful that hydrogen fuel cells and infrastructure technologies will be developed in the future. (<http://world.honda.com/FuelCell/>)

Market Opportunity

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

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

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Our Technology

Nanotechnology for Making Renewable Hydrogen from Sunlight

Hydrogen (H₂) is the third most abundant element on earth and cleanest fuel in the universe, (Dresselhaus, Mildred et al. (May 15, 2003). "Basic Research Needs for the Hydrogen Economy). Unlike hydrocarbon fuels, such as oil, coal and natural gas, where carbon dioxide and other contaminants are released into the atmosphere when used, hydrogen fuel usage produces only pure water (H₂O) as the byproduct. Unfortunately, pure hydrogen does not exist naturally on earth and therefore must be manufactured. Historically, the cost of manufacturing hydrogen as an alternative fuel has been higher than the cost of the energy used to make it. This is the dilemma of the hydrogen Economy, and one that we aim to address.

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. We believe these are the major barriers to affordable production of renewable hydrogen.

The Perfect and Sustainable Energy Cycle

As it turns out, Mother Nature has been making hydrogen using sunlight since the beginning of time by splitting water molecules (H₂O) into its basic elements - hydrogen and oxygen. This is exactly what plant leaves do every day using photosynthesis. Since the produced hydrogen is immediately consumed inside the plant, we cannot simply grow trees to make hydrogen.

If technology can be developed to mimic photosynthesis to split water into hydrogen, then a truly sustainable, low cost, and renewable energy cycle can be created to power the earth. However, cost has been the biggest barrier to realizing this vision.

Water Splitting

In the process of splitting a water molecule, input energy is transferred into the chemical bonds of the resulting hydrogen molecule. So in essence, manufactured hydrogen is simply a carrier or battery-like storage of the input energy. If the input energy is from fossil fuels, such as oil and gas, then dirty carbon fossil fuel energy is simply transferred into hydrogen. If the input energy is renewable such as solar and wind, then new and clean energy is stored in hydrogen.

While the concept of water splitting is very appealing, the following challenges must be addressed for renewable hydrogen to be commercially viable:

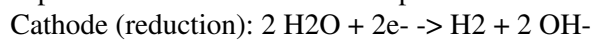
Energy Inefficiency — Since hydrogen is an energy carrier, the most energy it can store is 100% of the input energy. However, conventional systems approach to electrolysis lose so much of the input energy in system components, wires and electrodes resulting in only a small portion of electricity making it into the hydrogen molecules. This translates to high production cost and is the fundamental problem with water splitting for hydrogen production. We intend to address this problem with our low cost and energy efficient nanoparticle technology.

Need for Clean Water — Conventional electrolysis requires highly purified clean water to prevent fouling of system components. This prevents current technology from using large quantities of available water from oceans, rivers, industrial waste and municipal waste as feedstock. Our technology is being designed to use

any natural water or waste water for the unlimited production of renewable hydrogen.

Nanotechnology

Electrolysis water-splitting in its simplest form is the transfer of "input electrons" in the following chemical reactions:



From these equations it can be deduced that if every input electron (e-) is put to work and not lost, then a maximum amount of input electrons (i.e. energy) is transferred and stored in the hydrogen molecules (H₂). Additionally, if there were a very high number of cathode and anode reaction areas within a given volume of water, then a very high number of these reactions could happen simultaneously throughout the medium to split each water molecule into hydrogen wherever electrons are available.

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To address this fundamental electron transfer efficiency problem, we are developing a novel nanoparticle to maximally ensure that every single electron is put to work in splitting a water molecule. Our nanoparticle has two very important features:

Self-contained Photoelectrochemical Nanosystem — Our low cost nano-size particle is designed to mimic photosynthesis and contains a solar absorber that generates electrons from sunlight, as well as integrated cathode and anode areas to readily split water and transfer those electrons to the molecular bonds of hydrogen. Unlike solar panels or wind turbines that produce lots of electrons that will be lost before reaching the hydrogen bonds, our nanoparticles are optimized at the nano-level to ensure maximal electron generation and utilization efficiency. Consequently, our nanoparticles use much less photovoltaic elements, an expensive material, than conventional solar panels to achieve the same system level efficiency. Thereby significantly lowering the system cost of what is essentially an electrolysis process.

Protective Coating — The biggest problem with submerging photovoltaic elements in water for direct electrolysis is corrosion and short circuiting. To address this problem, we are developing a protective coating that encapsulates key elements of the nanoparticle to allow it to function for a long period of time in a wide range of water conditions without corrosion. This allows the nanoparticles to be submerged or dissolved into any water, such as sea water, runoff water, river water, or waste water, instead of purified distilled water.

In May of 2012, we completed a lab scale prototype of our technology that can be seen on our website at www.hypersolar.com. This prototype demonstrates hydrogen production from small scale solar devices coated with our unique, low-cost polymer coating, and submerged in waste water from a pulp and paper mill. This prototype is used for demonstration purposes only and is not meant for commercial deployment.

HyperSolar H2Generator™

Since our nanoparticles are intended to mimic the natural room temperature conditions of photosynthesis, they can be housed in very low cost reactors such as glass vessels or clear plastic bags. To facilitate the commercial use of our nanoparticle technology we are developing a modular system that will enable the daily production and storage of hydrogen for any time use in electricity generation, oil and gas refining, fertilizer manufacturing or any other current and future applications of hydrogen.

The HyperSolar H2Generator comprise of the following primary stages:

Reactor Vessels — These reactors resemble transparent rectangular boxes containing water and billions of nanoparticles suspended in solution. When exposed to sunlight, hydrogen gas will bubble up into an air gap on top for separation and collection.

Hydrogen Compressor — Produced hydrogen gas will be compressed for space efficient storage

Hydrogen Storage — Hydrogen can be stored in compressed gas tanks or chemical canisters depending on the application.

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Distributed and Scalable

The HyperSolar H2Generator will be a self-contained renewable hydrogen production system that requires only sunlight and any source of water. As a result, it can be installed almost anywhere to produce hydrogen fuel for local use. This model of hydrogen production addresses one of the biggest challenges of using clean hydrogen fuel on a large scale - transportation of hydrogen.

Each stage of the HyperSolar H2Generator can be scaled independently according to the hydrogen demands and length of storage required for a specific application. A small scale system can be used to produce continuous renewable electricity for a small house, or a large scale system can be used to produce hydrogen to power a community.

Intellectual Property

On November 15, 2011 we filed a 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." Disclosed in that patent application are methods for producing desired chemical products, including hydrocarbons such as methane and other alkanes, synthesis gas (carbon monoxide and hydrogen), and methanol, from carbon dioxide and oxidizable reactant compounds in wastewater as a feedstock using solar energy to drive at least a portion of the chemical reaction process (e.g., to produce hydrogen gas). Photoelectrochemical processes employ photoelectrochemically active heterostructures (PAHs) to absorb sunlight and transform the light energy into electrochemical potential energy, which converts reactants containing hydrogen atoms into products, which react with carbon dioxide to form desired chemical products.

In February of 2012, we entered into a sponsorship research agreement with the University of California, Santa Barbara. As a result of that agreement, in September of 2012, we jointly filed with the university an additional patent application to protect the intellectual property rights of our proprietary coating for protecting our semiconductor devices from corrosion in various types of water. This patent is titled: "Process And Systems For Stable Operation of Electroactive Devices" The present invention is directed towards processes and systems for stable operation of electrical, electrochemical, photoelectrochemical and photosynthetic devices with increased efficiency, stability, and low cost. In particular, what is disclosed are new functional coating materials and applications of those coatings that are optically transparent, electronically conducting, electrocatalytically active, thermally stable, and which can be applied conformally and easily on an electroactive unit for stable and efficient operation. We believe this patent will be valuable beyond our specific utilization in developing hydrogen from water using the power of the sun.

Strategic Partners

In February of 2012, we entered into a one year sponsorship research agreement ("SRA") with the University of California, Santa Barbara ("UCSB") to help achieve important milestones in the company's development plan. The focus of the UCSB SRA is to accomplish the following three specific aims:

- 1) Develop and demonstrate inorganic coating materials that will allow conventional photovoltaic device structures to be used as photoelectrochemical conversion devices immersed in electrolyte solution.
- 2) Measure the electrochemical oxidation properties of several simulated and actual sampled wastewater solutions.
- 3) Demonstrate hydrogen production in a device structure based on a porous alumina membrane with semiconducting materials deposited within the pores and capped with anode and cathode electrocatalysts.

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As consideration under the SRA, UCSB will receive from the Company, \$124,727. When expenditures reach that amount, we will no longer be obligated to fund any additional research activities and UCSB will not be obligated to perform any additional research activities pursuant to the SRA, unless mutually agreed upon. Either us or UCSB may terminate the agreement upon sixty days written notice. U.S. Patent Law and University policy will govern any patentable developments or discoveries throughout the course of the SRA. If such an invention is determined to be jointly owned by us and UCSB, we will prepare and file, at our cost, patent applications for such invention and claim it as a joint invention in the name of both the Company and the University, and shall prosecute and maintain such joint patent rights. Neither party may assign its joint ownership in such patents without the consent of the other party. We have a time-limited first right to negotiate a license to UCSB's interest in any joint invention.

We believe the partnership with UCSB will enable us to refine our solar-powered nanoparticle technology for generating zero carbon hydrogen and renewable natural gas using sunlight, water and carbon dioxide (CO₂). The research project will be led by Professor Eric McFarland in the Department of Chemical Engineering at UCSB.

Competition

Hydrogen is a large and growing industry. According to a report from Markets and Markets, the hydrogen production market in 2011 is \$86 billion with a compounded annual growth rate of 5.6%. Currently, most hydrogen is produced by steam reforming of natural gas or methane. This production technology dominates due to easy availability and low prices of natural gas. Partial oxidation of petroleum oil is second in production capacity after steam reforming of natural gas. The third largest production technology in terms of production capacity is steam gasification of coal. The current industry is heavily dominated by large players such as Air Products and Chemicals Inc. and Air Liquide.

The energy source and feedstock used in these existing production technologies are fossil fuels. Therefore, the hydrogen produced is not considered renewable. We are developing a new low cost nano-technology to use sunlight as the energy source to split water into hydrogen in a truly renewable fashion. To our knowledge, there are no commercially available technologies for producing large quantities of renewable hydrogen that is cost competitive with fossil fuel based hydrogen. Niche market electrolysis systems that split water for hydrogen production have existed for a long time but their capital and operating costs are much higher than conventional hydrogen. Various academic and research institutions around the world are attempting to develop renewable hydrogen production technologies as well. To our knowledge, none have reached commercial success.

If we are able to complete the commercial development of our technology, we do not intend to manufacture hydrogen and compete with companies such as Air Liquide. We intend to license our technology to companies like Air Products and Air Liquide for the production of renewable hydrogen used in applications such as hydrogen vehicle fueling stations and hydrogen power plants.

Organizational History

We were incorporated in the State of Nevada on February 18, 2009. Our authorized capital was increased from 75,000,000 to 505,000,000 on September 11, 2009. Effective also on September 11, 2009, we implemented a forward stock split in a ratio of 20 for 1.

Corporate Information

Our executive offices are located at 510 Castillo Street, Suite 304, Santa Barbara, CA 93101. Our telephone number is (805) 966-6566.

EMPLOYEES

As of September 24, 2012 we had 1 full-time employee and several consultants. We have not experienced any work stoppages and we consider relations with our employees and consultants to be good.

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ITEM 1A. RISK FACTORS

RISKS RELATED TO OUR BUSINESS AND INDUSTRY

OUR LIMITED OPERATING HISTORY DOES NOT AFFORD INVESTORS A SUFFICIENT HISTORY ON WHICH TO BASE AN INVESTMENT DECISION.

We were formed in February 2009 and are currently developing a new technology that has not yet gained market acceptance. There can be no assurance that at this time we will operate profitably or that we will have adequate working capital to meet our obligations as they become due.

Investors must consider the risks and difficulties frequently encountered by early stage companies, particularly in rapidly evolving markets. Such risks include the following:

- competition;
- need for acceptance of products;
- ability to continue to develop and extend brand identity;
- ability to anticipate and adapt to a competitive market;
- ability to effectively manage rapidly expanding operations;
- amount and timing of operating costs and capital expenditures relating to expansion of our business, operations, and infrastructure; and
- dependence upon key personnel.

We cannot be certain that our business strategy will be successful or that we will successfully address these risks. In the event that we do not successfully address these risks, our business, prospects, financial condition, and results of operations could be materially and adversely affected and we may have to curtail our business.

WE HAVE A HISTORY OF LOSSES AND HAVE NEVER REALIZED REVENUES TO DATE. WE EXPECT TO CONTINUE TO INCUR LOSSES AND NO ASSURANCE CAN BE GIVEN THAT WE WILL REALIZE REVENUES. ACCORDINGLY, WE MAY NEVER ACHIEVE AND SUSTAIN PROFITABILITY.

For the period from our inception, through June 30, 2012, we incurred an aggregate net loss, and had an accumulated deficit, of \$(2,515,546). For the years ended June 30, 2012 and 2011, we incurred net losses of \$(833,819) and \$(807,672). We expect to continue to incur net losses until we are able to realize revenues to fund our continuing operations. We may fail to achieve any or significant revenues from sales or achieve or sustain profitability. Accordingly, there can be no assurance of when, if ever, we will be profitable or be able to maintain profitability.

We have historically raised funds through various capital raising transactions. We may require additional funds in the future to fund our business plans, either through additional equity or debt financings or collaborative agreements or from other sources. We have no commitments to obtain such additional financing, and we may not be able to obtain any such additional financing on terms favorable to us, or at all. In the event we are unable to obtain additional financing, we may be unable to implement our business plan. Even with such financing, we have a history of operating losses and there can be no assurance that we will ever become profitable.

WE MAY BE UNABLE TO MANAGE OUR GROWTH OR IMPLEMENT OUR EXPANSION STRATEGY.

We may not be able to develop our product and service offerings or implement the other features of our business strategy at the rate or to the extent presently planned. Our projected growth will place a significant strain on our administrative, operational and financial resources. If we are unable to successfully manage our future growth,

establish and continue to upgrade our operating and financial control systems, recruit and hire necessary personnel or effectively manage unexpected expansion difficulties, our financial condition and results of operations could be materially and adversely affected.

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WE MAY NOT BE ABLE TO SUCCESSFULLY DEVELOP AND COMMERCIALIZE OUR TECHNOLOGIES WHICH WOULD RESULT IN CONTINUED LOSSES AND MAY REQUIRE US TO CURTAIL OR CEASE OPERATIONS.

In May of 2012, we completed a lab scale prototype of our technology. This prototype demonstrates hydrogen production from small scale solar devices coated with our unique, low-cost polymer coating, and submerged in waste water from a pulp and paper mill. However we have not completed a large scale commercial prototype of our technology and are uncertain at this time when completion of a commercial scale prototype will occur. Although, the lab scale prototype demonstrates the viability of our technology, there can be no assurance that we will be able to commercialize our technology.

OUR REVENUES ARE DEPENDENT UPON ACCEPTANCE OF OUR PRODUCTS BY THE MARKET; THE FAILURE OF WHICH WOULD CAUSE US TO CURTAIL OR CEASE OPERATIONS.

We believe that virtually all of our revenues will come from the sale or license of our products. As a result, we will continue to incur substantial operating losses until such time as we are able to develop our product and generate revenues from the sale or license of our products. There can be no assurance that businesses and customers will adopt our technology and products, or that businesses and prospective customers will agree to pay for or license our products. Our technology and product, when fully developed, may not gain market acceptance due to various factors such as not enough cost savings between our method of producing hydrogen and other more conventional methods. In the event that we are not able to significantly increase the number of customers that purchase or license our products, or if we are unable to charge the necessary prices or license fees, our financial condition and results of operations will be materially and adversely affected.

WE FACE INTENSE COMPETITION, AND MANY OF OUR COMPETITORS HAVE SUBSTANTIALLY GREATER RESOURCES THAN WE DO.

We operate in a competitive environment that is characterized by price fluctuation and technological change. We will compete with major international and domestic companies. Some of our current and future potential competitors may have greater market recognition and customer bases, longer operating histories and substantially greater financial, technical, marketing, distribution, purchasing, manufacturing, personnel and other resources than we do. In addition, competitors may be developing similar technologies with a cost similar to, or lower than, our projected costs. As a result, they may be able to respond more quickly to changing customer demands or to devote greater resources to the development, promotion and sales of solar and solar-related products than we can.

Our business plan relies on sales of our products based on either a demand for truly renewable clean hydrogen or economically produced clean hydrogen. If we fail to compete successfully, our business would suffer and we may lose or be unable to gain market share. Neither the demand for our product nor our ability to manufacture have yet been proven.

BECAUSE OUR INDUSTRY IS HIGHLY COMPETITIVE AND HAS LOW BARRIERS TO ENTRY, WE MAY LOSE MARKET SHARE TO LARGER COMPANIES THAT ARE BETTER EQUIPPED TO WEATHER A DETERIORATION IN MARKET CONDITIONS DUE TO INCREASED COMPETITION.

Our industry is highly competitive and fragmented, subject to rapid change and has low barriers to entry. We may in the future compete for potential customers with solar and heating companies and other providers of solar power equipment or electric power. Some of these competitors may have significantly greater financial, technical and marketing resources and greater name recognition than we have.

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We believe that our ability to compete depends in part on a number of factors outside of our control, including:

- the ability of our competitors to hire, retain and motivate qualified personnel;
- the ownership by competitors of proprietary tools to customize systems to the needs of a particular customer;
- the price at which others offer comparable services and equipment;
- the extent of our competitors' responsiveness to customer needs; and
- installation technology.

Competition in the solar power services industry may increase in the future, partly due to low barriers to entry, as well as from other alternative energy resources now in existence or developed in the future. Increased competition could result in price reductions, reduced margins or loss of market share and greater competition for qualified personnel. There can be no assurance that we will be able to compete successfully against current and future competitors. If we are unable to compete effectively, or if competition results in a deterioration of market conditions, our business and results of operations would be adversely affected.

A DROP IN THE RETAIL PRICE OF CONVENTIONAL ENERGY OR NON-SOLAR ALTERNATIVE ENERGY SOURCES MAY NEGATIVELY IMPACT OUR PROFITABILITY.

We believe that a customer's decision to purchase or install solar power capabilities is primarily driven by the cost of electricity from other sources and their anticipated return on investment resulting from solar power systems. Fluctuations in economic and market conditions that impact the prices of conventional and non-solar alternative energy sources, such as decreases in the prices of oil and other fossil fuels, could cause the demand for solar power systems to decline, which would have a negative impact on our profitability. Changes in utility electric rates or net metering policies could also have a negative effect on our business.

OUR BUSINESS DEPENDS ON PROPRIETARY TECHNOLOGY THAT WE MAY NOT BE ABLE TO PROTECT AND MAY INFRINGE ON THE INTELLECTUAL PROPERTY RIGHTS OF OTHERS.

Our success will depend, in part, on our technology's commercial viability and on the strength of our intellectual property rights. The technology is not patented and the only intellectual property rights that exist at present, if any, are trade secret rights. However, trade secrets are difficult to protect and others could independently develop substantially equivalent technology, otherwise gain access to trade secrets relating to the technology. Accordingly, we may not be able to protect the rights to our trade secrets. In addition, any agreements we enter into with our employees, consultants, advisors, customers and strategic partners will contain restrictions on the disclosure and use of trade secrets, inventions and confidential information relating to the technology may not provide meaningful protection in the event of unauthorized use or disclosure.

We filed U.S. patent applications to protect the intellectual property rights for "Photoelectrochemically Active Heterostructures, methods for their manufacture, and methods and systems for producing desired products" and "Process and systems for stable operation of electroactive devices." It could take several years for the applications to be processed. However, patent protection may not be obtainable for the technology whether in the U.S. or internationally. Alternatively, any protection that is obtained may not be broad enough to be effective and of value, or it may not withstand challenges as to validity and enforceability.

Third parties may assert that the technology, or the products we or our customers or partners commercialize using the technology, infringes upon their proprietary rights. We have yet to complete an infringement analysis and, even if such an analysis were available at the current time, it is virtually impossible for us to be certain that no infringement exists, particularly in our case where our products have not yet been fully developed.

We may need to acquire additional licenses from third parties in order to avoid infringement. Any required license may not be available to us on acceptable terms, or at all.

We could incur substantial costs in defending ourselves in suits brought against us for alleged infringement of another party's intellectual property rights as well as in enforcing our rights against others, and if we are found to infringe, the manufacture, sale and use of our or our customers' or partners' products could be enjoined. Any claims against us, with or without merit, would likely be time-consuming, requiring our management team to dedicate substantial time to addressing the issues presented. Furthermore, the parties bringing claims may have greater resources than we do.

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WE DO NOT MAINTAIN THEFT OR CASUALTY INSURANCE, AND ONLY MAINTAIN MODEST LIABILITY AND PROPERTY INSURANCE COVERAGE AND THEREFORE WE COULD INCUR LOSSES AS A RESULT OF AN UNINSURED LOSS.

We do not maintain theft, casualty insurance, or property insurance coverage. We cannot assure that we will not incur uninsured liabilities and losses as a result of the conduct of our business. Any such uninsured or insured loss or liability could have a material adverse effect on our results of operations.

IF WE LOSE KEY EMPLOYEES AND CONSULTANTS OR ARE UNABLE TO ATTRACT OR RETAIN QUALIFIED PERSONNEL, OUR BUSINESS COULD SUFFER.

Our success is highly dependent on our ability to attract and retain qualified scientific, engineering and management personnel. We are highly dependent on our CEO, including Timothy Young, our President and CEO and our development team at the University of California, Santa Barbara. The loss of these valuable resources could have a material adverse effect on our operations. Our officers are employed on “at will” basis. Accordingly, there can be no assurance that they will remain associated with us. Our management’s efforts will be critical to us as we continue to develop our technology and as we attempt to transition from a development stage company to a company with commercialized products and services. If we were to lose Mr. Young or the services of the development team at the university or any other key employees or consultants, we may experience difficulties in competing effectively, developing our technology and implementing our business strategies.

THE LOSS OF STRATEGIC RELATIONSHIPS USED IN THE DEVELOPMENT OF OUR PRODUCTS AND TECHNOLOGY COULD IMPEDE OUR ABILITY TO COMPLETE OUR PRODUCT AND RESULT IN A MATERIAL ADVERSE EFFECT CAUSING THE BUSINESS TO SUFFER.

In February 2012, we entered into a one year sponsorship research agreement with the University of California, Santa Barbara. We rely on this strategic relationship and may rely on others in the future as development partners. A loss of these relationships for any reason could cause us to experience difficulties in completing the development of our product and implementing our business strategy. There can be no assurance that we could establish other relationships of adequate expertise in a timely manner or at all.

THERE IS SUBSTANTIAL DOUBT ABOUT OUR ABILITY TO CONTINUE AS A GOING CONCERN.

Our independent public accounting firm in their report dated September 28, 2012, included an explanatory paragraph expressing substantial doubt in our ability to continue as a going concern without additional capital becoming available. Going concern contemplates the realization of assets and the satisfaction of liabilities in the normal course of business over a reasonable length of time. 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. As a result, our financial statements do not reflect any adjustment which would result from our failure to continue to operate as a going concern. Any such adjustment, if necessary, would materially affect the value of our assets.

RISKS RELATING TO OUR COMMON STOCK

BECAUSE THERE IS A LIMITED MARKET IN OUR COMMON STOCK, STOCKHOLDERS MAY HAVE DIFFICULTY IN SELLING OUR COMMON STOCK AND OUR COMMON STOCK MAY BE SUBJECT TO SIGNIFICANT PRICE SWINGS.

There is a very limited market for our common stock. Since trading commenced in May 26, 2010, there has been little activity in our common stock and on some days there is no trading in our common stock. Because of the limited market for our common stock, the purchase or sale of a relatively small number of shares may have an exaggerated effect on the market price for our common stock. We cannot assure stockholders that they will be able to sell common stock or, that if they are able to sell their shares, that they will be able to sell the shares in any significant quantity at the quoted price.

IF WE FAIL TO REMAIN CURRENT ON OUR REPORTING REQUIREMENTS, WE COULD BE REMOVED FROM THE OTC BULLETIN BOARD WHICH WOULD LIMIT THE ABILITY OF BROKER-DEALERS TO SELL OUR SECURITIES AND THE ABILITY OF STOCKHOLDERS TO SELL THEIR SECURITIES IN THE SECONDARY MARKET.

Securities traded on the OTC Bulletin Board must be registered with the Securities and Exchange Commission and the issuer must be current with its filings pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1933, as amended, in order to maintain price quotation privileges on the OTC Bulletin Board. If we fail to remain current in our reporting requirements, we could be removed from the OTC Bulletin Board. As a result, the market liquidity of our securities could be severely adversely affected by limiting the ability of broker-dealers to trade our securities and the ability of stockholders to sell their securities in the secondary market. In addition, we may be unable to get re-listed on the OTC Bulletin Board, which may have an adverse material effect on our Company.

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WE DO NOT EXPECT TO PAY DIVIDENDS IN THE FUTURE; ANY RETURN ON INVESTMENT MAY BE LIMITED TO THE VALUE OF OUR COMMON STOCK.

We do not currently anticipate paying cash dividends in the foreseeable future. The payment of dividends on our Common Stock will depend on earnings, financial condition and other business and economic factors affecting it at such time as the board of directors may consider relevant. Our current intention is to apply net earnings, if any, in the foreseeable future to increasing our capital base and development and marketing efforts. There can be no assurance that the Company will ever have sufficient earnings to declare and pay dividends to the holders of our Common Stock, and in any event, a decision to declare and pay dividends is at the sole discretion of the our Board of Directors. If we do not pay dividends, our Common Stock may be less valuable because a return on your investment will only occur if its stock price appreciates.

INSIDERS HAVE SUBSTANTIAL CONTROL OVER THE COMPANY.

Our principal shareholders, officers and directors beneficially owned as of September 24, 2012 in the aggregate, approximately 76,029,600 shares of our outstanding common stock, which constitutes approximately 45.9 % of our outstanding shares.

As a result, these stockholders acting together, have the ability to control substantially all matters submitted to the Company's stockholders for approval, including:

- election of its board of directors;
- removal of any of its directors;
- amendment of its certificate of incorporation or bylaws; and
- adoption of measures that could delay or prevent a change in control or impede a merger, takeover or other business combination involving us.

In addition, sales of significant amounts of shares held by our principal stockholders, directors and executive officers, or the prospect of these sales, could adversely affect the market price of our common stock. Their stock ownership may discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of the Company, which in turn could reduce our stock price or prevent its stockholders from realizing a premium over its stock price.

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OUR COMMON STOCK COULD BE SUBJECT TO EXTREME VOLATILITY.

The trading price of our common stock may be affected by a number of factors, including events described in the risk factors set forth in this report, as well as our operating results, financial condition and other events or factors. In addition to the uncertainties relating to future operating performance and the profitability of operations, factors such as variations in interim financial results or various, as yet unpredictable, factors, many of which are beyond our control, may have a negative effect on the market price of our common stock. In recent years, broad stock market indices, in general, and smaller capitalization companies, in particular, have experienced substantial price fluctuations. In a volatile market, we may experience wide fluctuations in the market price of our common stock and wide bid-ask spreads. These fluctuations may have a negative effect on the market price of our common stock. In addition, the securities market has from time to time experienced significant price and volume fluctuations that are not related to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our stock.

THERE IS A LARGE NUMBER OF AUTHORIZED BUT UNISSUED SHARES OF CAPITAL STOCK AVAILABLE FOR ISSUANCE, WHICH MAY RESULT IN SUBSTANTIAL DILUTION TO EXISTING SHAREHOLDERS.

Our Certificate of Incorporation authorizes the issuance of up to 500,000,000 shares of common stock, par value \$0.001 and 5,000,000 shares of preferred stock, par value \$0.001, of which 168,585,170 shares of common stock and 0 shares of preferred stock are currently outstanding. Our Board of Directors has the ability to authorize the issuance of 331,414,830 shares of common stock and 5,000,000 shares of preferred stock without shareholder approval. Any such issuance will result in substantial dilution to existing shareholders. In addition, the availability of such a large number of capital stock could be utilized, under certain circumstances, as a method of discouraging, delaying or preventing a change in control of the Company.

WE HAVE NEVER PAID COMMON STOCK DIVIDENDS AND HAVE NO PLANS TO PAY DIVIDENDS IN THE FUTURE, AS A RESULT OUR COMMON STOCK MAY BE LESS VALUABLE BECAUSE A RETURN ON AN INVESTOR'S INVESTMENT WILL ONLY OCCUR IF OUR STOCK PRICE APPRECIATES.

Holders of shares of our common stock are entitled to receive such dividends as may be declared by our board of directors. To date, we have paid no cash dividends on our shares of common stock and we do not expect to pay cash dividends on our common stock in the foreseeable future. We intend to retain future earnings, if any, to provide funds for operations of our business. Therefore, any return investors in our common stock may have will be in the form of appreciation, if any, in the market value of their shares of common stock. There can be no assurance that shares of our common stock will appreciate in value or even maintain the price at which our stockholders have purchased their shares.

IF OUR COMMON STOCK REMAINS SUBJECT TO THE SEC'S PENNY STOCK RULES, BROKER-DEALERS MAY EXPERIENCE DIFFICULTY IN COMPLETING CUSTOMER TRANSACTIONS AND TRADING ACTIVITY IN OUR SECURITIES MAY BE ADVERSELY AFFECTED.

Unless our common stock is listed on a national securities exchange, including the Nasdaq Capital Market or we have stockholders' equity of \$5,000,000 or less and our common stock has a market price per share of less than \$4.00, transactions in our common stock will be subject to the SEC's "penny stock" rules. If our common stock remains subject to the "penny stock" rules promulgated under the Securities Exchange Act of 1934, broker-dealers may find it difficult to effectuate customer transactions and trading activity in our securities may be adversely affected.

In accordance with these rules, broker-dealers participating in transactions in low-priced securities must first deliver a risk disclosure document that describes the risks associated with such stocks, the broker-dealer's duties in selling the stock, the customer's rights and remedies and certain market and other information. Furthermore, the broker-dealer must make a suitability determination approving the customer for low-priced stock transactions based on the customer's financial situation, investment experience and objectives. Broker-dealers must also disclose these restrictions in writing to the customer, obtain specific written consent from the customer, and provide monthly account statements to the customer. The effect of these restrictions will probably decrease the willingness of broker-dealers to make a market in our common stock, decrease liquidity of our common stock and increase transaction costs for sales and purchases of our common stock as compared to other securities. Our management is aware of the abuses that have occurred historically in the penny stock market.

As a result, if our common stock becomes subject to the penny stock rules, the market price of our securities may be depressed, and you may find it more difficult to sell our securities.

WE MAY NEED ADDITIONAL CAPITAL, AND THE SALE OF ADDITIONAL SHARES OR OTHER EQUITY SECURITIES COULD RESULT IN ADDITIONAL DILUTION TO OUR STOCKHOLDERS.

If our resources are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities or obtain a credit facility. The sale of additional equity securities could result in additional dilution to our stockholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations. Financing may not be available in amounts and on terms acceptable to us, or at all. In addition, the successful execution of our business plan requires significant cash resources, including cash for investments and acquisition. Changes in business conditions and future developments could also increase our cash requirements. To the extent we are unable to obtain external financing, we will not be able to execute our business plan effectively. 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.

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ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES.

Our principal office is located at 510 Castillo Street, Suite 304, Santa Barbara, CA, 93101. We lease approximately 1,200 square feet, with an annual cost of approximately \$11,000. The term of the lease is one year which expires on September 1, 2013 and thereafter will become month to month. We believe that our current premises are sufficient to handle our activities for the near future.

ITEM 3. 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 4. MINE SAFETY DISCLOSURES

Not Applicable.

PART II

ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

On May 26, 2010, our common stock became eligible for quotation on the OTC Bulletin Board under the symbol "HYSR.OB."

For the periods indicated, the following table sets forth the high and low bid prices per share of common stock. These high and low bid prices represent prices quoted by broker-dealers on the OTC Bulletin Board. These prices represent inter-dealer quotations without retail markup, markdown, or commission and may not necessarily represent actual transactions.

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| Period | High | Low |
|------------------------|----------|----------|
| First Quarter FY 2013 | \$.03 | 0.021 |
| First Quarter FY 2012 | \$ 0.15 | \$ 0.03 |
| Second Quarter FY 2012 | \$ 0.108 | \$ 0.033 |
| Third Quarter FY 2012 | \$ 0.054 | \$ 0.02 |
| Fourth Quarter FY 2012 | \$ 0.079 | \$ 0.025 |
| First Quarter FY 2011 | \$ 0.20 | \$ 0.09 |
| Second Quarter FY 2011 | \$ 0.31 | \$ 0.06 |
| Third Quarter FY 2011 | \$ 0.272 | \$ 0.095 |
| Fourth Quarter FY 2011 | \$ 0.21 | \$ 0.07 |

As of September 24, 2012

Securities

Our Articles of Incorporation, as amended, authorize the issuance of 500,000,000 shares of common stock, \$.001 par value per share and 5,000,000 shares of preferred stock, par value \$.001 per share.

All outstanding shares of Common Stock are of the same class and have equal rights and attributes. The holders of our Common Stock are entitled to one vote per share on all matters submitted to a vote of our stockholders. All stockholders are entitled to share equally in dividends, if any, as may be declared from time to time by the Board of Directors out of funds legally available. In the event of liquidation, the holders of our Common Stock are entitled to share ratably in all assets remaining after payment of all liabilities. The stockholders do not have cumulative or preemptive rights.

As of September 24 2012, our common stock was held by 86 stockholders of record and we had 168,585,170 shares of common stock issued and outstanding. We believe that the number of beneficial owners is substantially greater than the number of record holders because a significant portion of our outstanding common stock is held of record in broker street names for the benefit of individual investors. The transfer agent of our common stock is Computershare Trust Company N.A., 250 Royall Street Canton, MA 02021.

Dividend Policy

We have never declared or paid any cash dividends on our common stock. We do not anticipate paying any cash dividends to stockholders in the foreseeable future. In addition, any future determination to pay cash dividends will be at the discretion of the board of directors and will be dependent upon our financial condition, results of operations, capital requirements, and such other factors as the Board of Directors deem relevant. There are no restrictions in our articles of incorporation or bylaws that restrict us from declaring dividends.

Securities Authorized For Issuance Under Equity Compensation Plans

We do not have any compensation plans or arrangements under which equity securities are authorized for issuance.

Recent Sales of Unregistered Securities

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During the three months ended June, 2012, the Company issued 8,533,334 shares of common stock at a price of \$0.015 per share for cash in the amount of \$103,000. The funds were used for operating expenses.

Also, the Company issued 1,990,000 shares of common stock at prices of \$0.03 and \$0.06 per share for services at fair value in the amount of \$89,550.

During the period ended March 31, 2012, the Company issued 5,333,334 shares of common stock at a price of \$0.015 per share for cash in the amount of \$80,000. Also, the Company issued 3,333,333 shares of common stock at a price of \$0.0075 per share for cash in the amount of \$25,000. The funds were used for operating expenses.

During the three months ended December 31, 2011, the Company received proceeds of \$145,000 for the purchase of 4,142,859 shares of common stock at price of \$0.035 per share. The funds were used for operating expenses.

During the three months ended September 30, 2011, the Company issued 909,091 shares of common stock at a price of \$0.055 per share for gross cash proceeds of \$50,000, with warrants attached to purchase 1,818,182 shares of common stock at a price of \$0.055. The Company also issued 4,142,857 shares of common stock at a price of \$0.035 per share for gross cash proceeds of \$145,000 with warrants attached to purchase 5,428,572 shares of common stock at a price of \$0.035. The funds were used for operating expenses.

The Company relied on an exemption pursuant to Rule 506 of Regulation D and/or Section 4(2) of the Securities Act of 1933, as amended in connection with the sale and issuances of its shares of common stock described above

Issuer Purchases of Equity Securities

None.

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ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

Cautionary Statement Regarding Forward-Looking Statements

The information in this discussion may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements involve risks and uncertainties, including statements regarding our capital needs, business strategy and expectations. Any statements that are not of historical fact may be deemed to be forward-looking statements. These forward-looking statements involve substantial risks and uncertainties. In some cases you can identify forward-looking statements by terminology such as "may," "will," "should," "expect," "plan," "intend," "anticipate," "estimate," "predict," "potential," or "continue", the negative of the terms or other comparable terminology. Unless the context otherwise requires, references in this Form 10-Q to "we," "us," "our," or the "Company" refer to Hypersolar, Inc. Forward-looking statements in this Report may also include references to anticipated sales volume and product margins, efforts aimed at establishing new or improving existing relationships with customers, other business development activities, anticipated financial performance, business prospects and similar matters. Actual events or results may differ materially from the anticipated results or other expectations expressed in the forward-looking statements. In evaluating these statements, you should consider various factors, including the risks included from time to time in other reports or registration statements filed with the United States Securities and Exchange Commission. These factors may cause our actual results to differ materially from any forward-looking statements. We disclaim any obligation to publicly update these statements, or disclose any difference between actual results and those reflected in these statements.

Overview

Inspired by the photosynthetic process that plants use to harness the power of the sun to create energy molecules, Hypersolar, Inc. we are developing a novel solar-powered nanoparticle system that mimics photosynthesis to separate hydrogen from water. On November 15, 2011, we filed a patent application to protect the intellectual property rights to the production of renewable hydrogen and natural gas using sunlight, water, and carbon dioxide. Our technology will allow free hydrogen to be reacted with carbon dioxide to produce methane, the primary component in natural gas.

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

We began operating our business in February 2009, and have not generated any revenues. From inception until September of 2011, we were exclusively working on the design and manufacturing of a prototype for a solar concentrator that would reduce the amount of solar cells in a conventional solar module. Due to high manufacturing costs and a steady decline in the cost of silicon solar cells and solar modules, in November of 2011, management decided it was in the best interest of the shareholders to put the solar concentration technology on hold and put all efforts towards development of our hydrogen producing nanoparticle system. In June of 2012, it was further decided not to utilize our limited funds to further protect and prosecute the patents filed for that technology in 2009, 2010, and 2011. Our efforts are currently focused on developing a novel solar-powered nanoparticle system that mimics

photosynthesis to separate hydrogen from water as discussed in this report.

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.

Revenue Recognition

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

Use of Estimates

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

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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 Issued Accounting Pronouncements

Management reviewed accounting pronouncements issued during the three month period ended June 30, 2012, and adopted the following pronouncements during the period.

The Company adopted ASC 470 "Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants". This pronouncement addresses the accounting for proceeds from the sale of a debt instrument with stock purchase warrants shall be allocated to the two elements based on the relative fair values of the debt instrument without the warrants and the warrants themselves at time of issuance. The portion of the proceeds so allocated to the warrants shall be accounted for as paid-in-capital. The remainder of the proceeds shall be allocated to the debt instrument portion of the transaction. This usually results in a discount or occasionally, a reduced premium, which shall be accounted for as interest expense. The adoption of this pronouncement did not have a material effect on the financial statements of the Company.

The Company adopted ASC 835 "Accounting for Interest". This pronouncement addresses the appropriate accounting when the face amount of a note does not reasonably represent the present value of the consideration given or received in the exchange. A note issued solely for cash equal to its face amount is presumed to earn the stated rate of interest, however, in some cases the parties may also exchange unstated or stated rights or privileges, which are given accounting recognition by establishing a note discount or premium account. In such instances, the effective interest rate differs from the stated rate. The note discount shall be amortized as interest expense over the life of the note. The adoption of this pronouncement did not have a material effect on the financial statements of the Company.

Liquidity and Capital Resources

As of June 30, 2012, we had a working capital deficit of \$(106,059) as compared to \$(6,945) as of June 30, 2011. This increase of \$(99,114) was due primarily to an increase in promissory notes and a decrease in prepaid expenses for the current period.

Cash flow used in operating activities was \$(605,790) for the year ended June 30, 2012 and \$(758,059) for the prior period June 30, 2011. The decrease in cash used by operating activities was primarily due to a decrease in prepaid expenses, accounts payable, and an increase in deposits and accrued expenses. The Company is in its development stage and has had no revenues.

Cash used in investing activities for the year ended June 30, 2012 was \$16,676, compared to \$987 for the prior year ended June 30, 2011. The increase was due to the purchase of intangible assets for the current period.

Cash provided by financing activities during the year ended June 30, 2012 was \$609,000 and \$375,000 for the prior period ending June 30, 2011. The increase of \$234,000 in financing activities was due to equity financing and promissory notes from investors during the current period.

Our financial statements as of June 30, 2012 have been prepared under the assumption that we will continue as a going concern from inception (February 18, 2009) through June 30, 2013. Our independent registered public accounting firm have issued their report dated September 28, 2012 that included an explanatory paragraph expressing substantial doubt in our ability to continue as a going concern without additional capital becoming available. Our

ability to continue as a going concern ultimately is dependent on our ability to generate a profit which is dependent upon our ability to obtain additional equity or debt financing, attain further operating efficiencies and, ultimately, to achieve profitable operations. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We believe our current cash balance, including additional equity financing will fund our operations for the next three months as we develop a working prototype of our technology. However, there may be unforeseen operational issues such as multiple rounds of design and redesign of the prototype that may exceed our current projected budget. If any unforeseen circumstances should we may seek to sell additional equity or debt securities or obtain a credit facility. The sale of additional equity securities could result in additional dilution to our stockholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations. Financing may not be available in amounts and on terms acceptable to us, or at all. To the extent that additional capital is raised through the sale of equity or convertible debt securities, the issuance of these securities could result in further dilution to our stockholders. If we are unable to obtain additional financing, we may be forced to curtail our operations.

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PLAN OF OPERATION AND FINANCING NEEDS

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

In May of 2012, we completed a lab scale prototype of our technology that can be seen on our website at www.hypersolar.com. This prototype demonstrates hydrogen production from small scale solar devices coated with our unique, low-cost polymer coating, and submerged in waste water from a pulp and paper mill. This prototype will be used for demonstration purposes only and is not meant for commercial deployment. We are currently underway in the development of a larger field-scale demonstration prototype. We do not expect to purchase any significant plant and equipment for completing the prototype.

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

Operating Expenses

Operating expenses for the year ended June 30, 2012 were \$804,588 and \$807,672 for the prior period June 30, 2011. The net decrease in operating expenses consisted primarily of the net change in research and development.

Net Loss

For the year ended June 30, 2012, our net loss was \$(833,819) and \$(807,917) for the prior period June 30, 2011. The increase in net loss was related primarily to operating expenses for research and development, and other expenses for impairment of intangible asset, and non-cash amortization of debt discount. We recently began operating our business, and no revenues were generated to cover our operating costs, since we are in the development stage of our Company.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 8. FINANCIAL STATEMENTS.

All financial information required by this Item is attached hereto at the end of this report beginning on page F-1 and is hereby incorporated by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None

ITEM 9A. CONTROLS AND PROCEDURES.

(a) Evaluation of Disclosure Controls and Procedures. Our management, with the participation of our CEO and our CFO, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our CEO and our CFO concluded that our disclosure controls and procedures as of the end of the period covered by this report were effective such that information required to be disclosed is by the issuer in the reports that it files or submits under the 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 principal executive and principal financial officers, or persons performing similar functions as appropriate to allow timely decisions regarding required disclosure. A controls system cannot provide absolute assurance, however, that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

(b) Changes in Internal Controls. During the three months ended June 30, 2012, there were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or Rule 15d-15 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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Management's Report on Internal Control over Financial Reporting.

We are responsible for establishing and maintaining adequate internal control over financial reporting in accordance with Exchange Act Rule 13a-15. With the participation of our Chief Executive Officer and Acting Chief Financial Officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting as of June 30, 2012 based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of June 30, 2012, based on those criteria. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to the rules of the Securities and Exchange Commission that permanently exempts smaller reporting companies.

ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CORPORATE GOVERNANCE

The following table sets forth information about our executive officers, key employees and directors:

| Name | Age | Position |
|---------------------|-----|-----------------------------|
| Timothy Young | 47 | President, CEO and Chairman |
| Christopher Marquis | 28 | Director |

Timothy Young – President, CEO and Director

Tim Young is an accomplished executive with over 15 years of management experience in media and Internet technology companies. Mr. Young was appointed, President, CEO and Chairman of the Company in August 2009. From September 2007 through August 2009, Mr. Young was the President of Rovion, Inc., an internet media startup company, where he increased revenues through a channel sales strategy that included companies such as Clear Channel, Disney, CBS, and Fox Television and bolstered the company's technical capabilities through strategic acquisitions.

Prior to Rovion, Mr. Young was employed by Time Warner Inc. from October 1998 through July 2007, where he served as Vice President and Regional Vice President of various divisions including America Online and Time Warner Cable. During his tenure, Mr. Young built some of the highest performing sales organizations at Time Warner with responsibilities ranging from product development, marketing, staff training to leadership development. After Time Warner's acquisition of Adelphia Media Services and Comcast in 2004, Mr. Young served as Regional Vice President of Western Region, and was responsible for successfully integrating the California sales teams which accounted for over \$200 million in revenues with 250 sales and marketing personnel, and launched several new product offerings. Mr. Young also serves on the board of Calypso Media Group, a full service discount advertising

agency specializing in COOP advertising. Mr. Young's track record of success and over fifteen plus years of management and leadership experience bringing new products to the market, qualifies him to be a board member of HyperSolar, Inc.

Christopher Marquis, Director

Christopher Marquis is a real estate executive who provides advisory and transactional services for investors of shopping centers, retail properties, and single tenant assets throughout Southern California. Since 2008, he has been employed by Sperry Van Ness, a real estate advisory firm located in Irvine, California. Prior to his employment by Sperry Van Ness, from April 2006 through September 2006, Mr. Marquis was responsible for market research and financial analysis assistance on new projects for the development team at Treadwell Robertson, Inc. a real estate developer located in San Juan Capistrano, California. Mr. Marquis graduated in 2007 from Brigham Young University in Provo, Utah with a Bachelor of Science degree in Finance at the Marriott School of Management. While working on his degree, Mr. Marquis held a management position at DP Clothing in Provo, Utah from November 2003 until April 2006. Mr. Marquis played a key role in the very early stages of our company serving as our CEO, President and Chairman of the Board from January 2009 through August 2009. Mr. Marquis has served as a director of the Company since inception. This experience along with his expertise and knowledge with in marketing research and finance make him qualified to continue to serve on our board of directors.

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Board Leadership Structure and Role in Risk Oversight

Although we have not adopted a formal policy on whether the Chairman and Chief Executive Officer positions should be separate or combined, we have traditionally determined that it is in the best interests of the Company and its shareholders to combine these roles. Due to the small size and early stage of the Company, we believe it is currently most effective to have the Chairman and Chief Executive Officer positions combined.

Our Board of Directors focuses on the most significant risks facing our company and our company's general risk management strategy, and also ensure that risks undertaken by our Company are consistent with the Board's appetite for risk. While the Board oversees our company's risk management, management is responsible for day-to-day risk management processes. We believe this division of responsibilities is the most effective approach for addressing the risks facing our company and that our Board leadership structure supports this approach.

INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

To our knowledge, during the past ten years, none of our directors, executive officers, promoters, control persons, or nominees has been:

the subject of any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;

convicted in a criminal proceeding or is subject to a pending criminal proceeding (excluding traffic violations and other minor offenses);

subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction or any Federal or State authority, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities;

found by a court of competent jurisdiction (in a civil action), the Commission or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law.

the subject of, or a party to, any Federal or State judicial or administrative order, judgment, decree, or finding, not subsequently reversed, suspended or vacated, relating to an alleged violation of (a) any Federal or State securities or commodities law or regulation; (b) any law or regulation respecting financial institutions or insurance companies including, but not limited to, a temporary or permanent injunction, order of disgorgement or restitution, civil money penalty or temporary or permanent cease-and-desist order, or removal or prohibition order; or (c) any law or regulation prohibiting mail or wire fraud or fraud in connection with any business entity; or

the subject of, or a party to, any sanction or order, not subsequently reversed, suspended or vacated, of any self-regulatory organization (as defined in Section 3(a)(26) of the Exchange Act (15 U.S.C. 78c(a)(26))), any registered entity (as defined in Section 1(a)(29) of the Commodity Exchange Act (7 U.S.C. 1(a)(29))), or any equivalent exchange, association, entity or organization that has disciplinary authority over its members or persons associated with a member.

COMMITTEES OF THE BOARD

We currently have no audit committee, compensation committee, nominations and governance committee of our board of directors. We do not have an audit committee financial expert.

INDEBTEDNESS OF EXECUTIVE OFFICERS AND DIRECTORS

No executive officer, director or any member of these individuals' immediate families or any corporation or organization with whom any of these individuals is an affiliate is or has been indebted to us since the beginning of our last fiscal year.

FAMILY RELATIONSHIPS

There are no family relationships among our executive officers and directors.

CODE OF ETHICS

We have adopted a Code of Ethics that applies to all of our directors, officers and employees. A copy of the Code of Ethics can be obtained without charge upon request to Timothy Young, CEO and President, 510 Castillo Street, Suite 304, Santa Barbara, CA 93101 is also been filed as an exhibit to this Annual Report. Any waiver of the provisions of the Code of Ethics for executive officers and directors may be made only by the Board of Directors. Any such waivers will be promptly disclosed to our shareholders.

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COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires that our officers and directors, and persons who own more than ten percent of a registered class of our equity securities, file reports of ownership and changes in ownership with the Securities and Exchange Commission and with any exchange on which the Company's securities are traded. Officers, directors and persons owning more than ten percent of such securities are required by Commission regulation to file with the Commission and furnish the Company with copies of all reports required under Section 16(a) of the Exchange Act. To our knowledge, based solely upon our review of the copies of such reports furnished to us, during the fiscal year ended June 30, 2012, all Section 16(a) filing requirements applicable to our officers, directors and greater than 10% beneficial owners were complied with.

CHANGES IN NOMINATING PROCEDURES

None

ITEM 11. EXECUTIVE COMPENSATION.

The following table below sets forth the compensation earned by each person acting as our Principal Executive Officer and our other most highly compensated executive officers whose total annual compensation exceeded \$100,000.

| Name & Principal Position | Year | Salary (\$) | Bonus (\$) | Stock Awards (\$) | Option Awards (\$) | Non-Equity Incentive Plan Compensation (\$) | Non-Qualified Deferred Compensation Earnings (\$) | All Other Compensation (\$) | Total (\$) |
|---|------|----------------|---------------|-------------------------|--------------------------|---|---|-----------------------------------|---------------|
| Timothy Young, CEO and Acting CFO | 2012 | \$ 255,000 | 0 | 0 | 0 | 0 | 0 | 0 | 255,000 |
| | 2011 | \$ 254,875 | 0 | 0 | 0 | 0 | 0 | 0 | 254,875 |

Outstanding Equity Awards at Fiscal Year-End

There were no grants of options to purchase our common stock to the named executive officers at June 30, 2012.

EMPLOYMENT AGREEMENTS

Our CEO, Timothy Young is employed as an "at-will" employee whose employment with the Company may be terminated at any time by either party. We have agreed to pay Mr. Young an annual salary of \$255,000, subject to modification in accordance with the Company's policies, practices and procedures. In addition, we have agreed to pay Mr. Young three months base salary, in the event his employment is terminated by the Company. Mr. Young is eligible to receive a quarterly bonus as determined by the Company's Board of Directors and to participate in any benefit plan implemented by the Company.

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Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following tables sets forth, as of September 24, 2012, the number of and percent of our common stock beneficially owned by:

all directors and nominees, naming them,
our executive officers,
our directors and executive officers as a group, without naming them, and

We believe that all persons named in the table have sole voting and investment power with respect to all shares of common stock beneficially owned by them.

A person is deemed to be the beneficial owner of securities that can be acquired by him within 60 days from September 24, 2012 upon the exercise of options, warrants or convertible securities. Each beneficial owner's percentage ownership is determined by assuming that options, warrants or convertible securities that are held by him, but not those held by any other person, and which are exercisable within 60 days of September 30, 2012 have been exercised and converted.

| Title of Class | Name of Beneficial Owner | Number of Shares Beneficially Owned | Percentage of Common Stock (1) |
|----------------|---|-------------------------------------|--------------------------------|
| Common Stock | Timothy A. Young(2) | 10,000,000 | 6.04% |
| Common Stock | Christopher Marquis (2) | 1,153,000 | * |
| Common Stock | Cumorah Capital, Inc.(3) | 32,363,300(3) | 19.54% |
| Common Stock | Pearl Innovations, LLC.(4) | 32,513,300(4) | 19.63% |
| Common Stock | All Executive Officers and Directors as a Group (2 persons) | 11,153,000 | 6.74% |

(1) Based upon 168,585,170 shares issued and outstanding as of September 24, 2012.

(2) Executive Officers and Directors of the Company.

(3) William E. Beifuss holds voting and dispositive power over the shares held by Cumorah Capital, Inc.

(4) Elaine Lei holds voting and dispositive power over the shares held by Pearl Innovations, LLC.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

Certain Relationships and Related Transactions

Since the beginning of our last fiscal year, there have been and there are no currently proposed transaction, in which we are or was to be a participant and the amount involved exceeds \$120,000, and in which any related person had or will have a direct or indirect material interest.

Director Independence

We do not currently have any directors who are independent as that term is defined under the Nasdaq Marketplace Rules.

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ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Audit Fees

The aggregate fees billable to us by HJ Associates & Consultants, LLP during 2012 and 2011 for the audits and quarterly reviews of our financial statements for the fiscal year totaled approximately \$23,300 and \$23,960, respectively.

Audit-Related Fees

We incurred assurance and audit-related fees during 2012 and 2011 of \$0 and \$0 respectively, to HJ Associates & Consultants, LLP in connection with the audit of the financial statements of the Company for the years ended June 30, 2012 and June 30, 2011, for the reviews of registration statements and issuance of related consents and assistance with SEC comment letters.

Tax Fees

We incurred fees of \$0 and \$0 billed to us by HJ Associates & Consultants, LLP for services rendered to us for tax compliance, tax advice, or tax planning for the fiscal year ended June 30, 2012 and June 30, 2011, respectively.

All Other Fees

There were no fees billed to us by HJ Associates & Consultants, LLP for services rendered to us during the last two fiscal years, other than the services described above under “Audit Fees” and “Audit-Related Fees.”

As of the date of this filing, our current policy is to not engage HJ Associates & Consultants, LLP to provide, among other things, bookkeeping services, appraisal or valuation services, or international audit services. The policy provides that we engage HJ Associates & Consultants, LLP to provide audit, tax, and other assurance services, such as review of SEC reports or filings.

ITEM 15. EXHIBITS.

Exhibit

| No. | Description |
|-----|--|
| 3.1 | Articles of Incorporation of HyperSolar, Inc. filed with the Nevada Secretary of State on February 18, 2009. (incorporated by reference to the Company’s registration on Form S-1 filed with the Securities and Exchange Commission on February 5, 2010) |
| 3.2 | Articles of Amendment of Articles of Incorporation of HyperSolar, Inc. filed with the Nevada Secretary of State on September 11, 2009. (incorporated by reference to the Company’s registration on Form S-1 filed with the Securities and Exchange Commission on February 5, 2010) |
| 3.4 | Bylaws of HyperSolar, Inc. (incorporated by reference to the Company’s registration on Form S-1 filed with the Securities and Exchange Commission on February 5, 2010) |

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10.1 Form of Subscription Agreement dated as of September 21, 2010. (incorporated by reference to the Company's registration on Form S-1 filed with the Securities and Exchange Commission on February 5, 2010)

10.2 Form of Subscription Agreement dated as of April 10, 2009 (Incorporated by reference to the Company's registration on Form S-1 filed with the Securities and Exchange Commission on March 25, 2010)

10.3 Form of Subscription Agreement dated as of April 17, 2009 (Incorporated by reference to the Company's registration on Form S-1 filed with the Securities and Exchange Commission on March 25, 2010)

10.4 Offer of Employment to Timothy Young dated August 13, 2009 (Incorporated by reference to the Company's registration on Form S-1 filed with the Securities and Exchange Commission on March 25, 2010)

10.5 Consulting Agreement between Hypersolar, Inc. and Nadir Dagli dated as of March 1, 2009(Incorporated by reference to the Company's registration on Form S-1 filed with the Securities and Exchange Commission on March 25, 2010)

10.6 Invention Transfer dated as of June 10, 2009(Incorporated by reference to the Company's registration on Form S-1 filed with the Securities and Exchange Commission on March 25, 2010)

10.7 Lease Agreement dated as of July 26, 2011(Incorporated by reference to the Company's annual report on Form 10-K filed with the Securities and Exchange Commission on September 28, 2011).

14* Code of Ethics

31.1* Certification by Chief Executive Officer and Acting Chief Financial Officer pursuant to Sarbanes-Oxley Section 302

32.1 * Certification by Chief Executive Officer and Acting Chief Financial Officer pursuant to 18 U.S.C. Section 1350

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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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HYPERSOLAR, INC.

Date: By: /s/ Timothy Young
September
28, 2012

CHIEF EXECUTIVE OFFICER PRESIDENT (PRINCIPAL EXECUTIVE OFFICER), ACTING CHIEF FINANCIAL
(PRINCIPAL ACCOUNTING AND FINANCIAL OFFICER) AND CHAIRMAN

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

| SIGNATURE | TITLE | DATE |
|--|--|--------------------|
| /s/ Timothy Young Timothy Young | CHIEF EXECUTIVE OFFICER, PRESIDENT (PRINCIPAL EXECUTIVE OFFICER), ACTING CHIEF FINANCIAL OFFICER (PRINCIPAL ACCOUNTING AND FINANCIAL OFFICER) AND CHAIRMAN AND FINANCIAL OFFICER) AND CHAIRMAN OF THE BOARDP | September 28, 2012 |
| /s/ Christopher Marquis Christopher Marquis | DIRECTOR | September 28, 2012 |

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INDEX TO FINANCIAL STATEMENTS

HYPERSOLAR, INC.

FINANCIAL STATEMENTS

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| <u>Balance Sheets as of June 30, 2012 and June 30, 2011</u> | F-3 |
| <u>Statements of Operations for the years ending June 30, 2012 and June 30, 2011</u> | F-4 |
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| <u>Statement of Cash Flows for the years ending June 30, 2012 and June 30, 2011</u> | F-6 |
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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
Hypersolar, Inc.
Santa Barbara, California

We have audited the accompanying balance sheets of HyperSolar, Inc. as of June 30, 2012 & 2011, and the related statements of operations, stockholders' equity (deficit), and cash flows for the years then ended, and from inception of the development stage on February 18, 2009 through June 30, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HyperSolar, Inc. as of June 30, 2012 and 2011, and the results of its operations and its cash flows for the years then ended, and from inception of the development stage on February 18, 2009 through June 30, 2012, in conformity with U.S. generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in the Note 1 to the financial statements, the Company has suffered a net loss from operations, and has experienced negative cash flows from operations. This raises substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ HJ Associates & Consultants, LLP

HJ Associates & Consultants, LLP
Salt Lake City, Utah
September 28, 2012

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HYPER SOLAR, INC.
(A Development Stage Company)
BALANCE SHEETS

| | June 30, 2012 | June 30, 2011 |
|--|------------------|------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$ 14,554 | \$ 28,020 |
| Prepaid expenses | 11,795 | 34,249 |
| TOTAL CURRENT ASSETS | 26,349 | 62,269 |
| PROPERTY & EQUIPMENT | | |
| Computers and peripherals | 4,198 | 4,198 |
| Less: accumulated depreciation | (3,374) | (1,975) |
| NET PROPERTY AND EQUIPMENT | 824 | 2,223 |
| OTHER ASSETS | | |
| Deposits | 1,470 | - |
| Domain, net of amortization \$1,388 and \$1,033, respectively | 3,927 | 4,281 |
| Patents | 16,676 | 14,727 |
| TOTAL OTHER ASSETS | 22,073 | 19,008 |
| TOTAL ASSETS | \$ 49,246 | \$ 83,500 |
| LIABILITIES AND SHAREHOLDERS' EQUITY/(DEFICIT) | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 72,092 | \$ 55,047 |
| Accrued expenses | 34,530 | 14,167 |
| Promissory notes, net of debt discount of \$35,214 | 25,786 | - |
| TOTAL CURRENT LIABILITIES | 132,408 | 69,214 |
| SHAREHOLDERS' EQUITY/(DEFICIT) | | |
| Preferred Stock, \$0.001 par value; 5,000,000 authorized preferred shares | - | - |
| Common Stock, \$0.001 par value; 500,000,000 authorized common shares | | |

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| | | |
|---|------------------|-----------------|
| 163,328,376 and 132,903,091 shares issued and outstanding, respectively | 163,328 | 132,902 |
| Additional Paid in Capital | 2,269,056 | 1,563,111 |
| Deficit Accumulated during the Development Stage | (2,515,546) | (1,681,727) |
| TOTAL SHAREHOLDER'S EQUITY/(DEFICIT) | (83,162) | 14,286 |
| TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY /(DEFICIT) | \$49,246 | \$83,500 |

The accompanying notes are an integral part of these financial statements

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HYPERMOLAR, INC.
(A Development Stage Company)
STATEMENTS OF OPERATIONS

| | For the Years Ended | | From Inception on February 18, 2009 through June 30, 2012 |
|---|---------------------|---------------------|--|
| | June 30, 2012 | June 30, 2011 | |
| REVENUE | \$- | \$- | \$- |
| OPERATING EXPENSES | | | |
| General and administrative expenses | 649,801 | 648,805 | 1,981,365 |
| Research and development | 153,034 | 157,346 | 496,596 |
| Depreciation and amortization | 1,753 | 1,521 | 4,762 |
| TOTAL OPERATING EXPENSES | 804,588 | 807,672 | 2,482,723 |
| LOSS FROM OPERATIONS BEFORE OTHER EXPENSES | (804,588) | (807,672) | (2,482,723) |
| OTHER EXPENSES | | | |
| Impairment of intangible asset | (14,727) | - | (14,727) |
| Penalties | (92) | (65) | (157) |
| Interest expense | (14,412) | (180) | (17,939) |
| TOTAL OTHER EXPENSES | (29,231) | (245) | (32,823) |
| NET LOSS | \$(833,819) | \$(807,917) | \$(2,515,546) |
| BASIC AND DILUTED LOSS PER SHARE | \$(0.01) | \$(0.01) | |
| WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING | | | |
| BASIC AND DILUTED | 160,634,582 | 127,472,331 | |

The accompanying notes are an integral part of these financial statements

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HYPERMOLAR, INC.

(A Development Stage Company)

STATEMENTS OF SHAREHOLDERS' EQUITY/(DEFICIT)

| | Preferred stock | | Common stock | | Additional | Deficit | |
|--|-----------------|--------|--------------|---------|--------------------|---|------------|
| | Shares | Amount | Shares | Amount | Paid-in Capital | Accumulated during the Development Stage | Total |
| Balance at February 18, 2009 | - | \$- | - | \$- | \$- | \$ - | \$- |
| Issuance of common stock for cash at prices ranging from \$0.00005 to \$0.000075 per share | - | - | 113,526,600 | 113,526 | (105,537) | - | 7,989 |
| Net Loss from inception (February 19, 2009) through June 30, 2009 | - | - | - | - | - | (41,523) | (41,523) |
| Balance at June 30, 2009 | - | - | 113,526,600 | 113,526 | (105,537) | (41,523) | (33,534) |
| Issuance of common stock for cash at \$0.10 per share | - | - | 11,321,600 | 11,321 | 1,120,840 | - | 1,132,161 |
| Issuance of common stock for services at \$0.10 per share | - | - | 1,520,800 | 1,521 | 150,559 | - | 152,080 |
| Net Loss for the year ended June 30, 2010 | - | - | - | - | - | (832,287) | (832,287) |
| Balance at June 30, 2010 | - | - | 126,369,000 | 126,368 | 1,165,861 | (873,810) | 418,419 |
| Issuance of common stock for | - | - | 6,534,091 | 6,534 | 368,466 | - | 375,000 |

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| | | | | | | | |
|--|---|---|-------------|---------|-----------|--------------|------------|
| cash at prices ranging from \$0.055 to \$0.08 per share | | | | | | | |
| Common stock compensation cost | - | - | - | - | 28,784 | - | 28,784 |
| Net loss for the year ended June 30, 2011 | - | - | - | - | - | (807,917) | (807,917) |
| Balance at June 30, 2011 | - | - | 132,903,091 | 132,902 | 1,563,111 | (1,681,727) | 14,286 |
| Issuance of common stock for cash at prices ranging from \$0.0075 to \$0.055 per share | | | | | | | |
| | - | - | 26,394,808 | 26,396 | 521,604 | - | 548,000 |
| Issuance of common stock for services at fair value ranging from November 2011 thru June 2012 at prices ranging from \$0.03 - \$0.06 | | | | | | | |
| | - | - | 2,397,143 | 2,397 | 112,317 | - | 114,714 |
| Issuance of common stock in payment of accounts payable at fair value price per share at \$0.03 | | | | | | | |
| | - | - | 300,000 | 300 | 8,700 | - | 9,000 |
| Issuance of common stock for cashless exercise of warrants at fair value price per share at \$0.015 | | | | | | | |
| | - | - | 1,333,334 | 1,333 | (1,333) | - | - |
| Stock option compensation cost | - | - | - | - | 15,885 | - | 15,885 |
| Promissory notes debt discount | - | - | - | - | 48,772 | - | 48,772 |
| Net loss for the year ended June 30, 2012 | - | - | - | - | - | (833,819) | (833,819) |

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| | | | | | | | |
|-----------------|---|-----|-------------|------------|--------------|-----------------|-------------|
| Balance at June | | | | | | | |
| 30, 2012 | - | \$- | 163,328,376 | \$ 163,328 | \$ 2,269,056 | \$ (2,515,546) | \$(83,162) |

The accompanying notes are an integral part of these financial statements

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HYPERMOLAR, INC.
(A Development Stage Company)
STATEMENTS OF CASH FLOWS

| | For the Years Ended June 30, 2012 | June 30, 2011 | From Inception on February 18, 2009 through June 30, 2012 |
|--|---|-------------------|--|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net loss | \$ (833,819) | \$ (807,917) | \$ (2,515,546) |
| Adjustment to reconcile net loss to net cash used in operating activities | | | |
| Depreciation & amortization expense | 1,753 | 1,521 | 4,762 |
| Common stock issued for services | 114,714 | - | 266,794 |
| Common stock compensation | 15,885 | 28,784 | 44,669 |
| Impairment of intangible asset | 14,727 | - | 14,727 |
| Amortization of debt discount | 13,558 | - | 13,558 |
| Change in Assets and Liabilities: | | | |
| (Increase) Decrease in: | | | |
| Prepaid expenses | 22,454 | (14,228) | (11,795) |
| Deposits | (1,470) | 1,688 | (1,470) |
| Increase (Decrease) in: | | | |
| Accounts payable | 26,045 | 42,737 | 81,092 |
| Accrued expenses | 20,363 | (10,644) | 34,530 |
| NET CASH USED IN OPERATING ACTIVITIES | (605,790) | (758,059) | (2,068,679) |
| NET CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Purchase of fixed assets | - | (987) | (4,198) |
| Purchase of intangible assets | (16,676) | - | (36,718) |
| NET CASH USED IN INVESTING ACTIVITIES | (16,676) | (987) | (40,916) |
| NET CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Proceeds from notes payable, related party | 61,000 | - | 215,553 |
| Payment of notes payable, related party | - | - | (154,553) |
| Proceeds from issuance of common stock | 548,000 | 375,000 | 2,063,149 |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 609,000 | 375,000 | 2,124,149 |
| NET INCREASE/(DECREASE) IN CASH | (13,466) | (384,046) | 14,554 |

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| | | | |
|---------------------------|----------|----------|----------|
| CASH, BEGINNING OF PERIOD | 28,020 | 412,066 | - |
| CASH, END OF PERIOD | \$14,554 | \$28,020 | \$14,554 |

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

| | | | |
|---------------|-----|-------|---------|
| Interest paid | \$- | \$180 | \$3,527 |
| Taxes paid | \$- | \$- | \$- |

SUPPLEMENTAL DISCLOSURES OF NON CASH TRANSACTIONS

During the year ended June 30, 2012, the Company issued 1,333,334 shares of common stock for 2,285,716 purchase warrants.

through a cashless exercise. Also, the Company issued 300,000 shares of common stock for an accounts payable of \$9,000.

The accompanying notes are an integral part of these financial statements

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HYPERSOLAR, INC.
(A Development Stage Company)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. ORGANIZATION AND LINE OF BUSINESS

Organization

HyperSolar, Inc. (the "Company") was incorporated in the state of Nevada on February 18, 2009. The Company, based in Santa Barbara, California, began operations on February 19, 2009 to develop and market a solar concentrator technology.

Line of Business

The company is currently developing a novel solar-powered nanoparticle system that mimics photosynthesis to separate hydrogen from water. We intend for technology of this system to be licensed for the production of renewable hydrogen to produce renewable electricity and hydrogen for fuel cells.

Going Concern

The accompanying financial statements have been prepared on a going concern basis of accounting, which contemplates continuity of operations, realization of assets and liabilities and commitments in the normal course of business. The accompanying financial statements do not reflect any adjustments that might result if the Company is unable to continue as a going concern. The Company does not generate revenue, and has negative cash flows from operations, which raise substantial doubt about the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern and appropriateness of using the going concern basis is dependent upon, among other things, additional cash infusion. The Company has obtained funds from its shareholders since its inception through the year ended June 30, 2012. Management believes this funding will continue, and has also obtained funding from new investors. Management believes the existing shareholders and the prospective new investors will provide the additional cash needed to meet the Company's obligations as they become due, and will allow the development of its core business. 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.

Development Stage Activities and Operations

A development stage entity is one in which all efforts are devoted substantially to establishing a new business and even if planned principal operations have commenced, revenues are insignificant. The Company has been in its initial stages of formation and for the period ended June 30, 2012, had no revenues.

Revenue Recognition

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

development stage.

Cash and Cash Equivalent

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

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 June 30, 2012, the amounts reported for cash, accrued interest and other expenses, and notes payable approximate the fair value because of their short maturities.

We adopted ASC Topic 820 (originally issued as SFAS 157, "Fair Value Measurements") as of January 1, 2008 for financial instruments measured as fair value on a recurring basis. ASC Topic 820 defines fair value, established a framework for measuring fair value in accordance with accounting principles generally accepted in the United States and expands disclosures about fair value measurements.

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HYPERMOLAR, INC.
(A Development Stage Company)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). These tiers include:

Level 1, defined as observable inputs such as quoted prices for identical instruments in active markets;

Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable such as quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active; and

Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions, such as valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

We measure certain financial instruments at fair value on a recurring basis. Assets and liabilities measured at fair value on a recurring basis are as follows at June 30, 2012:

| | Total | (Level 1) | (Level 2) | (Level 3) |
|--|-----------|-----------|-----------|-----------|
| Assets | \$ - | \$ - | \$ - | \$ - |
| Total assets measured at fair value | \$ - | \$ - | \$ - | \$ - |
| Liabilities | | | | |
| Promissory notes, net of discount | \$ 25,786 | \$ - | \$ - | \$ 25,786 |
| Total liabilities measured at fair value | \$ 25,786 | \$ - | \$ - | \$ 25,786 |

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 employee options or warrants 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 period ended June 30, 2012, as the inclusion of any potential shares would have had an anti-dilutive effect due to the Company generating a loss. The Company has excluded 51,589,625 and 11,068,182 warrants for the years ended June 30, 2012 and 2011, respectively.

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.

Advertising Costs

The Company expenses the cost of advertising and promotional materials when incurred. Total advertising costs for years ended June 30, 2012 and 2011, were \$25,278 and \$11,829, respectively.

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.

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HYPERSOLAR, INC.
(A Development Stage Company)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently issued pronouncements

Management reviewed accounting pronouncements issued during the three months ended June 30, 2012, and the following pronouncements were adopted during the period.

The Company adopted ASC 470 "Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants". This pronouncement addresses the accounting for proceeds from the sale of a debt instrument with stock purchase warrants shall be allocated to the two elements based on the relative fair values of the debt instrument without the warrants and the warrants themselves at time of issuance. The portion of the proceeds so allocated to the warrants shall be accounted for as paid-in-capital. The remainder of the proceeds shall be allocated to the debt instrument portion of the transaction. This usually results in a discount or occasionally, a reduced premium, which shall be accounted for as interest expense. The adoption of this pronouncement did not have a material effect on the financial statements of the Company.

The Company adopted ASC 835 "Accounting for Interest". This pronouncement addresses the appropriate accounting when the face amount of a note does not reasonably represent the present value of the consideration given or received in the exchange. A note issued solely for cash equal to its face amount is presumed to earn the stated rate of interest, however, in some cases the parties may also exchange unstated or stated rights or privileges, which are given accounting recognition by establishing a note discount or premium account. In such instances, the effective interest rate differs from the stated rate. The note discount shall be amortized as interest expense over the life of the note. The adoption of this pronouncement did not have a material effect on the financial statements of the Company.

The Company adopted ASC 350 "Accounting for Impairment of Intangibles". This pronouncement addresses accounting for the impairment of the carrying amount of intangible units. The objective is to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, and if so, then the impairment loss is only recognized if the carrying amount of a long-lived asset is not recoverable from its undiscounted future cash flow. The impairment loss and write-down is then measured as the difference between an asset's carrying amount and fair value. The adoption of this pronouncement did not have a material effect on the financial statements of the Company.

3. CAPITAL STOCK

During the year ended June 30, 2012, the Company issued 909,091 shares of common stock at a price of \$0.055 per share for cash of \$50,000, with warrants attached to purchase 1,818,182 shares of common stock at a price of \$0.055; issued 8,285,716 shares of common stock at a price of \$0.035 per share for cash of \$290,000, with warrants attached to purchase 20,285,722 shares of common stock at a price of \$0.035, of which 2,285,716 warrants were converted into 1,333,334 shares of common stock through a cashless exercise; issued 300,000 shares of common stock for services with a fair value of \$12,000; issued 1,990,000 shares of common stock for services at fair value of \$89,550; issued 10,533,335 shares of common stock at a price of \$0.015 per share for cash of \$158,000, with warrants attached to purchase 21,066,671 shares of common stock at a price of \$0.015; issued 6,666,666 shares of common stock at a price of \$0.075 per share for cash of \$50,000. Also, the Company issued 107,143 shares of common stock for services with a fair value of \$3,214, in addition to the issuance of 300,000 shares of common stock for an accounts

payable of \$9,000.

During the year ended June 30, 2011, the Company issued 1,000,000 shares of common stock at a price of \$0.075 per share for cash of \$75,000; issued 909,091 shares of common stock at a price of \$0.055 per share with warrants attached to purchase 1,818,182 shares of common stock at a price of \$0.055; issued 4,000,000 shares of common stock at a price of \$0.05 per share for cash of \$200,000, and 625,000 shares of common stock at a price of \$0.08 per share for cash of \$50,000 through a private placement made pursuant to Rule 506 of Regulation D promulgated under section 4(2) of the Securities Act of 1933, as amended.

4. STOCK OPTIONS

During the period June 30, 2012, the Board of Directors of the Company granted non-qualified stock options for 250,000 shares of common stock to a contractor. Each option shall be exercisable to the nearest whole share, in installments or otherwise, as the respective agreements may provide. Notwithstanding any other provisions of the Option agreement, each Option expires on the date specified in the Option agreement, which date shall not be later than the fifth (5th) anniversary from the grant date of the options. The stock options are fully vested and are exercisable for a period of five years from the date of grant at an exercise price \$0.05 per share.

| | 6/30/2012 |
|---------------------------------------|-----------|
| Risk free interest rate | 0.12% |
| Stock volatility factor | 132% |
| Weighted average expected option life | 5 years |
| Expected dividend yield | None |

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HYPERMOLAR, INC.
(A Development Stage Company)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

4. STOCK OPTIONS (Continued)

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

| | 6/30/2012 | | 6/30/2011 | |
|---|-------------------------|--|-------------------------|--|
| | Number of Options | Weighted average exercise price | Number of Options | Weighted average exercise price |
| Outstanding, beginning of year | 2,000,000 | \$ 0.11 | - | \$ - |
| Granted | 250,000 | 0.05 | 2,000,000 | 0.11 |
| Exercised | - | - | - | - |
| Forfeited/Expired | (2,000,000) | - | - | - |
| Outstanding, end of year | 250,000 | \$ 0.05 | 2,000,000 | \$ 0.11 |
| Exercisable at the end of year | 250,000 | \$ 0.05 | 363,890 | \$ 0.11 |
| Weighted average fair value of options granted during the year | | \$ 0.05 | | \$ 0.11 |

Stock-based compensation expense recognized during the period is based on the value of the portion of stock-based payment awards that is ultimately expected to vest. Stock-based compensation expense recognized in the financial statements of operations during the year ended June 30, 2012, included compensation expense for the stock-based payment awards granted prior to, but not yet vested, as of June 30, 2012 based on the grant date fair value estimated, and compensation expense for the stock-based payment awards granted subsequent to June 30, 2012, based on the grant date fair value estimated. We account for forfeitures as they occur, and 2,000,000 options were forfeited during the year ended June 30, 2012. The stock-based compensation expense recognized in the statement of income during the years ended June 30, 2012 and 2011 is \$15,885 and \$28,784, respectively.

5. INTANGIBLE ASSETS

Intangible assets that have finite useful lives continue to be amortized over their useful lives, and are reviewed for impairment when warranted by economic condition. Any impairment is included in the income statement.

| | Useful Lives | 6/30/2012 | 6/30/2011 |
|-------------------|--------------|-----------|-----------|
| Domain-gross | 15 years | \$ 5,315 | \$ 5,315 |
| Less amortization | | (1,388) | (1,033) |
| Domain-net | | \$ 3,927 | \$ 4,282 |
| Patents-gross | | \$ 16,676 | \$ 14,727 |

During the period ended June 30, 2012, the Company abandoned the patents which were not expected to contribute to the Company's revenue generating activity. The Company recognized an impairment loss in the statement of operations in the amount of \$14,727.

6. INCOME TAXES

The Company files income tax returns in the U.S. Federal jurisdiction, and the state of California. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for fiscal years before 2009.

Deferred income taxes have been provided by temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. To the extent allowed by GAAP, we provide valuation allowances against the deferred tax assets for amounts when the realization is uncertain. Included in the balances at June 30, 2012 and 2011, are no tax positions for which the ultimate deductibility is highly certain, but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred tax accounting, other than interest and penalties, the disallowance of the shorter deductibility period would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period.

The Company's policy is to recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. During the period ended June 30, 2012 and 2011, the Company did not recognize interest and penalties.

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HYPERSOLAR, INC.
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JUNE 30, 2012

7. DEFERRED TAX BENEFIT

At June 30, 2012, the Company had net operating loss carry-forwards of approximately \$2,438,400 that may be offset against future taxable income from 2012 through 2032. No tax benefit has been reported in the financial statements since the potential tax benefit is offset by a valuation allowance of the same amount.

The income tax provision differs from the amount of income tax determined by applying the U.S. federal income tax rate of 40% to pretax income from continuing operations for the period ended June 30, 2012 and 2011 due to the following:

| | 6/30/2012 | 6/30/2011 |
|-------------------------------------|--------------|--------------|
| Book income | \$ (333,530) | \$ (322,210) |
| State income taxes | - | (960) |
| Non deductible expenses | 12,140 | 11,890 |
| Loss on abandoned intangible assets | (640) | - |
| Depreciation and amortization | 300 | (770) |
| Related party accrual | 340 | (220) |
| Research and development | 4,830 | (440) |
| Valuation Allowance | 316,560 | 312,710 |
| Income tax expense | \$ - | \$ - |

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible differences and operating loss and tax credit carry-forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the difference between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

| | 6/30/2012 | 6/30/2011 |
|-------------------------------|--------------|------------|
| Deferred tax assets: | | |
| NOL carryover | \$ 975,370 | \$ 658,910 |
| Research & development | 31,760 | 9,670 |
| Related party accrual | 340 | - |
| Deferred tax liabilities: | | |
| Depreciation and amortization | (140) | (1,810) |
| Less Valuation Allowance | (1,007,330) | (666,770) |
| Net deferred tax asset | \$ - | \$ - |

Net deferred tax liabilities consist of the following components as of June 30, 2012:

Due to the change in ownership provisions of the Tax Reform Act of 1986, net operating loss carry-forwards for Federal income tax reporting purposes are subject to annual limitations. Should a change in ownership occur, net operating loss carry-forwards may be limited as to use in future years.

8. COMMITMENTS AND CONTINGENCIES

Legal Matters

The Company may be involved in legal actions and claims arising in the ordinary course of business, from time to time, none of which at the time are considered to be material to the Company's business or financial condition.

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HYPERSOLAR, INC.
(A Development Stage Company)
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9. SUBSEQUENT EVENTS

Management evaluated subsequent events as of the date of the financial statements pursuant to ASC Topic 855.

On July 1, 2012, the Company issued 138,889 shares of common stock at a price of \$0.036 for services at a fair value of \$5,000.

On July 10, 2012, the Company issued 666,667 shares of common stock at a price of \$0.015 for cash of \$10,000, with warrants attached to purchase 1,333,334 shares of common at a price of \$0.015.

On July 17, 2012, the Company entered into a promissory note for cash in the amount of \$11,000 from an investor, and granted 1,466,668 purchase warrants to purchase 1,466,668 shares of common stock at a price of \$0.015 per share. The note bears interest at the rate of 5% per annum paid annually.

On July 19, 2012, the Company entered into a promissory note for cash in the amount of \$12,500 from an investor. The note bears interest at the rate of 5% per annum. The note was paid off as of August 2, 2012.

On July 20, 2012, the Company entered into a promissory note for cash in the amount of \$12,500 from an investor. The note bears interest at the rate of 5% per annum. The note was paid off as of August 3, 2012.

On July 26, 2012, the Company issued 2,000,000 shares of common stock for 3,333,333 purchase warrants through a cashless exercise.

On July 31, 2012, the Company entered into a promissory note for cash in the amount of \$50,000 from an investor, and granted 6,666,668 purchase warrants to purchase 6,666,668 shares of common stock at a price of \$0.015 per share. The note bears interest at the rate of 5% per annum paid annually.

On August 1, 2012, the Company issued 166,666 shares of common stock at a price of \$0.030 for services at a fair value of \$5,000.

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

On August 23, 2012, the Company's Board of Directors authorized the issuance of 666,667 shares of common stock at a price of \$0.015 for cash of \$10,000, with warrants attached to purchase 1,333,334 shares of common at a price of \$0.015.

On September 4, 2012, the Company entered into a short term promissory note for cash in the amount of \$7,500 from the Chief Executive Officer of the Company for operating expenses. The note bears interest of 5% per annum.

On September 5, 2012, the Company issued 333,334 shares of common stock at a price per share of \$0.015 for cash of \$5,000.

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On September 9, 2012, the Company's Board of Directors authorized the sale of 284,571 shares of common stock at a price per share of \$0.0175 for cash of \$5,000.

On September 18, 2012, the Company's Board of Directors authorized the sale of 1,000,000 shares of common stock to an investor for cash in the amount of \$15,000 with common stock purchase warrants to purchase 2,000,000 shares of common stock at a price of \$0.015 per share.

| | | |
|----------------|-----|--------|
| F-12 | | |
| 0in 0in 0in;"> | | |
| \$ | | 17,788 |
| \$ | | - |
| | 5.2 | |
| | | 3.98 |
| % | | |
| | | 3.98 |
| % | | |

The estimated fair value of the swaps at December 31 for the periods indicated in the table above were recorded in other assets and other liabilities. The associated net gains and losses on the swaps are recorded in other non-interest income.

Note 20 - litigation

The Company and its subsidiaries are subject in the ordinary course of business to various pending or threatened legal proceedings in which claims for monetary damages are asserted. After consultation with legal counsel, management does not anticipate that the ultimate liability, if any, arising out of these legal matters will have a material adverse effect on the Company's financial condition, operating results or liquidity.

Note 21 – Fair Value

Generally accepted accounting principles provide entities the option to measure eligible financial assets, financial liabilities and commitments at fair value (i.e. the fair value option), on an instrument-by-instrument basis, that are otherwise not permitted to be accounted for at fair value under other accounting standards. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability or upon entering into a commitment. Subsequent changes in fair value must be recorded in earnings. The Company applies the fair value option on residential mortgage loans held for sale. The fair value option on residential mortgage loans allows the recognition of gains on sale of mortgage loans to more accurately reflect the timing and economics of the transaction.

The standard for fair value measurement establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below.

Basis of Fair Value Measurement:

Level 1- Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2- Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability;

Level 3- Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e. supported by little or no market activity).

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Changes to interest rates may result in changes in the cash flows due to prepayments or extinguishments. Accordingly, this could result in higher or lower measurements of the fair values.

Assets and Liabilities

Mortgage loans held for sale

Mortgage loans held for sale are valued based on quotations from the secondary market for similar instruments and are classified as Level 2 of the fair value hierarchy.

Investments available-for-sale

U.S. government agencies, mortgage-backed and asset-backed securities

Valuations are based on active market data and use of evaluated broker pricing models that vary based by asset class and includes available trade, bid, and other market information. Generally, the methodology includes broker quotes, proprietary models, descriptive terms and conditions databases coupled with extensive quality control programs. Multiple quality control evaluation processes review available market, credit and deal level information to support the evaluation of the security. If there is a lack of objectively verifiable information available to support the valuation, the evaluation of the security is discontinued. Additionally, proprietary models and pricing systems, mathematical tools, actual transacted prices, integration of market developments and experienced evaluators are used to determine the value of a security based on a hierarchy of market information regarding a security or securities with similar characteristics. The Company does not adjust the quoted price for such securities. Such instruments are generally classified within Level 2 of the fair value hierarchy.

State and municipal securities

Proprietary valuation matrices are used for valuing all tax-exempt municipals that can incorporate changes in the municipal market as they occur. Market evaluation models include the ability to value bank qualified municipals and general market municipals that can be broken down further according to insurer, credit support, state of issuance and rating to incorporate additional spreads and municipal curves. Taxable municipals are valued using a third party model that incorporates a methodology that captures the trading nuances associated with these bonds. Such instruments are generally classified within Level 2 of the fair value hierarchy.

Interest rate swap agreements

Interest rate swap agreements are measured by alternative pricing sources with reasonable levels of price transparency in markets that are not active. Based on the complex nature of interest rate swap agreements, the markets these instruments trade in are not as efficient and are less liquid than that of the more mature Level 1 markets. These markets do however have comparable, observable inputs in which an alternative pricing source values these assets in order to arrive at a fair market value. These characteristics classify interest rate swap agreements as Level 2.

Assets Measured at Fair Value on a Recurring Basis

The following tables set forth the Company's financial assets and liabilities at the December 31 for the years indicated that were accounted for or disclosed at fair value. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement:

| | 2018 | | | Total |
|--|---|---|--|-----------|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | |
| <i>(In thousands)</i> | | | | |
| <u>Assets</u> | | | | |
| Residential mortgage loans held for sale | \$ - | \$ 22,773 | \$ - | \$ 22,773 |
| Investments available-for-sale: | | | | |
| U.S. government agencies | - | 296,678 | - | 296,678 |
| State and municipal | - | 282,024 | - | 282,024 |
| Mortgage-backed and asset-backed | - | 348,515 | - | 348,515 |
| Corporate debt | - | - | 9,240 | 9,240 |
| Trust preferred | - | - | 310 | 310 |
| Marketable equity securities | - | 568 | - | 568 |
| Interest rate swap agreements | - | 446 | - | 446 |
| <u>Liabilities</u> | | | | |
| Interest rate swap agreements | \$ - | \$ (446) | \$ - | \$ (446) |

| | 2017 | | | Total |
|--|--|---|--|----------|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | |
| <i>(In thousands)</i> | | | | |
| <u>Assets</u> | | | | |
| Residential mortgage loans held for sale | \$ - | \$ 9,848 | \$ - | \$ 9,848 |
| Investments available-for-sale: | | | | |
| U.S. government agencies | - | 106,568 | - | 106,568 |
| State and municipal | - | 312,253 | - | 312,253 |
| Mortgage-backed | - | 300,040 | - | 300,040 |
| Corporate debt | - | - | 9,432 | 9,432 |
| Trust preferred | - | - | 1,002 | 1,002 |
| Marketable equity securities | - | 212 | - | 212 |
| Interest rate swap agreements | - | 707 | - | 707 |
| <u>Liabilities</u> | | | | |
| Interest rate swap agreements | \$ - | \$ (707) | \$ - | \$ (707) |

The fair value of investments transferred or that are purchased and placed in Level 3 is estimated by discounting the expected future cash flows using the current rates for investments with similar credit ratings and similar remaining maturities. Expected cash flows were projected based on contractual cash flows.

The following table provides activity of assets reported as Level 3 for the period indicated:

| <i>(In thousands)</i> | Significant Unobservable Inputs (Level 3) |
|--|--|
| Investments available-for-sale: | |
| Balance at January 1, 2018 | \$ 10,434 |
| Additions of Level 3 assets | 310 |
| Sales of Level 3 assets | (1,002) |
| Total unrealized losses included in accumulated other comprehensive loss | (192) |
| Balance at December 31, 2018 | \$ 9,550 |

Assets Measured at Fair Value on a Nonrecurring Basis

The following table sets forth the Company's financial assets subject to fair value adjustments (impairment) on a nonrecurring basis at December 31 for the year indicated that are valued at the lower of cost or market. Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement:

2018

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total | Total Losses |
|----------------------------|--|---|--|-----------------|--------------------|
| <i>(In thousands)</i> | | | | | |
| Impaired loans (1) | \$ - | \$ - | \$ 6,780 | \$ 6,780 | \$ (10,932) |
| Other real estate owned | - | - | 1,584 | 1,584 | (262) |
| Total | \$ - | \$ - | \$ 8,364 | \$ 8,364 | \$ (11,194) |

(1) Amounts represent the fair value of collateral for impaired loans allocated to the allowance for loan losses. Fair values are determined using actual market prices

(Level 2), independent third party valuations and borrower records, discounted as appropriate (Level 3).

2017

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total | Total Losses |
|----------------------------|--|---|---|------------------|--------------------|
| <i>(In thousands)</i> | | | | | |
| Impaired loans (1) | \$ - | \$ - | \$ 8,474 | \$ 8,474 | \$ (11,806) |
| Other real estate owned | - | - | 2,253 | 2,253 | (158) |
| Total | \$ - | \$ - | \$ 10,727 | \$ 10,727 | \$ (11,964) |

(1) Amounts represent the fair value of collateral for impaired loans allocated to the allowance for loan losses. Fair values are determined using actual market prices

(Level 2), independent third party valuations and borrower records, discounted as appropriate (Level 3).

At December 31, 2018, impaired loans totaling \$22.2 million were written down to fair value of \$17.3 million as a result of specific loan loss allowances of \$4.9 million associated with the impaired loans which was included in the allowance for loan losses. Impaired loans totaling \$20.8 million were written down to fair value of \$16.8 million at December 31, 2017 as a result of specific loan loss allowances of \$4.0 million associated with the impaired loans.

Loan impairment is measured using the present value of expected cash flows, the loan's observable market price or the fair value of the collateral (less selling costs) if the loans are collateral dependent. Collateral may be real estate and/or business assets including equipment, inventory and/or accounts receivable. The value of business equipment, inventory and accounts receivable collateral is based on net book value on the business' financial statements and, if necessary, discounted based on management's review and analysis. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or

management's expertise and knowledge of the client and client's business. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the factors identified above. Valuation techniques are consistent with those techniques applied in prior periods.

Other real estate owned ("OREO") is adjusted to fair value upon transfer of the loans to OREO. Subsequently, OREO is carried at the lower of carrying value or fair value. The estimated fair value for other real estate owned included in Level 3 is determined by independent market based appraisals and other available market information, less cost to sell, that may be reduced further based on market expectations or an executed sales agreement. If the fair value of the collateral deteriorates subsequent to initial recognition, the Company records the OREO as a non-recurring Level 3 adjustment. Valuation techniques are consistent with those techniques applied in prior periods.

Fair Value of Financial Instruments

The Company discloses fair value information of financial instruments that are not measured at fair value in the financial statements based on the exit price notion. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, if one exists.

Quoted market prices, where available, are shown as estimates of fair market values. Because no quoted market prices are available for a significant portion of the Company's financial instruments, the fair value of such instruments has been derived based on the amount and timing of future cash flows and estimated discount rates based on observable inputs ("Level 2") or unobservable inputs ("Level 3").

Present value techniques used in estimating the fair value of many of the Company's financial instruments are significantly affected by the assumptions used. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate cash settlement of the instrument. Additionally, the accompanying estimates of fair values are only representative of the fair values of the individual financial assets and liabilities, and should not be considered an indication of the fair value of the Company. Management utilizes internal models used in asset liability management to determine the fair values disclosed below.

The carrying amounts and fair values of the Company's financial instruments at December 31 for the year indicated are presented in the following table:

| | Fair Value Measurements | | | | |
|--|-------------------------|--|--|--|--|
| | 2018 | Quoted Prices in Active Markets Identical | Estimated for Assets (Level 1) | Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Carrying Amount | | | | | |
| <i>(In thousands)</i> | | | | | |
| Financial Assets | | | | | |
| Other equity securities | \$ 73,389 | \$ 73,389 | \$ - | \$ 73,389 | \$ - |
| Loans, net of allowance | 6,518,148 | 6,376,307 | - | - | 6,376,307 |
| Other assets (1) | 110,823 | 110,823 | - | 110,823 | - |
| Financial Liabilities | | | | | |
| Time deposits | \$1,526,161 | \$1,536,238 | \$ - | \$1,536,238 | \$ - |
| Securities sold under retail repurchase agreements and federal funds purchased | 327,429 | 327,429 | - | 327,429 | - |
| Advances from FHLB | 848,611 | 850,186 | - | 850,186 | - |
| Subordinated debentures | 37,425 | 33,588 | - | - | 33,588 |

(1) Includes bank owned life investment products.

| | Fair Value Measurements | | | | |
|-----------------------|-------------------------|--|--|--|--|
| | 2017 | Quoted Prices in Active Markets Identical | Estimated for Assets (Level 1) | Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Carrying Amount | | | | | |
| <i>(In thousands)</i> | | | | | |

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Financial Assets

| | | | | | |
|--|-----------|-----------|------|-----------|-----------|
| Investments held-to-maturity and other equity securities | \$ 45,518 | \$ 45,518 | \$ - | \$ 45,518 | \$ - |
| Loans, net of allowance | 4,268,991 | 4,320,719 | - | - | 4,320,719 |
| Other assets (1) | 95,730 | 95,730 | - | 95,730 | - |

Financial Liabilities

| | | | | | |
|--|------------|------------|------|------------|------|
| Time deposits | \$ 688,951 | \$ 684,139 | \$ - | \$ 684,139 | \$ - |
| Securities sold under retail repurchase agreements and federal funds purchased | 119,359 | 119,359 | - | 119,359 | - |
| Advances from FHLB | 765,833 | 769,860 | - | 769,860 | - |

(1) Includes bank owned life investment products.

Note 22 – Parent Company Financial Information

Financial statements for Sandy Spring Bancorp, Inc. (Parent Only) for the periods indicated are presented in the following tables:

Statement of Condition

| <i>(In thousands)</i> | December 31, | |
|---|---------------------|-------------------|
| | 2018 | 2017 |
| Assets | | |
| Cash and cash equivalents | \$ 23,334 | \$ 13,237 |
| Investments available-for-sale (at fair value) | 10,118 | 9,644 |
| Investment in subsidiary | 1,066,550 | 541,062 |
| Goodwill | 1,292 | - |
| Other assets | 4,463 | 304 |
| Total assets | \$ 1,105,757 | \$ 564,247 |
| Liabilities | | |
| Subordinated debentures | \$ 37,425 | \$ - |
| Accrued expenses and other liabilities | 429 | 431 |
| Total liabilities | 37,854 | 431 |
| Stockholders' Equity | | |
| Common stock | 35,531 | 23,996 |
| Additional paid in capital | 606,573 | 168,188 |
| Retained earnings | 441,553 | 378,489 |
| Accumulated other comprehensive loss | (15,754) | (6,857) |
| Total stockholders' equity | 1,067,903 | 563,816 |
| Total liabilities and stockholders' equity | \$ 1,105,757 | \$ 564,247 |

Statements of Income

| <i>(In thousands)</i> | Year Ended December 31, | | |
|---|-------------------------|------------------|------------------|
| | 2018 | 2017 | 2016 |
| Income: | | | |
| Cash dividends from subsidiary | \$ 39,370 | \$ 25,420 | \$ 43,975 |
| Other income | 897 | 1,832 | 2,476 |
| Total income | 40,267 | 27,252 | 46,451 |
| Expenses: | | | |
| Interest | 1,922 | 12 | 944 |
| Other expenses | 1,135 | 970 | 1,139 |
| Total expenses | 3,057 | 982 | 2,083 |
| Income before income taxes and equity in undistributed income of subsidiary | 37,210 | 26,270 | 44,368 |
| Income tax expense (benefit) | (283) | 331 | 78 |
| Income before equity in undistributed income of subsidiary | 37,493 | 25,939 | 44,290 |
| Equity in undistributed income of subsidiary | 63,371 | 27,270 | 3,960 |
| Net income | \$ 100,864 | \$ 53,209 | \$ 48,250 |

Statements of Cash Flows

| <i>(In thousands)</i> | Year Ended December 31, | | |
|---|-------------------------|-----------|-----------|
| | 2018 | 2017 | 2016 |
| Cash Flows from Operating Activities: | | | |
| Net income | \$ 100,864 | \$ 53,209 | \$ 48,250 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Equity in undistributed income-subsiary | (63,371) | (27,270) | (3,960) |
| Decrease in receivable from subsidiary bank | - | 30,000 | - |
| Share based compensation expense | 2,645 | 2,164 | 2,139 |
| Tax benefit from stock options exercised | 8 | - | 125 |
| Other-net | (3,252) | (4,028) | 3,213 |
| Net cash provided by operating activities | 36,894 | 54,075 | 49,767 |
| Cash Flows from Investing Activities: | | | |
| Proceeds (purchases) of investment available-for-sale | - | 3,179 | (7,000) |
| Acquisition of business activity, net of cash paid | 11,845 | - | - |
| Net cash provided/ (used) by investing activities | 11,845 | 3,179 | (7,000) |
| Cash Flows from Financing Activities: | | | |
| Retirement of subordinated debt | - | (30,000) | (5,000) |
| Proceeds from issuance of common stock | 1,395 | 1,200 | 1,580 |
| Stock tendered for payment of withholding taxes | (760) | (952) | (683) |
| Repurchase of common stock | - | - | (13,273) |
| Dividends paid | (39,277) | (25,134) | (23,676) |
| Net cash used by financing activities | (38,642) | (54,886) | (41,052) |
| Net increase in cash and cash equivalents | 10,097 | 2,368 | 1,715 |
| Cash and cash equivalents at beginning of year | 13,237 | 10,869 | 9,154 |
| Cash and cash equivalents at end of year | \$ 23,334 | \$ 13,237 | \$ 10,869 |

Note 23 – Regulatory Matters

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Company and the Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established and defined by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios of Total, Tier 1 and Common Equity Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. As of December 31, 2018 and 2017, the capital levels of the Company and the Bank substantially exceeded all applicable capital adequacy requirements.

As of December 31, 2018, the most recent notification from the Bank's primary regulator categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum Total risk-based, Tier 1 risk-based, Common Equity Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Company's and the Bank's actual capital amounts and ratios at December 31 for the years indicated are presented in the following table:

| <i>(Dollars in thousands)</i> | Actual | | For Capital Adequacy Purposes | | To Be Well Capitalized Under Prompt Corrective Action Provisions | |
|---|------------|--------|-------------------------------|-------|--|--------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| As of December 31, 2018: | | | | | | |
| Total Capital to risk-weighted assets | | | | | | |
| Company | \$ 818,393 | 12.26% | \$ 533,994 | 8.00% | N/A | N/A |
| Sandy Spring Bank | \$ 780,858 | 11.72% | \$ 532,970 | 8.00% | \$ 666,213 | 10.00% |
| Tier 1 Capital to risk-weighted assets | | | | | | |
| Company | \$ 737,883 | 11.06% | \$ 400,496 | 6.00% | N/A | N/A |
| Sandy Spring Bank | \$ 727,371 | 10.92% | \$ 399,728 | 6.00% | \$ 532,970 | 8.00% |
| Common Equity Tier 1 Capital to risk-weighted assets | | | | | | |
| Company | \$ 727,481 | 10.90% | \$ 300,372 | 4.50% | N/A | N/A |
| Sandy Spring | \$ 727,371 | 10.92% | \$ 299,796 | 4.50% | \$ 433,038 | 6.50% |
| Tier 1 Leverage | | | | | | |
| Company | \$ 737,883 | 9.50% | \$ 310,807 | 4.00% | N/A | N/A |
| Sandy Spring Bank | \$ 727,371 | 9.38% | \$ 310,224 | 4.00% | \$ 387,780 | 5.00% |
| As of December 31, 2017: | | | | | | |
| Total Capital to risk-weighted assets | | | | | | |
| Company | \$ 531,070 | 11.85% | \$ 358,501 | 8.00% | N/A | N/A |
| Sandy Spring Bank | \$ 508,514 | 11.38% | \$ 357,352 | 8.00% | \$ 446,690 | 10.00% |
| Tier 1 Capital to risk-weighted assets | | | | | | |
| Company | \$ 485,814 | 10.84% | \$ 268,875 | 6.00% | N/A | N/A |
| Sandy Spring Bank | \$ 463,257 | 10.37% | \$ 268,014 | 6.00% | \$ 357,352 | 8.00% |
| Common Equity Tier 1 Capital to risk-weighted assets | | | | | | |
| Company | \$ 485,814 | 10.84% | \$ 201,657 | 4.50% | N/A | N/A |
| Sandy Spring | \$ 463,257 | 10.37% | \$ 201,011 | 4.50% | \$ 290,349 | 6.50% |
| Tier 1 Leverage | | | | | | |
| Company | \$ 485,814 | 9.24% | \$ 210,407 | 4.00% | N/A | N/A |
| Sandy Spring Bank | \$ 463,257 | 8.82% | \$ 210,006 | 4.00% | \$ 262,508 | 5.00% |

Note 24 - Segment Reporting

Currently, the Company conducts business in three operating segments—Community Banking, Insurance and Investment Management. Each of the operating segments is a strategic business unit that offers different products and services. The Insurance and Investment Management segments were businesses that were acquired in separate transactions where management of acquisition was retained. The accounting policies of the segments are the same as

those of the Company. However, the segment data reflects inter-segment transactions and balances.

The Community Banking segment is conducted through Sandy Spring Bank and involves delivering a broad range of financial products and services, including various loan and deposit products to both individuals and businesses. Parent company income is included in the Community Banking segment, as the majority of effort of these functions is related to this segment. Major revenue sources include net interest income, gains on sales of mortgage loans, trust income, fees on sales of investment products and service charges on deposit accounts. Expenses include personnel, occupancy, marketing, equipment and other expenses. Non-cash charges associated with amortization of intangibles related to the acquired entities totaled \$1.9 million for the year ended December 31, 2018 and were not significant for the years ended December 31, 2017 and 2016, respectively.

The Insurance segment is conducted through Sandy Spring Insurance Corporation, a subsidiary of the Bank, and offers annuities as an alternative to traditional deposit accounts. Sandy Spring Insurance Corporation operates Sandy Spring Insurance, a general insurance agency located in Annapolis, Maryland, and Neff and Associates, located in Ocean City, Maryland. Major sources of revenue are insurance commissions from commercial lines, personal lines, and medical liability lines. Expenses include personnel and support charges. Non-cash charges associated with amortization of intangibles related to the acquired entities were not significant for the years ended December 31, 2018, 2017 and 2016, respectively.

The Investment Management segment is conducted through West Financial Services, Inc., a subsidiary of the Bank. This asset management and financial planning firm, located in McLean, Virginia, provides comprehensive investment management and financial planning to individuals, families, small businesses and associations including cash flow analysis, investment review, tax planning, retirement planning, insurance analysis and estate planning. West Financial currently has approximately \$1.5 billion in assets under management. Major revenue sources include non-interest income earned on the above services. Expenses include personnel and support charges. Non-cash charges associated with amortization of intangibles related to the acquired entities was not significant for the years ended December 31, 2018, 2017 and 2016, respectively.

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Information for the operating segments and reconciliation of the information to the consolidated financial statements for the years ended December 31 is presented in the following tables:

| <i>(In thousands)</i> | 2018 | | | | Total |
|----------------------------|----------------------|-----------|---------------------|------------------------------|------------|
| | Community Banking | Insurance | Investment Mgmt. | Inter-Segment Elimination | |
| Interest income | \$ 324,081 | \$ 3 | \$ 8 | \$ (10) | \$ 324,082 |
| Interest expense | 63,647 | - | - | (10) | 63,637 |
| Provision for loan losses | 9,023 | - | - | - | 9,023 |
| Non-interest income | 45,841 | 6,153 | 9,670 | (615) | 61,049 |
| Non-interest expenses | 168,261 | 5,601 | 6,536 | (615) | 179,783 |
| Income before income taxes | 128,991 | 555 | 3,142 | - | 132,688 |
| Income tax expense | 30,827 | 169 | 828 | - | 31,824 |
| Net income | \$ 98,164 | \$ 386 | \$ 2,314 | \$ - | \$ 100,864 |

| | | | | | |
|--------|--------------|----------|-----------|-------------|--------------|
| Assets | \$ 8,246,282 | \$ 9,165 | \$ 16,332 | \$ (28,507) | \$ 8,243,272 |
|--------|--------------|----------|-----------|-------------|--------------|

| <i>(In thousands)</i> | 2017 | | | | Total |
|----------------------------|----------------------|-----------|---------------------|------------------------------|------------|
| | Community Banking | Insurance | Investment Mgmt. | Inter-Segment Elimination | |
| Interest income | \$ 194,798 | \$ 2 | \$ 7 | \$ (8) | \$ 194,799 |
| Interest expense | 26,039 | - | - | (8) | 26,031 |
| Provision for loan losses | 2,977 | - | - | - | 2,977 |
| Non-interest income | 37,447 | 6,233 | 8,335 | (772) | 51,243 |
| Non-interest expenses | 119,607 | 5,533 | 4,731 | (772) | 129,099 |
| Income before income taxes | 83,622 | 702 | 3,611 | - | 87,935 |
| Income tax expense | 33,684 | (399) | 1,441 | - | 34,726 |
| Net income | \$ 49,938 | \$ 1,101 | \$ 2,170 | \$ - | \$ 53,209 |

| | | | | | |
|--------|--------------|----------|-----------|-------------|--------------|
| Assets | \$ 5,446,056 | \$ 8,873 | \$ 13,126 | \$ (21,380) | \$ 5,446,675 |
|--------|--------------|----------|-----------|-------------|--------------|

| <i>(In thousands)</i> | 2016 | | | | Total |
|------------------------------------|----------------------|-----------|---------------------|------------------------------|------------|
| | Community Banking | Insurance | Investment Mgmt. | Inter-Segment Elimination | |
| Interest income | \$ 170,556 | \$ 3 | \$ 5 | \$ (8) | \$ 170,556 |
| Interest expense | 21,012 | - | - | (8) | 21,004 |
| Provision (credit) for loan losses | 5,546 | - | - | - | 5,546 |
| Non-interest income | 38,769 | 5,418 | 7,568 | (713) | 51,042 |
| Non-interest expenses | 114,368 | 5,097 | 4,306 | (713) | 123,058 |
| Income before income taxes | 68,399 | 324 | 3,267 | - | 71,990 |
| Income tax expense | 22,337 | 130 | 1,273 | - | 23,740 |
| Net income | \$ 46,062 | \$ 194 | \$ 1,994 | \$ - | \$ 48,250 |

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| | | | | | |
|--------|--------------|----------|-----------|-------------|--------------|
| Assets | \$ 5,092,283 | \$ 7,732 | \$ 13,650 | \$ (22,282) | \$ 5,091,383 |
|--------|--------------|----------|-----------|-------------|--------------|

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Note 25 – Quarterly Financial Results (unaudited)

A summary of selected consolidated quarterly financial data for the years ended December 31 is provided in the following tables:

| | 2018 | | | |
|--|--------------------------|---------------------------|--------------------------|---------------------------|
| <i>(In thousands, except per share data)</i> | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
| Interest income | \$ 75,504 | \$ 78,597 | \$ 84,374 | \$ 85,607 |
| Interest expense | 12,613 | 14,779 | 16,783 | 19,462 |
| Net interest income | 62,891 | 63,818 | 67,591 | 66,145 |
| Provision for loan losses | 1,997 | 1,733 | 1,890 | 3,403 |
| Non-interest income | 17,118 | 14,868 | 15,033 | 14,030 |
| Non-interest expense | 49,641 | 45,082 | 42,393 | 42,667 |
| Income before income taxes | 28,371 | 31,871 | 38,341 | 34,105 |
| Income tax expense | 6,706 | 7,472 | 9,107 | 8,539 |
| Net income | \$ 21,665 | \$ 24,399 | \$ 29,234 | \$ 25,566 |
| | | | | |
| Basic net income per share | \$ 0.61 | \$ 0.68 | \$ 0.82 | \$ 0.72 |
| Diluted net income per share | \$ 0.61 | \$ 0.68 | \$ 0.82 | \$ 0.72 |

| | 2017 | | | |
|--|--------------------------|---------------------------|--------------------------|---------------------------|
| <i>(In thousands, except per share data)</i> | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
| Interest income | \$ 45,958 | \$ 48,576 | \$ 49,589 | \$ 50,676 |
| Interest expense | 5,705 | 6,250 | 6,892 | 7,184 |
| Net interest income | 40,253 | 42,326 | 42,697 | 43,492 |
| Provision for loan losses | 194 | 1,322 | 934 | 527 |
| Non-interest income | 12,632 | 13,571 | 12,746 | 12,294 |
| Non-interest expense | 29,981 | 32,868 | 31,191 | 35,059 |
| Income before income taxes | 22,710 | 21,707 | 23,318 | 20,200 |
| Income tax expense | 7,598 | 6,966 | 8,229 | 11,933 |
| Net income | \$ 15,112 | \$ 14,741 | \$ 15,089 | \$ 8,267 |
| | | | | |
| Basic net income per share | \$ 0.63 | \$ 0.61 | \$ 0.62 | \$ 0.34 |
| Diluted net income per share | \$ 0.63 | \$ 0.61 | \$ 0.62 | \$ 0.34 |

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

Fourth Quarter 2018 Changes In Internal Controls Over Financial Reporting

No change occurred during the fourth quarter of 2018 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Disclosure Controls and Procedures

As required by SEC rules, the Company's management evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) as of December 31, 2018. The Company's chief executive officer and chief financial officer participated in the evaluation. Based on this evaluation, the Company's chief executive officer and chief financial officer concluded that the Company's disclosure controls and procedures were effective as of December 31, 2018.

Management's annual report on internal control over financial reporting is located on page 60 of this report.

Item 9B. OTHER INFORMATION

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The material labeled "Information About Nominees and Incumbent Directors," "Corporate Governance and Other Matters," "Section 16(a) Beneficial Ownership Reporting Compliance," "Shareholder Proposals and Communications," and "Report of the Audit Committee" in the Proxy Statement is incorporated in this Report by reference. Information regarding executive officers is included under the caption "Executive Officers" on page 14 of this Report.

Item 11. Executive Compensation

The material labeled "Corporate Governance and Other Matters," "Compensation Discussion and Analysis," and "Compensation Committee Report" in the Proxy Statement is incorporated in this Report by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The material labeled "Owners of More than 5% of Bancorp's Common Stock" and, "Stock Ownership of Directors and Executive Officers" in the Proxy Statement is incorporated in this Report by reference. Information regarding securities authorized for issuance under equity compensation plans is incorporated by reference from "Equity Compensation Plans" on page 28 of this Report.

Item 13. Certain Relationships and Related Transactions and Director Independence

The material labeled "Director Independence" and "Transactions and Relationships with Management" in the Proxy Statement is incorporated in this Report by reference.

Item 14. Principal Accounting Fees and Services

The material labeled "Audit and Non-Audit" Fees in the Proxy Statement is incorporated in this Report by reference.

PART IV.

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

The following financial statements are filed as a part of this report:

Consolidated Statements of Condition at December 31, 2018 and 2017

Consolidated Statements of Income for the years ended December 31, 2018, 2017 and 2016

Consolidated Statements of Comprehensive Income for the years ended December 31, 2018, 2017 and 2016

Consolidated Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016

Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2018, 2017 and 2016

Notes to the Consolidated Financial Statements

Reports of Registered Public Accounting Firm

All financial statement schedules have been omitted, as the required information is either not applicable or included in the Consolidated Financial Statements or related Notes.

| Exhibit No. | Description |
|-------------|--|
| 3(a) | <u>Articles of Incorporation of Sandy Spring Bancorp, Inc., as amended (incorporated by reference to Exhibit 3.1 to Form 10-Q for the quarter ended June 30, 1996, SEC File No. 0-19065)</u> |
| 3(b) | <u>Articles of Amendment to the Articles of Incorporation of Sandy Spring Bancorp, Inc. (incorporated by reference to Exhibit 3(b) to Form 10-K for the year ended December 31, 2011, SEC File No. 0-19065)</u> |
| 3(c) | <u>Articles of Amendment to the Articles of Incorporation of Sandy Spring Bancorp, Inc. (incorporated by reference to Exhibit 3.1 to Form 8-K filed on May 2, 2018, SEC File No 0-19065)</u> |
| 3(d) | <u>Bylaws of Sandy Spring Bancorp, Inc. (incorporated by reference to Exhibit 4.3 to Registration Statement on Form S-3, SEC File No. 333-222910)</u> |
| 4(a) | No long-term debt instrument issued by the Company exceeds 10% of consolidated assets or is registered. In accordance with paragraph 4(iii) of Item 601(b) of Regulation S-K, the Company will furnish the SEC copies of all long-term debt instruments and related agreements upon request. |
| 10(a)* | <u>Sandy Spring Bancorp, Inc. 2005 Omnibus Stock Plan (incorporated by reference to Exhibit 10.1 to Form 8-K filed on June 27, 2005, SEC File No. 0-19065)</u> |
| 10(b)* | <u>Form of Director Fee Deferral Agreement, August 26, 1997, as amended (incorporated by reference to Exhibit 10(h) to Form 10-K for the year ended December 31, 2003, SEC File No. 0-19065)</u> |
| 10(c)* | <u>Form of Amendment to Directors' Fee Deferral Agreement (incorporated by reference to Exhibit 10(o) to Form 10-K for the year ended December 31, 2008, SEC File No. 0-19065)</u> |
| 10(d)* | <u>Sandy Spring Bank Directors' Deferred Fee Plan (incorporated by reference to Exhibit 10(d) to Form 10-K for the year ended December 31, 2016, SEC File No. 0-19065)</u> |
| 10(e)* | <u>Employment Agreement by and among Sandy Spring Bancorp, Inc., Sandy Spring Bank, and Philip J. Mantua (incorporated by reference to Exhibit 10.1 to Form 8-K filed on January 17, 2012, SEC File No. 0-19065)</u> |
| 10(f)* | <u>Employment Agreement by and among Sandy Spring Bancorp, Inc., Sandy Spring Bank, and Daniel J. Schrider (incorporated by reference to Exhibit 10(h) to Form 10-K for the year ended December 31, 2008, SEC File No. 0-19065)</u> |
| 10(g)* | <u>Form of Sandy Spring National Bank of Maryland Officer Group Term Replacement Plan (incorporated by reference to Exhibit 10(r) to Form 10-K for the year ended December 31, 2001, SEC File No. 0-19065)</u> |
| 10(h)* | <u>Sandy Spring Bancorp, Inc. Directors' Stock Purchase Plan (incorporated by reference to Exhibit 4 to Registration Statement on Form S-8, File No. 333-166808)</u> |
| 10(i)* | <u>Sandy Spring Bank Executive Incentive Retirement Plan (incorporated by reference to Exhibit 10(v) to Form 10-K for the year ended December 31, 2007, SEC File No. 0-19065)</u> |
| 10(j)* | <u>Sandy Spring Bancorp, Inc. 2011 Employee Stock Purchase Plan (incorporated by reference to Appendix A of the Definitive Proxy Statement filed on March 28, 2011, SEC File No. 0-19065)</u> |

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| | |
|---------|--|
| 10(k)* | <u>Change in Control Agreement by and among Sandy Spring Bancorp, Inc., Sandy Spring Bank, and R. Louis Caceres (incorporated by reference to Exhibit 10(m) to Form 10-K for the year ended December 31, 2011, SEC File No. 0-19065)</u> |
| 10(l)* | <u>Employment Agreement by and among Sandy Spring Bancorp, Inc., Sandy Spring Bank, and Joseph J. O'Brien, Jr. (incorporated by reference to Exhibit 10.2 to Form 8-K filed on January 17, 2012, SEC File No. 0-19065)</u> |
| 10(m)* | <u>Second Amendment to Employment Agreement Between Sandy Spring Bancorp, Inc., Sandy Spring Bank and Daniel J. Schrider dated January 1, 2009 (incorporated by reference to Exhibit 10.1 to Form 8-K filed on March 7, 2013, SEC File No. 0-19065)</u> |
| 10(n)* | <u>Amendment to Employment Agreement Between Sandy Spring Bancorp, Inc., Sandy Spring Bank and Philip J. Mantua dated January 13, 2012 (incorporated by reference to Exhibit 10.2 to Form 8-K filed on March 7, 2013, SEC File No. 0-19065)</u> |
| 10(o)* | <u>Amendment to Employment Agreement Between Sandy Spring Bancorp, Inc., Sandy Spring Bank and Joseph J. O'Brien, Jr. dated January 13, 2012 (incorporated by reference to Exhibit 10.3 to Form 8-K filed on March 7, 2013, SEC File No. 0-19065)</u> |
| 10(p)* | <u>Amendment to Change in Control Agreement Between Sandy Spring Bancorp, Inc., Sandy Spring Bank and R. Louis Caceres dated March 9, 2012 (incorporated by reference to Exhibit 10.4 to Form 8-K filed on March 7, 2013, SEC File No. 0-19065)</u> |
| 10(q)* | <u>Change in Control Agreement Between Sandy Spring Bancorp, Inc., Sandy Spring Bank and Ronald E. Kuykendall dated March 7, 2013 (incorporated by reference to Exhibit 10(t) to Form 10-K for the year ended December 31, 2013, SEC File No. 0-19065)</u> |
| 10(r)* | <u>Sandy Spring Bancorp, Inc. 2015 Omnibus Incentive Plan (incorporated by reference to Appendix A of the Definitive Proxy Statement filed on March 31, 2015, SEC File No. 0-19065)</u> |
| 10(s)* | <u>Employment Agreement Between Sandy Spring Bancorp, Inc., Sandy Spring Bank and Kevin Slane dated March 29, 2018.</u> |
| 21 | <u>Subsidiaries</u> |
| 23(a) | <u>Consent of Ernst and Young LLP</u> |
| 31(a) | <u>Rule 13a-14(a)/15d-14(a) Certification</u> |
| 31(b) | <u>Rule 13a-14(a)/15d-14(a) Certification</u> |
| 32(a) | <u>18 U.S.C. Section 1350 Certification</u> |
| 32(b) | <u>18 U.S.C. Section 1350 Certification</u> |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

* Management Contract or Compensatory Plan or Arrangement filed pursuant to Item 15(b) of this Report.

Item 16. FORM 10-K SUMMARY

None.

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SIGNATURES

Pursuant to the requirements of Section 13 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.

SANDY SPRING BANCORP, INC.

(Registrant)

By: /s/ Daniel J. Schrider
Daniel J. Schrider
President and Chief Executive Officer
Date: February 22, 2019

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated as of February 22, 2019.

Principal Executive Officer and
Director:

/s/ Daniel J. Schrider

Daniel J. Schrider
President and Chief Executive Officer

Principal Financial and Accounting Officer:

/s/ Philip J. Mantua

Philip J. Mantua
Executive Vice President and Chief Financial Officer

| <u>Signature</u> | <u>Title</u> |
|---|--------------|
| <u>/s/ Ralph F. Boyd, Jr.</u> Ralph F. Boyd, Jr. | Director |
| <u>/s/ Mark E. Friis</u> Mark E. Friis | Director |
| <u>/s/ Robert E. Henel, Jr.</u> Robert E. Henel, Jr. | Director |
| <u>/s/ Pamela A. Little</u> Pamela A. Little | Director |
| <u>/s/ James J. Maiwurm</u> James J. Maiwurm | Director |
| <u>/s/ Mark C. Michael</u> Mark C. Michael | Director |
| <u>/s/ Gary G. Nakamoto</u> Gary G. Nakamoto | Director |
| <u>/s/ Robert L. Orndorff</u> Robert L. Orndorff | Director |

/s/ Joe R. Reeder
Joe R. Reeder

Director

/s/ Craig A. Ruppert
Craig A. Ruppert

Director

/s/ Mona Abutaleb Stephenson
Mona Abutaleb Stephenson

Director

/s/ Dennis A. Starliper
Dennis A. Starliper

Director

