FIRST BANCORP /PR/
Form 11-K
June 29, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 11-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2010

Or

o **TRANSITION REPORT PURSUANT TO SECTION 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______ to ______

Commission file number 001-14793

FIRSTBANK 401 (K) RETIREMENT PLAN FOR RESIDENTS OF PUERTO RICO (SECTION 1165(e))

(Full title of the Plan and address of the Plan, if different from that of the issuer named below)

FIRST BANCORP.

1519 Ponce de León Avenue, Stop 23
Santurce, Puerto Rico 00908-0146

(Name of issuer of the securities held pursuant to the plan and the address of principal executive office)

FirstBank 401(k) Retirement Plan for Residents of Puerto Rico (Section 1165(e))
Financial Statements and Supplemental Schedule
December 31, 2010 and 2009
Index

1 Other schedules required by Section 2520.103-10 of the Department of Labor s Rules and Regulations for Reporting and Disclosure under ERISA have been omitted because they are not applicable.

Report of Independent Registered Public Accounting Firm

To the Participants and Administrator of
FirstBank 401(k) Retirement Plan for Residents of Puerto Rico (Section 1165(e))

In our opinion, the accompanying statements of net assets available for benefits and the related statement of changes in net assets available for benefits present fairly, in all material respects, the net assets available for benefits of FirstBank 401(k) Retirement Plan for Residents of Puerto Rico (Section 1165(e)) (the Plan) at December 31, 2010 and 2009, and the changes in its net assets available for benefits for the year ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Plan s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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. An audit 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, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental Schedule of Assets (Held at Year End) as of December 31, 2010 is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan s management. The supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP
San Juan, Puerto Rico
June 29, 2011

Certified Public Accountants
(Of Puerto Rico)
License No. 216 Expires Dec. 1, 2013
Stamp 2615742 of P.R. Society of Certified
Public Accountants has been affixed to the
Filed copy of this report.

FirstBank 401(k) Retirement Plan for Residents of Puerto Rico (Section 1165(e))

Statements of Net Assets Available for Benefits
December 31, 2010 and 2009

	As of December 31,	
	2010	**2009**
Assets		
Investments		
Investments, at fair value	$ 21,365,968	$ 19,281,137
Total investments	21,365,968	19,281,137
Receivables		
Employer contribution	12,811	472,373
Participant contributions	71,401	134,078
Participant loans receivable	1,648,081	1,459,455
Due from brokers for securities sold	11,286	25,321
Loan repayments from participants	28,113	49,102
Total receivables	1,771,692	2,140,329
Cash and cash equivalents	22,953	66,296
Total assets	23,160,613	21,487,762
Liabilities		
Due to brokers for securities purchased	169	18,902
Total liabilities	169	18,902
Net assets available for benefits	$ 23,160,444	$ 21,468,860

The accompanying notes are an integral part of these financial statements.

FirstBank 401(k) Retirement Plan for Residents of Puerto Rico (Section 1165(e))

Statement of Changes in Net Assets Available for Benefits
December 31, 2010

	Year ended December 31, 2010
Additions to assets attributed to:	
Investment income	
Net appreciation in fair value of investments	$ 242,790
Dividends and interest income	327,760
Total investment income	570,550
Interest income on participant loans	96,487
Contributions	
Participants	1,970,102
Employer	335,758
Rollovers from other qualified plans	61,147
Total contributions	2,367,007
Total additions	3,034,044
Deductions from assets attributed to:	
Benefits and withdrawals paid to participants, including rollover distributions	1,332,545
Administrative expenses	9,915
Total deductions	1,342,460
Net increase in net assets available for benefits	1,691,584
Net assets available for benefits	
Beginning of year	21,468,860
End of year	$ 23,160,444

The accompanying notes are an integral part of these financial statements.

FirstBank 401(k) Retirement Plan for Residents of Puerto Rico (Section 1165(e))

Notes to the Financial Statements
December 31, 2010 and 2009
1. Description of the Plan
Reporting Entity

The accompanying financial statements include the assets of the FirstBank 401(k) Retirement Plan for Residents of Puerto Rico (Section 1165(e)) (the Plan) sponsored by FirstBank Puerto Rico (the Bank) for its Puerto Rico employees only. The following description of the Plan provides only general information. Participants should refer to the Plan agreement for a complete description of the Plan s provisions.

General

The Plan is a defined contribution plan, which became effective in 1965, and was amended in 1977, to comply with the requirements of the Employee Retirement Income Security Act of 1974, as amended (ERISA), and as of January 1, 1985, to comply with the requirements of the Retirement Equity Act of 1984 (REACT). Accordingly, the Plan is subject to the provisions of ERISA. Effective September 1, 1991, the Plan was further amended to become a savings plan under the provisions of the Puerto Rico Code Section 1165(e). The Plan was created for the purpose of providing retirement benefits to employees and to encourage and assist them in adopting a regular savings plan that qualifies under the applicable laws of the Commonwealth of Puerto Rico.

Plan Amendments

There were no plan amendments during plan year 2010.

Eligibility

All full-time employees of the Bank and its wholly owned Puerto Rico subsidiaries are eligible to participate in the Plan after completion of three months of service for purposes of making elective deferral contributions and one year of service for purposes of sharing in the Bank s matching, qualified matching and qualified non-elective contributions. Furthermore, regular part time employees are also eligible if the criteria of 1,000 hours of service is met.

Employees hired on or after September 1, 2007 will be automatically enrolled in the Plan after completion of three months of services unless the employee makes an election to waive participation in the Plan by completing an Election Form at least 30 days before the enrollment date. If the employee does not complete the Election Form within the mentioned period, the employee will be automatically enrolled in the Plan with an initial pre-tax contribution equivalent to 2% of his/her period eligible compensation and the contribution will be invested in a predetermined fund until subsequent election is made by the participant.

Contributions

Participants are permitted to contribute up to an amount not to exceed the maximum deferral amount specified by the Puerto Rico Code of 1994, as amended (PR Code) of $9,000 for the tax year ended December 31, 2010. Also, the participant may make voluntary contributions to the Plan on an after-tax basis. The Bank is required to make a matching contribution of twenty-five cents for every dollar on the first 4% of the participants eligible compensation that a participant contributes to the Plan on a pre-tax basis. In addition, the Bank may voluntarily make additional discretionary contributions to the Plan at the end of the year to be distributed among the accounts as established in the Plan. Investment of participants and employer s contributions are directed by participants into various investment options, which include several mutual funds and the common stock of First BanCorp, the Bank s parent company. The Plan allows for rollover contributions from other qualified plans.

Participants over age 50 are permitted to make an additional $1,000 pre-tax contribution after contributing the Plan limit of $9,000 of their pre- tax annual compensation.

FirstBank 401(k) Retirement Plan for Residents of Puerto Rico (Section 1165(e))
Notes to the Financial Statements
December 31, 2010 and 2009

The Act No. 186 of August 7, 2008 (Act 186) amended section 1165(e) of the PR Code to gradually increase the maximum allowance contribution as follows:

For tax years:	Amount
Beginning on and after January 1, 2011	$10,000
Beginning on and after January 1, 2013	$12,000

Participant Accounts

Each participant s account is credited with the participant s contributions and allocations of (a) the Bank s contributions and (b) Plan earnings. Allocations are based on (a) the participant s contributions in the case of matching contributions, (b) a discretionary percentage of the participant s contribution in the case of discretionary contributions, and (c) account balances in each investment option in the case of plan earnings. The benefit to which a participant is entitled is the benefit that can be provided from the participant s vested account.

Vesting

Participants are immediately vested in their contributions plus actual earnings thereon. Vesting in the Bank s contribution portion of their account is based on years of continuous service. A participant is 100% vested after five years of credited service.

Vesting schedule for the Bank s matching and additional discretionary contribution is as follows:

Years of Service	Vested Percentage
Less than 2	0%
2	20%
3	40%
4	60%
5 or more	100%

Loans to Participants

Under the terms of the Plan, participants are allowed to borrow from their accounts up to 50% of their vested account balance or $50,000, whichever is less. Loan transactions are treated as a transfer to (from) the investment funds from (to) the Participants Loan account. Loans are secured by the balance in the participants accounts and bear interest at the rate determined by the Plan administrator at the time the loan is granted. At the end of both December 31, 2010 and 2009 the interest rates of these loans ranged from 5.25% to 10.25% and are due at various maturity dates through July 23, 2016. Principal and interest is paid ratably through biweekly payroll deductions.

Payment of Benefits

Plan participants are permitted to make withdrawals from the Plan, subject to provisions in the Plan agreement. If a participant suffers financial hardship, as defined in the Plan agreement, the participant may request a withdrawal from his or her contributions. In the case of participant termination because of death, the entire vested amount is paid to the person or persons legally entitled thereto.

All distributions from the Plan will be made in a single lump-sum payment. If the value of the vested account is more than $5,000, the participant may elect to defer any benefit payable under the Plan until a specified future date.

FirstBank 401(k) Retirement Plan for Residents of Puerto Rico (Section 1165(e))
Notes to the Financial Statements
December 31, 2010 and 2009

Plan Expenses and Administration

Bank and participant contributions were held by Charles Schwab as custodian and managed by Milliman USA, Inc. as plan recordkeeper, both appointed by the Board of Directors of the Bank. The custodian invests cash received in accordance with participant s directions, credits interest and dividend income and makes distributions to participants. Administrative expenses for the custodian s and recordkeeper s fees are paid by the Bank unless there are forfeitures available to offset such expenses. For the year ended December 31, 2010 the Bank paid $184,683 in administrative fees and other services rendered by the plan recordkeeper on behalf of the Plan.

Forfeitures

Forfeited balances of terminated participants non-vested accounts are used to reduce future Bank contributions or used to cover administrative expenses of the Plan.

Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (FASB) updated the Accounting Standards Codification (Codification) to provide guidance to improve disclosure requirements related to fair value measurements and require reporting entities to make new disclosures about recurring or nonrecurring fair-value measurements including significant transfers into and out of Level 1 and Level 2 fair-value measurements and information on purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair-value measurements. Currently, entities are only required to disclose activity in Level 3 measurements in the fair-value hierarchy on a net basis. The FASB also clarified existing fair-value measurement disclosure guidance about the level of disaggregation, inputs, and valuation techniques. Entities are required to separately disclose significant transfers into and out of Level 1 and Level 2 measurements in the fair-value hierarchy and the reasons for the transfers. Significance will be determined based on earnings and total assets or total liabilities or, when changes in fair value are recognized in other comprehensive income, based on total equity. A reporting entity must disclose and consistently follow its policy for determining when transfers between levels are recognized. Acceptable methods for determining when to recognize transfers include: (i) actual date of the event or change in circumstances causing the transfer; (ii) beginning of the reporting period; and (iii) end of the reporting period. The guidance requires disclosure of fair-value measurements by class instead of major category. A class is generally a subset of assets and liabilities within a financial statement line item and is based on the specific nature and risks of the assets and liabilities and their classification in the fair-value hierarchy. When determining classes, reporting entities must also consider the level of disaggregated information required by other applicable accounting principles generally accepted in the United States of America (GAAP). For fair-value measurements using significant observable inputs (Level 2) or significant unobservable inputs (Level 3), this guidance requires reporting entities to disclose the valuation technique and the inputs used in determining fair value for each class of assets and liabilities. If the valuation technique has changed in the reporting period (e.g., from a market approach to an income approach) or if an additional valuation technique is used, entities are required to disclose the change and the reason for making the change. Except for the detailed Level 3 roll forward disclosures, the guidance is effective for annual and interim reporting periods beginning after December 15, 2009 (first quarter of 2010 for public companies with calendar year-ends). The new disclosures about purchases, sales, issuances, and settlements in the roll forward activity for Level 3 fair value measurements are effective for interim and annual reporting periods beginning after December 15, 2010 (first quarter of 2011 for public companies with calendar year-ends). Early adoption is permitted. In the initial adoption period, entities are not required to include disclosures for previous comparative periods; however, comparative disclosures will be required for periods ending after initial adoption. The adoption of this guidance did not have an impact on the Plan s financial statements.

In September 2010, the FASB amended the existing guidance for reporting loans to participants by a defined contribution pension plan. The objective of the amendments in this Update is to clarify how

FirstBank 401(k) Retirement Plan for Residents of Puerto Rico (Section 1165(e))
Notes to the Financial Statements
December 31, 2010 and 2009

loans to participants should be classified and measured by defined contribution pension benefit plans. The amendments in this Update require that participant loans be classified as notes receivable from participants, which are segregated from plan investments and measured at their unpaid principal balance plus any accrued but unpaid interest. This guidance was effective for interim and annual reporting periods ending after December 15, 2010 on a retroactive basis. The Plan adopted this guidance; refer to the Statement of Net Assets Available for Benefits.

Reclassifications

Certain reclassifications have been made to prior year amounts to conform with current year presentation. On January 7, 2011, First BanCorp effected a 1-for-15 reverse stock split. These notes to the financial statements have been retroactively adjusted to give effect to that reverse stock split.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements have been prepared in accordance with accounting policies generally accepted in the United States of America. A description of the significant accounting policies of the Plan follows.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Contributions

Employee contributions are recorded in the period in which the Bank makes payroll deductions from the participants compensation. Matching employer s contributions are recorded in the same period. Discretionary contributions are recorded in the period they are earned by the participant, as determined by the Bank s Board of Directors.

Transfer of Assets to Other Plans

Terminated employees or retirees may elect to transfer their savings to other plans qualified by the Puerto Rico Department of Treasury.

Investments Valuation and Income Recognition

The Plan s investments in mutual funds and common stock of First BanCorp are stated at fair value. See Note 4 for further information regarding valuation of the Plan s investments. The Plan presents in the statement of changes in net assets available for benefits the net appreciation (depreciation) in the fair value of its investments which consists of the realized gains or losses and the unrealized appreciation (depreciation) on those investments.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date.

Loans repayments from participants

Under the terms of the Plan, the participants are allowed to borrow from their accounts up to 50% of their vested account balance or $50,000, whichever is less. Loan transactions are treated as a transfer to (from) the investment fund from (to) the Participant Loan account at the time the employee signs for the loan. The outstanding loan amount is reduced with payroll retentions made by the employer. Loans bear

FirstBank 401(k) Retirement Plan for Residents of Puerto Rico (Section 1165(e))
Notes to the Financial Statements
December 31, 2010 and 2009

interest at the rate determined by the Plan administrator at the time the loan is granted. Any terminated employee is required to liquidate his loan before his resignation.

Payment of Benefits

Benefits are recorded when paid.

3. Plan Investments

The following presents the Plan s investments:

	2010		2009	
	Value	**# of shares**	**Value**	**# of shares**
First BanCorp. Common stock	$ 496,553	71,964	$ 1,117,645*	32,396
Ameristock Fund	1,623,462*	43,985	1,472,154*	45,227
Dodge & Cox Balanced Fund	1,982,950*	27,061	1,394,256*	21,775
Fidelity Spartan Extended Mkt. Index	675,930	17,708	485,302	15,964
FMI Focus	23,030	759	18,430	787
GE Premier Growth Equity Class A	752,035	35,155	610,334	31,755
Harbor Bond Institutional Class Fund	1,851,720*	153,062	1,591,993*	131,136
Harbor Bond Institutional International Class Fund	2,762,391*	45,620	2,421,833*	44,138
Royce Pennsylvania Mutual Fund	1,847,521*	158,585	1,439,301*	152,307
Schwab Value Advantage Money Fund	5,807,356*	5,807,356	5,673,003*	5,673,003
Vanguard S&P 500 Index	3,543,020*	23,870	3,056,886*	29,774
	$ 21,365,968		$ 19,281,137	

* Investment exceeds five percent of net assets available for benefits.

During 2010, the Plan s investments including gains and losses on investments bought and sold (as well as held during the year) appreciated in value by $242,790 as follows:

	2010
Mutual Funds	$ 1,454,991
Common stock First BanCorp.	(1,212,201)
	$ 242,790

4. Fair Value Measurements

The FASB authoritative guidance for fair value measurements defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The guidance also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are

FirstBank 401(k) Retirement Plan for Residents of Puerto Rico (Section 1165(e))
Notes to the Financial Statements
December 31, 2010 and 2009

observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Valuations are observed from unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

As of December 31, 2010 and 2009, the Plan s investments measured at fair value consisted of the following instruments and classifications within the fair value hierarchy.

	As of December 31, 2010 Fair Value Measurements Using			
	Level 1	**Level 2**	**Level 3**	**Assets at Fair Value**
Investments in mutual funds:				
Large Cap	$ 5,918,517	$	$	$ 5,918,517
Mid Cap	675,930			675,930
Small Cap	1,870,551			1,870,551
International	2,762,391			2,762,391
Fixed Income	7,659,076			7,659,076
Balanced	1,982,950			1,982,950
Investment in First BanCorp.	496,553			496,553
	$ 21,365,968	$	$	$ 21,365,968

	As of December 31, 2009 Fair Value Measurements Using			
	Level 1	**Level 2**	**Level 3**	**Assets at Fair Value**
Investments in mutual funds:				
Large Cap	$ 5,139,374	$	$	$ 5,139,374
Mid Cap	485,302			485,302
Small Cap	1,457,731			1,457,731
International	2,421,833			2,421,833
Fixed Income	7,264,996			7,264,996
Balanced	1,394,256			1,394,256
Investment in First BanCorp.	1,117,645			1,117,645
	$ 19,281,137	$	$	$ 19,281,137

Following is a description of the Plan s valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2010 and 2009.

Equity securities: Investment in First BanCorp consists of common stock of First BanCorp and is valued at its quoted market price obtained from an active exchange market. These securities are classified as Level 1.

Mutual Funds: Investments in mutual funds consists of open-end mutual funds and the value is based on the published mutual fund Net Asset Value at the reporting date. These investments are classified as Level 1.

FirstBank 401(k) Retirement Plan for Residents of Puerto Rico (Section 1165(e))
Notes to the Financial Statements
December 31, 2010 and 2009

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. These Levels are not an indication of risk associated with the investments.

There were no transfers in and /or out of Level 3 for financial instruments measured at fair value on a recurring basis during the years ended December 31, 2009 and 2010. There were no transfers in and/or out of Level 1 and Level 2 during the years ended December 31, 2009 and 2010.

5. Party In-Interest Transactions

Certain plan investments consist of shares of a mutual fund with market value of $5,807,356 and cash equivalents of $22,185 managed by The Charles Schwab Trust Company, which is also a provider of custodial services as defined by the Plan since April 1, 2005. In addition, at December 31, 2010 and 2009, the Plan held 71,964 and 32,396 units, with a quoted market value of $496,553 and $1,117,645, respectively, of First BanCorp common stock, the parent company of the Plan Sponsor. For the year ended December 31, 2010, the Plan did not receive any dividend income related to First BanCorp common stock and the net depreciation in the fair value of the investment in First BanCorp common stock amounted to $1,212,201. Plan assets include participant loans receivable of $1,648,081 and $1,459,455 as of December 31, 2010 and 2009, respectively. For the year ended December 31, 2010 interest income related to participant loans receivable amounted to $96,487. These transactions qualify as party-in-interest transactions permitted under the provisions of ERISA.

6. Tax Status

The Puerto Rico Department of Treasury has determined and informed the Bank under letter dated October 11, 2010 that the Plan is designed in accordance with the applicable sections of the PR Code and, therefore, exempt from income taxes. Therefore, no provision for income taxes has been included in the Plan s financial statements.

Accounting principles generally accepted in the United States of America require plan management to evaluate tax positions taken by the plan and recognize a tax liability (or asset) if the plan has taken a uncertain tax position that more likely than not would not be sustained upon examination by federal, state and/ or local taxing authorities. The plan administrator has analyzed the tax positions by the plan, and has concluded that as of December 31, 2010, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The plan administrator believes it is no longer subject to income tax examinations for years prior to 2010.

7. Plan Termination

Although it has not expressed any intent to do so, the Bank has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of Plan termination, participants will become 100 percent vested in their accounts and such termination shall not reduce the interest of any participating employee or their beneficiaries accrued under the Plan up to the date of such termination.

8. Forfeited Amount

Forfeited non-vested accounts amounted to $1,774 at December 31, 2010 ($5,266 at December 31, 2009). These accounts are transferred by the Plan administrator to an unallocated account to be used

FirstBank 401(k) Retirement Plan for Residents of Puerto Rico (Section 1165(e))
Notes to the Financial Statements
December 31, 2010 and 2009

to cover administrative expenses of the Plan or reduce the Bank s future contributions. No forfeitures were used to reduce the Bank s contribution, while $9,915 was used to cover administrative expenses during 2010.

9. Risks and Uncertainties

The Plan s investments are exposed to various risks, such as interest rate, market and credit risks. Market values of investments may decline for a number of reasons, including changes in prevailing market and interest rates, increases in defaults and credit rating downgrades. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the values of investments, it is at least reasonably possible that changes in these factors in the near term would materially affect participants account balances and the amounts reported in the statement of net assets available for benefits and the statement of changes in net assets available for benefits.

The Plan is subject to legal proceedings and claims which might arise in the ordinary course of its activities. At this time, there are no legal proceedings against the Plan that might impact the financial statements.

10. Additional Contributions

The Board of Directors of the Bank approved in 2010 additional contributions of $447,470, based on the Bank s results for the year ended December 31, 2009. No additional discretionary contributions were made for the year ended December 31, 2010. In addition, as a result of the Plan s non-compliance with its non-discrimination test for the years ended December 31, 2010 and 2009, the Bank agreed to contribute $1,066 and $2,876, respectively, to non-highly compensated participants to satisfy contribution requirements. At December 31, 2010 and 2009, these additional contributions were recorded as employer contribution receivables in the statement of net assets available for benefits and as contributions from employer in the statement of changes in net assets available for benefits.

11. Reconciliation of Financial Statements to Form 5500

For purposes of Form 5500, interest-bearing cash equivalents which consist of money-market instruments, are classified as plan investments. The amount of interest-bearing cash equivalent classified as investment on the Form 5500 was $22,185 and $61,934 as of December 31, 2010 and 2009, respectively. In addition, non-interest bearing cash held by the Plan as of December 31, 2010 and 2009 amounted to $768 and $4,361, respectively.

12. Subsequent events

The Plan has evaluated subsequent events through the date the financial statements were issued. The Plan has determined that there are no events occurring in this period that required disclosure in or adjustment to the accompanying financial statements.

FirstBank 401(k) Retirement Plan for Residents of Puerto Rico (Section 1165(e))

Schedule H, Line 4i - Schedule of Assets (Held at End of Year)
December 31, 2010

(a)	(b) Identity of issue, borrower lessor or similar party	(c) Description of Investment including maturity date, rate of interest, par			(d) Cost	(e) Current value
	Money Market and Interest Bearing Cash					
*	Investcash Money Market Deposit Account	Money Market			**	$ 22,185
	Total Money Market and Interest Bearing Cash					22,185
	Common Stocks					
*	First BanCorp. Common Stocks	Common Stock	71,964	shares	**	496,553
	Total Common Stocks					496,553
	Mutual Funds					
	Ameristock Fund	Mutual Fund	43,985	shares	**	1,623,462
	Dodge & Cox Balanced Fund	Mutual Fund	27,061	shares	**	1,982,950
	Fidelity Spartan Extended Mkt. Index	Mutual Fund	17,708	shares	**	675,930
	FMI Focus	Mutual Fund	759	shares	**	23,030
	GE Premier Growth Equity Class A	Mutual Fund	35,155	shares	**	752,035
	Harbor Bond Institutional Class Fund	Mutual Fund	153,062	shares	**	1,851,720
	Harbor Bond Institutional International Class Fund	Mutual Fund	45,620	shares	**	2,762,391
	Royce Pennsylvania Mutual Fund	Mutual Fund	158,585	shares	**	1,847,521
*	Schwab Value Advantage Money Fund	Mutual Fund	5,807,356	shares	**	5,807,356
	Vanguard S&P 500 Index	Mutual Fund	23,870	shares	**	3,543,020
	Total mutual funds					20,869,415
	Participant Loans Receivable					
*	Participant loans receivable	Interest rates raging from 5.25% to 10.25% maturity dates of January 15, 2011 to July 23, 2016				1,648,081
	Total participant Loans receivable					1,648,081
	Total					**$ 23,036,234**

* Party in-interest

** Historical cost is not required for participant directed investments.

Signatures

The Plan. Pursuant to the requirement of the Securities Exchange Act of 1934, the Board of Trustees (or the persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

FIRST BANCORP.
(Name of Plan)

Date: 6/29/2011

By: /s/ Pedro A. Romero
Authorized Representative

******

13

ottom" style="TEXT-ALIGN: left">

February 18, 2009

For the Three Months Ended

For the Six Months Ended

through

December 31, 2012

December 31, 2011

December 31, 2012

December 31, 2011

December 31, 2012

REVENUE	$-	$-	$-	$-	$-
OPERATING EXPENSES					
General and administrative expenses	119,013	163,578	270,095	312,777	2,251,460
Research and development	61,352	34,020	109,345	67,596	605,941
Depreciation and amortization	438	438	877	877	5,639
TOTAL OPERATING EXPENSES					

	180,803	198,036	380,317	381,250	2,863,040
LOSS FROM OPERATIONS BEFORE OTHER EXPENSES	(180,803)	(198,036)	(380,317)	(381,250)	(2,863,040)
OTHER INCOME/(EXPENSES)					
Impairment of intangible asset	-	-	-	-	(14,727)
Gain on forgiveness of debt	-	-	10,000	-	10,000
Loss on change in derivative	(94,583)	-	(94,583)	-	(94,583)
Penalties	-	(92)	-	(92)	(157)
Interest expense	(107,209)	-	(129,219)	-	(147,158)
TOTAL OTHER INCOME/(EXPENSES)	(201,792)	(92)	(213,802)	(92)	(246,625)
NET LOSS	$(382,595)	$(198,128)	$(594,119)	$(381,342)	$(3,109,665)
BASIC AND DILUTED LOSS PER SHARE	$(0.00)	$(0.00)	$(0.00)	$(0.00)	
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING					
BASIC AND DILUTED	168,585,170	140,191,065	167,374,970	137,545,668	

The accompanying notes are an integral part of these financial statements

4

Table of Contents

HYPERSOLAR, INC.

(A Development Stage Company)

STATEMENT OF SHAREHOLDERS' DEFICIT

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

Balance at December 31, 2012 (unaudited)	-	$-	168,585,170	$168,586	$2,304,039	$ (3,109,665)	$(637,040)

The accompanying notes are an integral part of these financial statements

5

Table of Contents

HYPERSOLAR, INC.

(A Development Stage Company)

STATEMENTS OF CASH FLOWS

(Unaudited)

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

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

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

The accompanying notes are an integral part of these financial statements

Table of Contents

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

1. Basis of Presentation
The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all normal recurring adjustments considered necessary for a fair presentation have been included. Operating results for the six months ended December 31, 2012 are not necessarily indicative of the results that may be expected for the year ending June 30, 2013. For further information refer to the financial statements and footnotes thereto included in the Company's Form 10-K for the year ended June 30, 2012.

Going Concern
The accompanying financial statements have been prepared on a going concern basis of accounting, which contemplates continuity of operations, realization of assets and liabilities and commitments in the normal course of business. The accompanying financial statements do not reflect any adjustments that might result if the Company is unable to continue as a going concern. The Company does not generate revenue, and has negative cash flows from operations, which raise substantial doubt about the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern and appropriateness of using the going concern basis is dependent upon, among other things, additional cash infusion. The Company has obtained funds from its shareholders since its inception through the period ended December 31, 2012. Management believes this funding will continue, and has also obtained funding from new investors. Management believes the existing shareholders and the prospective new investors will provide the additional cash needed to meet the Company's obligations as they become due, and will allow the development of its core business.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Cash and Cash Equivalent

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

Table of Contents

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

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

Fair Value of Financial Instruments

Fair Value of Financial Instruments, requires disclosure of the fair value information, whether or not recognized in the balance sheet, where it is practicable to estimate that value. As of December 31, 2012, the balances reported for cash, prepaid expenses, accounts payable, accrued expenses, and derivative liability approximate the fair value because of their short maturities.

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

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 established a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). These tiers include:

- Level 1, defined as observable inputs such as quoted prices for identical instruments in active markets;
- Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable such as quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active; and
- Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions, such as valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

We measure certain financial instruments at fair value on a recurring basis. Assets and liabilities measured at fair value on a recurring basis are as follows at December 31, 2012:

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loss per Share Calculations
Loss per Share dictates the calculation of basic earnings per share and diluted earnings per share. Basic earnings per share are computed by dividing income available to common shareholders by the weighted-average number of common shares available. Diluted earnings per share is computed similar to basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. A total of 69,838,762 shares for purchase warrants were not used in the calculation of the loss per share as they were all anti-dilutive. The Company's diluted loss per share is the same as the basic loss per share for the period ended December 31, 2012, as the inclusion of any potential shares would have had an anti-dilutive effect due to the Company generating a loss.

Recently adopted pronouncements

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

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

3. CAPITAL STOCK

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

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

4. STOCK OPTIONS AND WARRANTS

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

Table of Contents

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

4. STOCK OPTIONS AND WARRANTS (Continued)

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

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

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

Warrants

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

5. RENTAL LEASE

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

6. PROMISSORY NOTES

During the six months ended December 31, 2012, the Company entered into two additional promissory notes in the amount of $61,000 with warrants attached to purchase 8,133,336 shares of common stock at a price of $0.015 per share. The notes bore interest of 5% per annum over a one year period. The notes matured within one year from their commitment dates. The aggregate balance of the notes in the amount of $122,000, were exchanged on December 26, 2012 for convertible promissory notes.

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

Table of Contents

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

7. LOAN PAYABLE

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

8. CONVERTIBLE PROMISSORY NOTES

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

On October 19, 2012, the Company received in consideration upon execution of two (2) notes for the aggregate sum of $25,000 on two (2) securities purchase agreements entered into for the sale of 10% convertible promissory notes in the aggregate principal amount of $150,000. The note is convertible into shares of common stock of the Company at a price equal to a variable conversion price of the lesser of $0.01 per share or fifty percent (50%) of the lowest trading price of the previous 25 trading days. The notes mature one (1) year from the effective date of each payment.

On October 29, 2012, the Company received in consideration upon execution of a note for the sum of $40,000 on a securities purchase agreement entered into for the sale of a 10% convertible promissory note in the aggregate principal amount of $100,000. The note is convertible into shares of common stock of the Company at a price equal to a variable conversion price of the lesser of $0.01 per share or fifty percent (50%) of the lowest trading price of the previous 25 trading days. The note matures one (1) year from the effective date of each payment.

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

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

ASC Topic 815 provides guidance applicable to convertible debt issued by the Company in instances where the number into which the debt can be converted is not fixed. For example, when a convertible debt converts at a discount to market based on the stock price on the date of conversion, ASC Topic 815 requires that the embedded conversion option of the convertible debt be bifurcated from the host contract and recorded at their fair value. In accounting for derivatives under accounting standards, the Company recorded a liability of $474,648 representing the estimated present value of the conversion feature considering the historic volatility of the Company's stock, and a discount of $274,500 representing the imputed interest associated with the embedded derivative. The discount is amortized over the life of the convertible debt, which resulted in the recognition of $102,193 in interest expense for the six months ended December 31, 2012, and the derivative liability is adjusted periodically according to stock price fluctuations. At the time of conversion, any remaining derivative liability will be charged to additional paid-in capital.

Table of Contents

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

8. CONVERTIBLE PROMISSORY NOTES

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

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

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

9. SUBSEQUENT EVENTS

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

Table of Contents

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

Cautionary Statement Regarding Forward-Looking Statements

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

Overview

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

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

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

Market Opportunity

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

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

Critical Accounting Policies

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

Table of Contents

Revenue Recognition

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

Use of Estimates

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

Fair Value of Financial Instruments

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

Recently Adopted Accounting Pronouncements

Management reviewed accounting pronouncements, and the following pronouncement was adopted during the period.

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

Liquidity and Capital Resources

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

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

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

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

Our financial statements as of December 31, 2012 have been prepared under the assumption that we will continue as a going concern from inception (February 18, 2009) through December 31, 2012. Our independent registered public accounting firm has issued their report dated September 28, 2012, that included an explanatory paragraph expressing substantial doubt in our ability to continue as a going concern without additional capital becoming available. Our ability to continue as a going concern ultimately is dependent on our ability to generate a profit which is dependent upon our ability to obtain additional equity or debt financing, attain further operating efficiencies and, ultimately, to achieve profitable operations. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Table of Contents

We believe our current cash balance as of February 12, 2013 will fund our operations for the next thirty days as we continue working to develop a prototype of our technology. As a result of our inability to raise sufficient financing in the second fiscal quarter, the CEO and certain vendors have not been fully compensated for their services. We are seeking further financing through the sales of additional equity securities. The sale of additional equity securities could result in additional dilution to our stockholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations. Financing may not be available in amounts and on terms acceptable to us, or at all. To the extent that additional capital is raised through the sale of equity or convertible debt securities, the issuance of these securities could result in further dilution to our stockholders. If we are unable to obtain additional financing, we may be forced to curtail our operations.

PLAN OF OPERATION AND FINANCING NEEDS

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

In May of 2012, we completed a lab scale prototype of our technology that can be seen on our website at www.hyper solar.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 battery” and “enhancement and possible replacement for platinum in a fuel cell.” We will be working with our research partner, University of California Santa Barbara, to further explore the potentially valuable opportunities from this invention.

Operating Expenses

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

Net Loss

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

15

Table of Contents

ITEM 3. Quantitative and Qualitative Disclosure About Market Risk

N/A

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

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

Table of Contents

PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings

None.

ITEM 1A. Risk factors

There are no material changes from the risk factors previously disclosed in our annual report on Form 10-K filed with the SEC on September 28, 2012.

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

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

On October 19, 2012, the Company received in consideration upon execution of two (2) notes for the aggregate sum of $25,000 on two (2) securities purchase agreements entered into for the sale of 10% convertible promissory notes in the aggregate principal amount of $150,000. The note is convertible into shares of common stock of the Company at a price equal to a variable conversion price of the lesser of $0.01 per share or fifty percent (50%) of the lowest trading price of the previous 25 trading days. The notes mature one (1) year from the effective date of each payment.

On October 29, 2012, the Company received in consideration upon execution of a note for the sum of $40,000 on a securities purchase agreement entered into for the sale of a 10% convertible promissory note in the aggregate principal amount of $100,000. The note is convertible into shares of common stock of the Company at a price equal to a variable conversion price of the lesser of $0.01 per share or fifty percent (50%) of the lowest trading price of the previous 25 trading days. The note matures one (1) year from the effective date of each payment.

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

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

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. (Removed and Reserved)

ITEM 5. Other Information

None.

ITEM 6. Exhibits

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

* Filed herewith

Table of Contents

HYPERSOLAR, INC.

SIGNATURE

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

	HYPERSOLAR, INC.	
February 14, 2013	By:	/s/ Timothy Young Timothy Young Chief Executive Officer and Acting Chief Financial Officer (Principal Executive Officer and Principal Financial and Accounting Officer)