

XSUNX INC  
Form 10-Q  
August 14, 2015

---

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

\_\_\_\_\_  
FORM 10-Q  
\_\_\_\_\_

Quarterly Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934

For The Quarterly Period Ended: June 30, 2015

Transition Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934

For The Transition Period From \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 000-29621

XSUNX, INC.

(Exact name of registrant as specified in its charter)

Colorado  
(State of incorporation)

84-1384159  
(I.R.S. Employer Identification No.)

65 Enterprise, Aliso Viejo, CA 92656  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number: (949) 330-8060

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, during the preceding twelve (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 for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer  Smaller reporting company

Edgar Filing: XSUNX INC - Form 10-Q

Non-accelerated filer

..

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 number of shares of common stock issued and outstanding as of August 14, 2015 was 690,589,074.

---

Table of Contents

TABLE OF CONTENTS

	PAGE
PART I - FINANCIAL INFORMATION	
<u>Item 1. Financial Statements (Unaudited)</u>	3
<u>Condensed Balance Sheets</u>	3
<u>Condensed Statements of Operations</u>	4
<u>Condensed Statements of Shareholders Deficit</u>	5
<u>Condensed Statements of Cash Flows</u>	6
<u>Notes to Condensed Financial Statements</u>	7
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	12
<u>Item 3. Qualitative and Quantitative Disclosures About Market Risk</u>	17
<u>Item 4. Controls and Procedures</u>	17
PART II - OTHER INFORMATION	
<u>Item 1. Legal Proceedings</u>	18
<u>Item 1A. Risk Factors</u>	18
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	18
<u>Item 3. Defaults upon Senior Securities</u>	18
<u>Item 4. Mine Safety Disclosure</u>	18
<u>Item 5. Other Information</u>	18
<u>Item 6. Exhibits</u>	19
<u>Signatures</u>	20

---

Table of Contents

## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements.

XSUNX, INC.  
CONDENSED BALANCE SHEETS

	June 30, 2015 (Unaudited)	September 30, 2014
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 32,895	\$ 50,838
Accounts receivable	20,250	-
Prepaid expenses	7,388	8,698
<b>Total Current Assets</b>	<b>60,533</b>	<b>59,536</b>
<b>PROPERTY &amp; EQUIPMENT</b>		
Office & miscellaneous equipment	35,853	35,853
Machinery & equipment	64,538	64,538
	100,391	100,391
Less accumulated depreciation	(94,106 )	(90,476 )
<b>Net Property &amp; Equipment</b>	<b>6,285</b>	<b>9,915</b>
<b>TOTAL ASSETS</b>	<b>\$ 66,818</b>	<b>\$ 69,451</b>
<b>LIABILITIES AND SHAREHOLDERS' DEFICIT</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 75,775	\$ 134,623
Accrued expenses	24,182	30,237
Deferred revenue	-	10,000
Derivative liability	311,307	546,280
Note Payable, related party	61,000	-
Convertible promissory notes, net of \$71,132 and \$76,401 in discounts	172,868	251,095
<b>Total Current Liabilities</b>	<b>645,132</b>	<b>972,235</b>
<b>TOTAL LIABILITIES</b>	<b>645,132</b>	<b>972,235</b>
<b>SHAREHOLDERS' DEFICIT</b>		
Preferred stock 50,000,000 shares authorized, shares issued and outstanding designated as follows:		
Preferred Stock Series A, \$0.01 par value, 10,000 authorized		
5,000 and 5,000 shares issued and outstanding, respectively	50	50

Edgar Filing: XSUNX INC - Form 10-Q

Common stock, no par value; 2,000,000,000 authorized common shares 690,589,074 and 591,400,069 shares issued and outstanding, respectively	32,237,369	31,014,990
Additional paid in capital	5,335,398	5,335,398
Paid in capital, common stock warrants	3,811,700	3,811,700
Accumulated deficit	(41,962,831 )	(41,064,922 )
<b>TOTAL SHAREHOLDERS' DEFICIT</b>	<b>(578,314 )</b>	<b>(902,784 )</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS'</b>		
<b>DEFICIT</b>	<b>\$ 66,818</b>	<b>\$ 69,451</b>

The accompanying notes are an integral part of these financial statements

Table of Contents

XSUNX, INC.  
CONDENSED STATEMENTS OF OPERATIONS  
(Unaudited)

	For The Three Months Ended		For The Nine Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
SALES	\$320,038	\$239,839	\$937,795	\$384,764
COST OF GOODS SOLD	241,676	91,987	756,398	201,207
GROSS PROFIT	78,362	147,852	181,397	183,557
<b>OPERATING EXPENSES</b>				
Selling, general and administrative expenses	125,014	142,503	388,959	410,391
Research and development	-	-	-	2,566
Depreciation and amortization expense	1,387	3,787	3,630	13,026
<b>TOTAL OPERATING EXPENSES</b>	<b>126,401</b>	<b>146,290</b>	<b>392,589</b>	<b>425,983</b>
<b>LOSS FROM OPERATIONS BEFORE OTHER INCOME/(EXPENSES)</b>	<b>(48,039 )</b>	<b>1,562</b>	<b>(211,192 )</b>	<b>(242,426 )</b>
<b>OTHER INCOME/(EXPENSES)</b>				
Penalties	-	-	(472 )	(226 )
Loss on sale of asset	-	(1,683 )	-	(7,044 )
Loan and commitment fees	-	-	(22,080 )	-
Gain on forgiveness of debt	-	-	58,273	-
(Gain)Loss on extinguishment of debt	13,001	(175,460 )	(6,990 )	(1,129,755 )
Equity based financing cost	-	(86,921 )	(33,960 )	(389,398 )
Gain(Loss) on change in derivative liability	28,927	286,816	(507,163 )	819,859
Interest expense	(58,036 )	(148,153 )	(174,325 )	(607,016 )
<b>TOTAL OTHER INCOME/(EXPENSES)</b>	<b>(16,108 )</b>	<b>(125,401 )</b>	<b>(686,717 )</b>	<b>(1,313,580 )</b>
<b>NET (LOSS)</b>	<b>\$(64,147 )</b>	<b>\$(123,839 )</b>	<b>\$(897,909 )</b>	<b>\$(1,556,006 )</b>
<b>BASIC AND DILUTED (LOSS) PER SHARE</b>	<b>\$(0.00 )</b>	<b>\$(0.00 )</b>	<b>\$(0.00 )</b>	<b>\$(0.00 )</b>
<b>WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING</b>				
<b>BASIC AND DILUTED</b>	<b>677,821,451</b>	<b>550,852,606</b>	<b>591,695,819</b>	<b>522,254,436</b>

The accompanying notes are an integral part of these financial statements

Table of Contents

XSUNX, INC.  
 CONDENSED STATEMENT OF SHAREHOLDERS' DEFICIT  
 (Unaudited)

	Preferred Stock Shares	Amount	Common Stock Shares	Amount	Additional Paid-in Capital	Stock Options/ Warrants Paid-in-Capital	Accumulated Deficit	Total
Balance at September 30, 2014	5,000	50	591,400,069	31,014,990	5,335,398	3,811,700	(41,064,922)	(902,784 )
Issuance of shares upon conversion of debt, including interest	-	-	99,189,005	1,222,379	-	-	-	1,222,379
Net income for the nine months ended June 30, 2015 (unaudited)	-	-	-	-	-	-	(897,909 )	(897,909 )
Balance at June 30, 2015 (unaudited)	5,000	\$ 50	690,589,074	\$ 32,237,369	\$ 5,335,398	\$ 3,811,700	\$ (41,962,831)	\$ (578,314 )

The accompanying notes are an integral part of these financial statements

Table of Contents

XSUNX, INC.  
CONDENSED STATEMENTS OF CASH FLOWS  
(Unaudited)

	For the Nine Months Ended	
	June 30, 2015	June 30, 2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Income (loss)	\$(897,909 )	\$(1,556,006 )
Adjustment to reconcile net income (loss) to net cash used in operating activities		
Depreciation & amortization	3,630	13,026
Common stock issued for services and other expenses/prepaid	-	33,123
Convertible notes issued for services	-	48,000
Commitment fees	22,080	-
Loss on conversion and settlement of debt	6,990	1,129,755
Gain on extinguishment of debt	(58,273 )	-
Loss on sale of asset	-	7,044
Equity based financing cost	33,960	389,398
(Gain)Loss on change in derivative liability	507,163	(819,859 )
Amortization of debt discount and beneficial conversion feature recorded as interest expense	143,281	564,205
<b>Change in Assets and Liabilities:</b>		
(Increase) Decrease in:		
Accounts receivable	(20,250 )	(164,850 )
Prepaid expenses	1,310	(5,765 )
Other assets	-	2,500
Increase (Decrease) in:		
Accounts payable	(573 )	(13,197 )
Accrued expenses	34,648	10,152
Deferred revenue	(10,000 )	-
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(233,943 )</b>	<b>(362,474 )</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sale of assets	-	62,633
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>-</b>	<b>62,633</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from note payable	61,000	-
Proceeds from convertible promissory notes	155,000	318,000
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>216,000</b>	<b>318,000</b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>(17,943 )</b>	<b>18,159</b>
<b>CASH, BEGINNING OF PERIOD</b>	<b>50,838</b>	<b>38,573</b>



CASH, END OF PERIOD	\$32,895	\$56,732
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	\$39	\$343
Taxes paid	\$-	\$-
SUPPLEMENTAL DISCLOSURES OF NON CASH TRANSACTIONS		
Loss on conversion and settlement of debt	\$921,098	\$1,129,755
Common stock issued upon conversion of debt, including accrued interest	\$301,281	\$494,964

The accompanying notes are an integral part of these financial statements

Table of Contents

XSUNX, INC.  
NOTES TO THE CONDENSED FINANCIAL STATEMENTS – UNAUDITED  
JUNE 30, 2015

1. Basis of Presentation

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

Going Concern

The accompanying unaudited 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 significant 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 infusions. The Company has obtained funds from its shareholders since its inception through the period ended June 30, 2015. 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 business.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of XsunX, 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.

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 property and equipment, the deferred tax valuation allowance, and the fair value of stock options. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statements of cash flows, cash and cash equivalents include cash in banks and money markets with an original maturity of three months or less.

Revenue Recognition

The Company recognizes revenue from contracts under the percentage of completion method of accounting after the contract reaches 10% completion, measured by the percentage of costs incurred to date to management's estimates of total anticipated costs for each contract. This method is used because management considers expended costs to be the

best available measure of progress on these contracts. No revenue is recognized until the percentage of completion reaches 10%. Contract costs include all direct materials, subcontractor costs, direct labor and those indirect costs related to contract performance, such as indirect labor, supplies, tools and repairs.

#### 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. We are 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. This has not had a material impact on our results of operations.

Table of Contents

XSUNX, INC.  
NOTES TO THE CONDENSED FINANCIAL STATEMENTS – UNAUDITED  
JUNE 30, 2015

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

## Basic and Diluted Net Income (Loss) per Share Calculations

Income (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. The shares for employee options, and convertible notes were used in the calculation of the income per share.

## 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 June 30, 2015, the balances reported for cash, prepaid expenses, accounts payable, accrued expenses approximate the fair value because of their short maturities.

We adopted ASC Topic 820 for financial instruments measured as fair value on a recurring basis. ASC Topic 820 defines fair value, established a framework for measuring fair value in accordance with accounting principles generally accepted in the United States and expands disclosures about fair value measurements.

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

## Fair Value of Financial Instruments

	Total	(Level 1)	(Level 2)	(Level 3)
Assets	\$ -	\$ -	\$ -	\$ -
Total assets measured at fair value	\$ -	\$ -	\$ -	\$ -

<b>Liabilities</b>				
Derivative Liability	\$ 311,307	\$ -	\$ -	\$ 311,307
Convertible Promissory Notes, net of discount	172,868	-	-	172,868
Total liabilities measured at fair value	\$ 484,175	\$ -	\$ -	\$ 484,175

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

Beginning balance as of October 1, 2014	\$ 546,280
Fair value of derivative liabilities issued	171,971
Gain on fair value of converted debt	(914,107 )
Net Loss on change in derivative liability	507,163
Ending balance as of June 30, 2015	\$ 311,307

Table of Contents

XSUNX, INC.  
NOTES TO THE CONDENSED FINANCIAL STATEMENTS – UNAUDITED  
JUNE 30, 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Research and Development

Research and development costs are expensed as incurred. Total research and development costs were \$0 and \$2,566 for the nine months ended June 30, 2015 and 2014, respectively.

Recent Accounting Pronouncements

In April 2015, the FASB issued ASU 2015-03, “Simplifying the Presentation of Debt Issuance Costs” this Update as part of its initiative to reduce complexity in accounting standards (the Simplification Initiative). The Board received feedback that having different balance sheet presentation requirements for debt issuance costs and debt discount and premium creates unnecessary complexity. Recognizing debt issuance costs as a deferred charge (that is, an asset) also is different from the guidance in International Financial Reporting Standards (IFRS), which requires that transaction costs be deducted from the carrying value of the financial liability and not recorded as separate assets. Additionally, the requirement to recognize debt issuance costs as deferred charges conflicts with the guidance in FASB Concepts Statement No. 6, Elements of Financial Statements, which states that debt issuance costs are similar to debt discounts and in effect reduce the proceeds of borrowing, thereby increasing the effective interest rate. Concepts Statement 6 further states that debt issuance costs cannot be an asset because they provide no future economic benefit. To simplify presentation of debt issuance costs, the amendments in this Update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this Update. For public business entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. The Company is currently evaluating the effects of adopting this ASU, if it is deemed to be applicable.

3. CAPITAL STOCK

At June 30, 2015, the Company’s authorized stock consisted of 2,000,000,000 shares of common stock, with no par value. The Company is also authorized to issue 50,000,000 shares of preferred stock with a par value of \$0.01 per share of which 10,000 shares have been designated as Series A Preferred Stock. The rights, preferences and privileges of the holders of the preferred stock are determined by the Board of Directors prior to issuance of such shares.

During the nine months ended June 30, 2015, the Company issued 99,189,005 shares of common stock upon conversion of promissory notes in the principal amount of \$287,335, plus interest of \$13,947 at prices ranging from \$0.0024 to \$0.0059 per share. Total fair value of the shares issued was \$1,222,379, which included a loss on conversion of debt of \$921,098.

4. STOCK OPTIONS

On May 20, 2014, the Company adopted the 2014 XSUNX, Inc. Stock Option and Award Plan (the “Plan”) to enable the Company to obtain and retain the services of the types of Employees, Consultants and Directors who will contribute to the Company’s long range success and to provide incentives which are linked directly to increases in

share value which will inure to the benefit of all stockholders of the Company. The 2007 Stock Option Plan is superseded by the newly adopted 2014 XSUNX, Inc. Stock Option and Award Plan. Options granted under the Plan may be either Incentive Options or Nonqualified Options and shall be administered by the Company's Board of Directors ("Board"). Each Option shall be exercisable to the nearest whole share, in installments or otherwise, as the respective Option agreements may provide. Notwithstanding any other provision of the Plan or of any Option agreement, each Option shall expire on the date specified in the Option agreement.

Table of Contents

XSUNX, INC.  
NOTES TO THE CONDENSED FINANCIAL STATEMENTS – UNAUDITED  
JUNE 30, 2015

## 4. STOCK OPTIONS (Continued)

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

	6/30/2015	Weighted average exercise price
	Number of Options	
Outstanding, beginning of the period	7,000,000	\$ 0.033
Granted	-	\$ -
Exercised	-	\$ -
Expired	(2,500,000)	\$ 0.050
Outstanding, end of the period	4,500,000	\$ 0.024
Exercisable at the end of the period	4,500,000	\$ 0.017
Weighted average fair value of options granted during the period		\$ -

The weighted average remaining contractual life of options outstanding issued under the plan as of June 30, 2015 was as follows:

Exercisable Prices	Stock Options Outstanding	Stock Options Exercisable	Weighted Average Remaining Contractual Life (years)
\$ 0.014	3,000,000	3,000,000	0.73 years
\$ 0.045	1,500,000	1,500,000	1.54 years
	4,500,000	4,500,000	

We account for stock-based payment award forfeitures as they occur. The Company did not recognize stock-based compensation expense in the statement of operations during the nine months ended June 30, 2015 and 2014, respectively.

## 5. CONVERTIBLE PROMISSORY NOTES

On September 30, 2014, the amended note dated September 30, 2013 expired. On October 1, 2014, the Company and the Holder of the note entered into an extension of the note. The remaining principal balance of \$203,496, plus interest of \$48,839 was combined in the extended new note for a balance of \$252,335 as of December 31, 2014. No additional cash consideration was provided or exchanged. The maturity date of the note was extended to September 30, 2015. The note bears interest at 12% annum, and a conversion price of 60% of the lowest volume weighted average price ("VWAP") occurring during the twenty trading days preceding any conversion date by Holder. The balance of the provisions remained substantially the same. During the nine months ended June 30, 2015, the Company issued 38,586,633 shares of common stock upon conversion of principal in the amount of \$125,335, plus accrued interest of \$2,426. The balance remaining at June 30, 2015 was \$127,000. As of June 30, 2015, the Company recognized interest



expense of \$14,189.

On April 25, 2014, the Company issued a 10% unsecured convertible promissory note (the "Note") for the principal sum of up to \$100,000 plus accrued interest on any advanced principal funds. On April 28, 2014, and June 23, 2014 the lender advanced \$50,000 to the Company under the Note, for an aggregate outstanding balance of \$100,000. The Note matures eighteen months from each advance. The Note may be converted by the lender into shares of common stock of the Company at the lesser of \$.0125 per share or fifty percent (50%) of the lowest trade price on any trade day following issuance of the Note, or the lowest effective price per share granted to any person or entity to acquire common stock after the issuance date of the Note, with the exception of the price per share offered to officers and directors of the Company. The Company recorded debt discount of \$100,000 related to the conversion feature of the notes, along with derivative liabilities at inception. During the nine months ended June 30, 2015, the Company issued 35,325,696 shares of common stock upon conversion of principal in the amount of \$100,000, plus accrued interest of \$7,814. During the nine months ended June 30, 2015, the Company recognized debt amortization as interest expense in the amount of \$76,401, with a remaining debt discount of \$0.

Table of Contents

XSUNX, INC.  
NOTES TO THE CONDENSED FINANCIAL STATEMENTS – UNAUDITED  
JUNE 30, 2015

## 5. CONVERTIBLE PROMISSORY NOTES (Continued)

On November 20, 2014, the Company issued a 10% unsecured convertible promissory note (the “Note”) for the principal sum of up to \$400,000 plus accrued interest on any advanced principal funds. On November 20, 2014, the lender advanced \$50,000 to the Company under the Note at inception. On various dates from February 18, 2015 through June 29, 2015, the lender advanced an additional \$105,000 for an aggregate outstanding balance of \$155,000 at June 30, 2015. The Note matures eighteen months from each advance. The Note may be converted by the lender into shares of common stock of the Company at the lesser of \$.0125 per share or fifty percent (50%) of the three lowest trade prices of three separate trading days recorded in the twenty five (25) trading days prior to the conversion of any outstanding funded principal or accrued interest under the Note. The Company recorded debt discount of \$138,011 related to the conversion feature of the notes, along with derivative liabilities at inception. During the nine months ended June 30, 2015, the Company recognized debt amortization as interest expense in the amount of \$66,880, with a remaining debt discount of \$71,131.

## Issuance of Convertible Promissory Notes for Services to Related Party

As of April 1, 2015, a \$12,000 note issued to Board member Thomas Anderson issued in exchange for his retention as a director during the fiscal year ended September 30, 2014, had a balance of \$13,200. The Promissory Note can be converted into shares of common stock by the Mr. Anderson for \$0.0045 per share. The Promissory Note matures on October 1, 2015, and bore a one-time interest charge of \$1,200 which was applied to the principal on October 1, 2014. The Company recognized interest expense in the amount of \$1,200. So long as any shares issuable under a conversion are subject to transfer and sale restrictions imposed pursuant to SEC Rule 144 of the Rules promulgated under the Securities Act of 1933, the Company shall, upon written request by Mr. Anderson, file Form S-8, if applicable, with the U.S. Securities and Exchange commission to register the issued.

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

Risk free interest rate	Between 0.10% and 0.67%
Stock volatility factor	Between 71.53% and 213.40%
Months to Maturity	6 months to 2 years
Expected dividend yield	None

At June 30, 2015, the fair value of the derivative liability was \$311,307.

## 6. NOTE PAYABLE-RELATED PARTY

On August 5, 2014 the Company issued a 10% unsecured promissory note (the “Note”) in the aggregate principal amount of up to \$80,000 to a related party. During the nine months ended June 30, 2015, the Company received

advances in the aggregate amount of \$61,000. The principal use of the proceeds from any advance under the Note are intended to assist in the purchase of materials, and services for the commercial solar PV systems that we sell and install. Consideration advanced under the Note matures three months from each advance. During the nine months ended June 30, 2015, the Company recognized interest expense of \$2,467.

#### 7. SETTLEMENT OF ACCOUNTS PAYABLE

On February 9, 2015 the Company, and a vendor for services related to the Company's prior efforts to commercialize thin film technologies, elected to settle an outstanding account payable with a balance owed of \$108,172. Under the settlement agreement the parties agreed to settle the account for \$49,900 consisting of an initial payment of \$25,000, and the remaining balance within sixty days. The Company further agreed that should the Company fail to fully pay the agreed amount timely then the Company would not oppose to a judgment for any remaining unpaid account balance, and \$69,317 in accrued interest as a penalty. At June 30, 2015 the balance of the settlement agreement was paid in full.

#### 8. SUBSEQUENT EVENTS

Management has evaluated subsequent events as of the financial statement date according to the requirements of ASC TOPIC 855 and has reported the following:

On August 7, 2015 the holder of a 10% unsecured convertible promissory note (the "Note") for the principal sum of up to \$400,000 plus accrued interest on any advanced principal funds advanced \$30,000 under the Note. The principal use of proceeds from the advance is intended to assist in the purchase of materials and services for the commercial solar PV systems that we sell and install.

Table of Contents

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

CAUTIONARY AND FORWARD LOOKING STATEMENTS

In addition to statements of historical fact, this Quarterly Report on Form 10-Q contains forward-looking statements. The presentation of future aspects of XsunX, Inc. ("XsunX", the "Company" or "issuer") found in these statements is subject to a number of risks and uncertainties that could cause actual results to differ materially from those reflected in such statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. Without limiting the generality of the foregoing, words such as "may", "will", "expect", "believe", "anticipate", "intend", or "could" or the negative variations thereof or comparable terminology are intended to identify forward-looking statements. Our actual results could differ materially from those anticipated by these forward-looking statements as a result of many factors, including those discussed under "Item 1A: Risk Factors" in the Company's Annual Report on Form 10-K.

These forward-looking statements are subject to numerous assumptions, risks and uncertainties that may cause XsunX's actual results to be materially different from any future results expressed or implied by XsunX in those statements. Important facts that could prevent XsunX from achieving any stated goals include, but are not limited to, the following:

Some of these risks might include, but are not limited to, the following:

- (a) volatility or decline of the Company's stock price;
- (b) potential fluctuation in quarterly results;
- (c) failure of the Company to earn revenues or profits;
- (d) inadequate capital to continue or expand its business, inability to raise additional capital or financing to implement its business plans;
- (e) failure to commercialize its technology or to make sales;
- (f) rapid and significant changes in markets;
- (g) litigation with or legal claims and allegations by outside parties;
- (h) insufficient revenues to cover operating costs.

There is no assurance that the Company will be profitable, the Company may not be able to successfully develop, manage or market its products and services. The Company may not be able to attract or retain qualified executives and technology personnel, the Company's products and services may become obsolete, government regulation may hinder the Company's business, additional dilution in outstanding stock ownership may be incurred due to the issuance of more shares, warrants and stock options, or the exercise of warrants and stock options, and other risks inherent in the Company's businesses.

The Company undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date hereof. Readers should carefully review the factors described in other documents the Company files from time to time with the Securities and Exchange Commission, including the Quarterly Reports on Form 10-Q and Annual Reports on Form 10-K filed by the Company and any Current Reports

on Form 8-K filed by the Company.

Management believes the summary data presented herein is a fair presentation of the Company's results of operations for the periods presented. Due to the Company's change in primary business focus and new business opportunities these historical results may not necessarily be indicative of results to be expected for any future period. As such, future results of the Company may differ significantly from previous periods.

#### Business Overview

XsunX provides solar energy solutions that deliver significant bottom-line financial benefits to businesses. We specialize in the sale, design, and installation of commercial solar power systems. Our background and experience spans virtually all aspects of solar including technology assessment, design, and development.

The Company has developed a highly skilled team of qualified engineering and specialty contractors with extensive commercial solar experience necessary to service the diverse conditions that can be encountered in commercial buildings. The company couples this superior design and delivery capability with factory direct pricing, and zero down financing options to provide exceptional solar power plant installations for our customers.

## Table of Contents

Our business development objectives are to capitalize on the increasing demand within the California commercial facilities markets for the installation of solar electric power systems. We see these efforts as a significant business development opportunity as management has the skillset associated with construction management, we have extensive experience associated with the design requirements associated with the delivery of solar power systems, and there is a market demand available for us to provide these services to.

### Market for Solar Power

We believe that a significant demand for our commercial solar power energy solutions is developing, in part, as a result of following propositions:

- We provide the ability to control and predict future energy costs. Our customers invest in the ability to self-generate power to offset and/or eliminate the purchase of third party utility provided electric energy. These investments provide predictability and control of energy costs, and can significantly reduce overall energy costs while insulating clients from rising retail electricity prices.
- Maturity and dependability of solar technologies. The results and benefits from investments in commercial solar power systems have begun to produce long term statistical data. This historical performance data allows investment benefits for long term future operations to be accurately estimated. This provides customers greater reliance on future results, and the confidence to make investments.
- Rapid capital recovery of solar investments. Reports provided by U.S. Energy Department indicate that the installed price reductions for solar PV systems are driving record installation demand. These cost reductions for the major components that make up a solar power system allow us to provide per watt pricing that, coupled with tax and operating benefits, can often result in capital recovery within 3 to 4 years.

We have focused our operations and service toward commercial solar power sales, and we primarily serve customers in the greater Southern California markets.

### Our Approach

We provide customers with a turn-key suite of services and products. Our customer relationship development begins with a financial analysis providing detailed estimated investment benefits and results over the first twenty five years of a solar power systems life span. Through this process we tailor our system designs to maximize the financial benefits and returns for each customer. Our strategy is to develop and deliver systems that can provide the client with the greatest benefits. We then focus on 100% customer satisfaction by consistently matching customer expectations with our performance, and the delivery of our systems.

The key elements of our approach include:

- **Lead Generation.** We market our services utilizing efforts that include wide area advertising in regional newspapers, door-to-door canvassing, list generation and target marketing, and customer referrals. Our sales development efforts work with prospective customers from initial interest through tailored proposals and, ultimately, signed contracts. We plan to grow our sales efforts and team while continually reviewing market trends, and the adoption of new approaches to engage more customers.

- Detailed Investment Analysis. We use information related to our customer's energy usage, costs, planned operations, and tax basis to determine optimal solar system and investment sizing. We combine this data and provide customers with 25 year investment projections that detail capital recovery expectations, system performance and energy savings, tax and operating benefits, and property re-sale value improvement estimates.
- Financing. We have established relationships with lenders and have been approved to offer their finance options to prospective customers. Through our lender association network we offer customers financing options that include commercial equipment loans, lease options, power purchase agreements (PPA's), PACE & HERO financing through property tax assessment, and we offer clients the option to apply utility incentives towards system purchase buy-downs thereby reducing up front out of pocket expenditures or the amount of capital financed.
- Design & Engineering. To ensure accuracy we perform our site surveys directly and do not rely on third party services. We then finalize designs that will match proposed financial results, and work with a highly skilled team of qualified engineers with extensive commercial solar experience to ensure compliance with all codes, and best practices for the solar system operation.

## Table of Contents

- **Installation.** We make the installation process simple for our customers. Once we complete the design and engineering of a solar energy system, we obtain all necessary building permits. Then, as the general contractor and construction manager, we provide all materials and components and use highly qualified licensed specialty contractors with extensive commercial and solar experience to provide on-site assembly of solar systems, utility interconnections, and roofing or structural work. We manage and ensure local building department approvals, and arrange for interconnection to the power grid with the utility.
- **Monitoring, Maintenance, and Service.** We provide our customers with real-time facility wide monitoring of both solar energy generation and facility wide energy consumption. In addition to providing clients with a better understanding of their energy usage, and the opportunity to modify their usage to realize savings, these monitoring systems allow us to confirm the continuing proper operation of installed solar energy systems. We also service what we sell and provide customers with a single source for all system maintenance or warranty coordination and service.

## Our Customers

Our customers, and key market, are owner occupied commercial facilities. We do not focus on specific industries or business type, but typically we have found manufacturing, storage, warehousing, agricultural, and single story commercial office space facilities offer greater opportunities for the placement of solar systems. While we can offer financing solutions for non-owner occupied facilities the greatest financial benefits can be realized by owner occupied commercial facilities.

We work to identify “best” candidates for our systems and we have found that facilities in excess of 3,000 square feet of roof area, and monthly utility costs in excess of \$350 provide the minimum practical entry point for our services. However, “best” candidates typically require a minimum of 29kW (kilowatt) in solar system sizing, and have monthly utility costs in excess of \$650. In the 2014 fiscal period we provided proposals for systems ranging in size from 16kW to 1.1MW (megawatt) with 30kW to 100kW providing the largest number of sales opportunities.

The diversity of our customer type presents us with a diverse scope of installation requirements. We routinely encounter installation applications that may require roof mounting, ground or post mounting, carport systems, and custom applications necessary to overcome physical site conditions.

As we work to expand our marketing and customer acquisition efforts we intend to seek sales opportunities for government facilities, and respond to proposal requests for utility scale solar power operations.

## RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2015 COMPARED TO THREE MONTHS ENDED JUNE 30, 2014.

### Revenue and Cost of Sales:

The Company generated revenues in the three months ended June 30, 2015 and 2014 of \$320,038 and \$239,839 respectively. The increase in revenue during the three months ended June 30, 2015 was a result of our efforts in the sale of commercial solar PV systems. These efforts included market and advertisement testing, sales presentation development, the development of financing alternatives for clients, vetting of qualified subcontractors to provide specialty services, and product supply chain development. The costs of goods sold for the three months ended June 30, 2015 and 2014 was \$241,676 and \$91,987, respectively. The Company to date has had minimal revenue and cost of sales. Management expects to continue to generate revenues, and is working to increase sales as it matures the scope



of the Company's capabilities and brand awareness.

Selling, General and Administrative Expenses:

Selling, General and Administrative (SG&A) expenses decreased by \$17,489 during the three months ended June 30, 2015 to \$125,014 as compared to \$142,503 for the three months ended June 30, 2014. The decrease in SG&A expenses was related primarily to a decrease in public relations of \$21,500, with an overall increase in other SG&A expenses of \$4,011 resulting from the Company's change in business and other expenses during the Company's initial efforts in marketing and sales of commercial solar PV systems. Management expects SG&A expenses to increase in future periods as the Company continues to expand its marketing, sales, and service efforts.

Research and Development:

Research and development decreased by \$2,566 during the three months ended June 30, 2015 to \$0 as compared to \$2,566 for the three months ended June 30, 2014. The decrease was primarily due to the elimination of research related employees used in the period. We anticipate this trend to continue as we do not have plans to devote resources towards additional testing, calibration, or enhancements to our CIGSolar® technology until such time that the market demand for thin film technologies warrants additional investments.

## Table of Contents

### Other Income/(Expenses):

Other income and (expenses) decreased by \$109,293 to \$(16,108) for the three months ended June 30, 2015, compared to \$(125,401) for the three months ended June 30, 2014. The decrease was the result of a decrease in non-cash loss in amortization of debt discount in the amount of \$94,785, loss on sale of assets in the amount of \$1,683, with an increase in non-cash gain in net change of fair value of the derivative instruments of \$17,493, with an increase in interest expense in the amount of \$4,668.

### Net Loss:

For the three months ended June 30, 2015, our net income was \$64,147 as compared to a net loss of \$123,839 for the three months ended June 30, 2014. This decrease in net loss primarily stems from the decrease in other income (expenses) associated with the net change in the derivative instruments associated with the debt financing, and an overall decrease in operating expenses, with an increase in gross profit due to an increase in sales. While management is working to increase sales and revenues as it matures the scope of the Company's capabilities and brand awareness for its commercial solar PV systems, the Company anticipates the trend of losses may continue in future periods until the Company can recognize sales of significance of which there is no assurance.

## RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED JUNE 30, 2015 COMPARED TO NINE MONTHS ENDED JUNE 30, 2014.

### Revenue and Cost of Sales:

The Company generated revenues in the nine months ended June 30, 2015 and 2014 of \$937,795 and \$384,764 respectively. The increase in revenue during the nine months ended June 30, 2015 was a result of our efforts in the sale of commercial solar PV systems. These efforts included market and advertisement testing, sales presentation development, the development of financing alternatives for clients, vetting of qualified subcontractors to provide specialty services, and product supply chain development. The costs of goods sold for the nine months ended June 30, 2015 and 2014 was \$756,398 and \$201,207, respectively. The Company to date has had minimal revenue and cost of sales. Management expects to continue to generate revenues, and is working to increase sales as it matures the scope of the Company's capabilities and brand awareness.

### Selling, General and Administrative Expenses:

Selling, General and Administrative (SG&A) expenses decreased by \$21,432 during the nine months ended June 30, 2015 to \$388,959 as compared to \$410,391 for the nine months ended June 30, 2014. The decrease in SG&A expenses was related primarily to a decrease in non-cash expense for outside services of \$24,374, and an overall decrease in other SG&A expenses of \$26,502, with an increase in salaries in the amount of \$39,893, professional fees in the amount of \$25,038, insurance in the amount of \$7,379, resulting from the Company's change in business and other expenses during the Company's initial efforts in marketing and sales of commercial solar PV systems. Management expects SG&A expenses to increase in future periods as the Company continues to expand its marketing, sales, and service efforts.

### Research and Development:

Research and development decreased by \$2,566 during the nine months ended June 30, 2015 to \$0 as compared to \$2,566 for the nine months ended June 30, 2014. The decrease was primarily due to the elimination of research related employees used in the period. We anticipate this trend to continue as we do not have plans to devote resources towards additional testing, calibration, or enhancements to our CIGSolar® technology until such time that the market

demand for thin film technologies warrants additional investments.

Other Income/(Expenses)

Other income and (expenses) decreased by \$626,863 to \$(686,717) for the nine months ended June 30, 2015, compared to \$(1,313,580) for the nine months ended June 30, 2014. The decrease was the result of an increase in gain on forgiveness of debt in the amount of \$58,273 associated with the write-off of the accounts payable, and penalties in the amount of \$246, and an increase in commitment fees of \$22,080 associated with extending a convertible note, with a decrease in non-cash loss in net change of fair value of the derivative instruments of \$151,181, a decrease in amortization of debt discount in the amount of \$420,923, interest expense in the amount of \$11,768, loss on sale of assets in the amount of \$7,044. The decrease in other income and (expenses) was due to the Company entering into debt financing through the issuance of convertible promissory notes.

## Table of Contents

### Net Loss:

For the nine months ended June 30, 2015, our net loss was \$897,909 as compared to a net loss of \$1,556,006 for the nine months ended June 30, 2014. This decrease in net loss primarily stems from the decrease in other income (expenses) associated with non-cash loss in net change of fair value of the derivative instruments, and a decrease in operating expenses, with an increase in gross profit due to the increase in sales. While management is working to increase sales and revenues as it matures the scope of the Company's capabilities and brand awareness for its commercial solar PV systems, the Company anticipates the trend of losses may continue in future periods until the Company can recognize sales of significance of which there is no assurance.

### Liquidity and Capital Resources

We had a working capital deficit at June 30, 2015 of \$584,599, as compared to a working capital deficit of \$912,699 as of September 30, 2014. The decrease of \$342,015 in working capital deficit was the result of a decrease in cash, prepaid expenses, accounts payable, accrued expenses, deferred income, derivative liability, and note payable and convertible notes.

Cash flow used by operating activities was \$233,943 for the nine months ended June 30, 2015, as compared to cash flow used by operating activities of \$362,474 for the nine months ended June 30, 2014. The decrease in cash flow used by operating activities was primarily due to a net change in non-cash expenses, accounts receivable, prepaid expenses, accounts payable and deferred income, with an increase in accrued expenses.

Cash flow used by investing activities was for the nine months ended June 30, 2015 and 2014 were \$0 and \$62,633, respectively. The net change in investing activities was primarily due to proceeds received of \$62,633 from the sale of certain assets in the prior period.

Cash provided by financing activities for the nine months ended June 30, 2015 was \$216,000, as compared to \$318,000 for the nine months ended June 30, 2014. Our capital needs have primarily been met from the proceeds of private placements, convertible notes, and initial revenues resulting from our change in business operations focused on the sale, design, and installation of Solar Photovoltaic (PV) Systems for commercial and industrial real-estate in the period.

Our financial statements as of June 30, 2015 have been prepared under the assumption that we will continue as a going concern as of June 30, 2015. Our independent registered public accounting firm has issued their report dated January 13, 2015, 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.

For the nine months ended June 30, 2015, the Company's capital needs have been met from the use of working capital provided by the proceeds of (i) the Company's working capital and (ii) the sale of debt proceeds totaling \$216,000, and (iii) revenues in the amount of \$937,795.

### Short Term

On a short-term basis, while our revenues have begun to develop under our new plan of operations we do not generate revenues sufficient to cover operations at this time. Based on prior history, we may continue to have insufficient revenue to satisfy current and recurring expenses and liabilities. For short term needs we may continue to be

dependent on receipt, if any, of offering proceeds and the growth of our revenue.

#### Capital Resources

We have only common and preferred stock as our capital resources. We have no material commitments for capital expenditures within the next year, however as we work to market and make sales of our commercial solar PV system services, substantial capital may be needed to expand and pay for these activities.

#### Need for Additional Financing

We do not have capital sufficient to meet our cash needs. We will have to seek loans or equity placements to cover such cash needs. No commitments to provide additional funds have been made by our management or other stockholders. Accordingly, there can be no assurance that any additional funds will be available to us to allow it to cover our expenses as they may be incurred.

Table of Contents

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any off balance sheet arrangements that are reasonably likely to have a current or future effect on our financial condition, revenues, result of operations, liquidity or capital expenditures.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We do not have any market risk sensitive instruments. Since all operations are in U.S. dollar denominated accounts, we do not have foreign currency risk. Our operating costs are reported in U.S. dollars.

The Company does not invest in term financial products or instruments or derivatives involving risk other than money market accounts, which fluctuate with interest rates at market.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer, principal financial officer, and principal operating officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

As required by SEC Rule 15d-15(e), our management, consisting of our Chief Executive Officer/Principal Accounting Officer carried out an evaluation, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our principal executive officer/ principal accounting officer, concluded that our disclosure controls and procedures were effective at a reasonable assurance level as of the end of the period covered by this report.

Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control structure and procedures over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f)) under the Exchange Act. The SEC rule making for the Sarbanes-Oxley Act of 2002 Section 404 requires that a company's internal controls over financial reporting be based upon a recognized internal control framework. Our management conducted an assessment of the effectiveness of our internal control over financial reporting as of June 30, 2015 based on the framework set forth in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) that has been modified to more appropriately reflect the current limited operational scope of the Company as a Development Stage company. The Company used the COSO guide - The Internal Control over Financial Reporting - Guidance for Smaller Public Companies to implement the Company's internal control framework. Additionally, the limited scope of operations of the Company means that traditional separation of duties controls are not used by the Company as a result of the limited staffing within the Company. The Company relies on alternative procedures to overcome this non-material control weakness.

Based on that evaluation, our Chief Executive Officer/Principal Accounting Officer concluded that our internal control over financial reporting as of June 30, 2015 was effective. Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal

control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

#### Changes in Internal Control over Financial Reporting

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the nine months ended June 30, 2015 that have materially affected, or are 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 the Registrant's Form 10-K filed with the Securities and Exchange Commission dated January 13, 2015.

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

Common Stock Issued Upon Conversion of Notes

During the three months ended June 30, 2015, the Company issued 22,343,340 shares of common stock to the holder of a 10% unsecured convertible promissory note (the "Note") for the conversion by the holder of principal in the amount of \$50,000, plus accrued interest payable of \$2,507. The convertible promissory note was originally issued by the Company to an accredited investor pursuant to the private placement exemption available under Rule 506(b) of Regulation D of the Securities Act of 1933, as amended. The proceeds from the sale of these notes are being used for general working capital.

Use of Proceeds from the Sale of Securities

The proceeds from the above sales of securities were and are being used primarily to fund efforts by the Company to expand operations to include the sale, design, and installation of solar electric PV systems, and in the day-to-day operations of the Company, and to pay the accrued liabilities associated with these operations.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mining and Safety Disclosures

None.

Item 5. Other information

On May 26, 2015, the Company issued 22,343,340 shares of common stock to the holder of a 10% unsecured convertible promissory note (the "Note") for the conversion by the holder of principal in the amount of \$50,000, plus accrued interest payable of \$2,507. The convertible promissory note was originally issued by the Company to an accredited investor pursuant to the private placement exemption available under Rule 506(b) of Regulation D of the Securities Act of 1933, as amended. The proceeds from the sale of these notes are being used for general working capital.

On August 7, 2015 the holder of a 10% unsecured convertible promissory note (the "Note") for the principal sum of up to \$400,000 plus accrued interest on any advanced principal funds advanced \$30,000 under the Note. The principal use of proceeds from the advance is intended to assist in the purchase of materials and services for the commercial solar PV systems that we sell and install.





Table of Contents

## Item 6. Exhibits

The following is a complete list of exhibits filed as part of this Form 10-Q. Exhibit numbers correspond to the numbers in the Exhibit Table of Item 601 of Regulation S-K.

Exhibit	Description
10.1	Form of Extension Agreement and Restated 12% Note used in connection with the exchange and 12 month extension to a promissory note that had become due September 30, 2014. (1)
10.2	Form of Convertible Promissory Note issued on April 25, 2014, used in connection with the sale of a 10% convertible promissory note in the amount of up to \$100,000. (2)
10.3	Form of Promissory Note issued on August 5, 2014, used in connection with establishing access to interim financing requirements for solar system installations in the amount of up to \$80,000. (3)
10.4	Form of Convertible 10% Promissory Note issued on November 20, 2014, used in connection with the sale of a convertible promissory note in an amount up to \$400,000. (4)
10.5	Form of Convertible Promissory Note issued to Board of Directors member Thomas Anderson dated October 1, 2013 used in conjunction of his conversion on February 12, 2015. (5)
31.1	<u>Certification of Chief Financial Officer and Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act (6)</u>
32.1	<u>Certification of Principal Executive and Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act (6)</u>
101.INS	XBRL Instance Document (6)
101.SCH	XBRL Taxonomy Extension Schema Document(6)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (6)
101.DEF	XBRL Taxonomy Extension Label Linkbase Document (6)
101.LAB	XBRL Taxonomy Extension Presentation Linkbase Document (6)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document (6)

- (1) Incorporated by reference to exhibits included with the Company's Report on Form 8-K filed with the Securities and Exchange Commission dated October 16, 2014.
- (2) Incorporated by reference to exhibits included with the Company's Report on Form 10-Q filed with the Securities and Exchange Commission dated May 19, 2014.
- (3) Incorporated by reference to exhibits included with the Company's Report on Form 10-Q filed with the Securities and Exchange Commission dated August 18, 2014.
- (4) Incorporated by reference to exhibits included with the Company's Report on Form 8-K filed with the Securities and Exchange Commission dated November 26, 2014.
- (5) Incorporated by reference to exhibits included with the Company's Report on Form 8-K filed with the Securities and Exchange Commission dated November 12, 2013.
- (6) Filed Herewith

Table of Contents

SIGNATURES

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

XSUNX, INC.

Dated: August 14, 2015

By:

/s/ Tom M. Djokovich  
Tom M. Djokovich,  
Principal Executive and Accounting Officer

