

XSUNX INC
Form 10-K
January 08, 2016

UNITED STATES
SECURITIES EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO
THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended September 30, 2015

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)

(949) 330-8060
(Registrant's Telephone Number)

Securities registered pursuant to Section 12(b) of the Act: Title of each class: None

Name of Each Exchange on which Registered: N/A

Securities registered pursuant to Section 12(g) of the Act:

Title of each class: Common Stock, no par value per share

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months. Yes NO

Check if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

(Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.)
(Check one): Yes NO

As of March 31, 2015, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately \$8,381,201 based on the closing price as reported on the OTCBB.

As of January 8, 2016, there were 704,918,657 shares of the registrant's company common voting stock outstanding.

Table of Contents

XSUNX, INC.

TABLE OF CONTENTS

| | | Page |
|----------|---|------|
| PART I | | |
| Item 1. | <u>Business</u> | 1 |
| Item 1A. | <u>Risk Factors</u> | 6 |
| Item 1B. | <u>Unresolved Staff Comments</u> | 13 |
| Item 2. | <u>Properties</u> | 13 |
| Item 3. | <u>Legal Proceedings</u> | 13 |
| Item 4. | <u>Mine Safety Disclosures</u> | 13 |
| PART II | | |
| Item 5. | <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> | 14 |
| Item 6. | <u>Selected Financial Data</u> | 15 |
| Item 7. | <u>Management’s Discussion and Analysis or Plan of Operations</u> | 15 |
| Item 7A. | <u>Quantitative and Qualitative Disclosures About Market Risk</u> | 19 |
| Item 8. | <u>Financial Statements and Supplementary Data</u> | 19 |
| Item 9. | <u>Changes in and Disagreements on Accounting and Financial Disclosure</u> | 19 |
| Item 9A. | <u>Controls and Procedures</u> | 19 |
| Item 9B. | <u>Other Information</u> | 20 |
| PART III | | |
| Item 10. | <u>Directors, Executive Officers, and Corporate Governance</u> | 21 |
| Item 11. | <u>Executive Compensation</u> | 23 |
| Item 12. | <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u> | 25 |

| | | |
|----------|--|-----|
| Item 13. | <u>Certain Relationships and Related Transactions, and Director Independence</u> | 26 |
| Item 14. | <u>Principal Accounting Fees and Services</u> | 26 |
| PART IV | | |
| Item 15. | <u>Exhibits, Financial Statement Schedules</u> | 27 |
| | <u>Signatures</u> | 28 |
| | <u>Financial Statements</u> | F-1 |

Table of Contents

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) and the Securities Act of 1933, as amended (the “Securities Act”) which are subject to risks, uncertainties and assumptions that are difficult to predict. All statements in this Annual Report on Form 10-K, other than statements of historical fact, are forward-looking statements. These forward-looking statements are made pursuant to safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The forward-looking statements include statements, among other things, concerning our business strategy, including anticipated trends and developments in and management plans for, our business and the markets in which we operate; future financial results, operating results, revenues, gross margin, operating expenses, products, projected costs and capital expenditures; research and development programs; sales and marketing initiatives; and competition. In some cases, you can identify these statements by forward-looking words, such as “estimate”, “expect”, “anticipate”, “project”, “plan”, “intend”, “believe”, “forecast”, “foresee”, “likely”, “may”, “should”, “goal”, “target”, “might”, and “continue”, the negative or plural of these words and other comparable terminology.

The forward-looking statements are only predictions based on our current expectations and our projections about future events. All forward-looking statements included in this Annual Report on Form 10-K are based upon information available to us as of the filing date of this Annual Report on Form 10-K. You should not place undue reliance on these forward-looking statements. We undertake no obligation to update any of these forward-looking statements for any reason. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance, or achievements to differ materially from those expressed or implied by these statements. These factors include the matters discussed in the section entitled “Item 1A: Risk Factors” and elsewhere in this Form 10-K. You should carefully consider the risks and uncertainties described under this section.

For further information about these and other risks, uncertainties and factors, please review the disclosure included in this report under Item 1A “Risk Factors.”

Table of Contents

PART I

Item 1. Business.

In this Report, we use the terms “Company,” “XsunX,” “we,” “us,” and “our,” unless otherwise indicated, or the context otherwise requires, to refer to XsunX, Inc.

Organization

XsunX, Inc. (“XsunX,” the “Company” or the “issuer”) is a Colorado corporation formerly known as Sun River Mining Inc. (“Sun River”). The Company was originally incorporated in Colorado on February 25, 1997. Effective September 24, 2003, the Company completed a plan of reorganization and name change to XsunX, Inc.

Business Overview

XsunX specializes in the sale, design, and installation of solar photovoltaic power generation (PV), and energy saving technologies that provide our clients long term savings, predictability, and control of their energy costs. 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 and residential solar experience necessary to service the diverse conditions that can be encountered in the design and installation of PV, and energy saving technologies. The company couples this superior design and delivery capability with factory direct pricing, and zero down financing options to provide our clients with energy solutions that can quickly pay for themselves.

Our business development objectives are to capitalize on the demand within the California commercial and residential markets for the installation of solar electric power systems. The demand, underscored in a 2015 market data report from the U.S. Solar Energy Industries Association (SEIA) indicates \$11.7 billion dollars was invested into PV system installations in California in 2014 representing a 66% increase over the previous year, and nationally capacity is forecasted to double through the addition of roughly 20,000 megawatts (MW) in the 2015-16 period with California leading the way. Helping to drive these significant solar adoption numbers are continued cost reductions, coupled with government tax and investment incentives providing significant investment incentives for consumers whom we market to in efforts to make sales.

We have historically focused our operations toward commercial rooftop solar power sales. In the second half of 2015 period we began to expand our marketing efforts to include residential sales, however an area in which we believe we can establish distinct marketing and sales advantages is through the sale and delivery of commercial solar carport systems.

While we believe that the commercial and residential rooftop solar will continue to offer sales growth opportunities, non-residential solar carport systems can, in many instances, provide us the opportunity to offer customers larger project sizing, greater electricity savings, and the ability to differentiate XsunX from competitors.

In the 2015 period we established the capabilities to design, directly source all of the major system components, and deliver solar carport systems allowing us to eliminate reliance on costly third party specialty subcontractors whom we believe the majority of our competitors rely on. This has allowed us to reduce our carport structure installation costs by approximate 35%, and the overall PV system cost by approximately 15% which, we believe, provides us with a distinct pricing advantage for solar carports within the greater Southern California markets that we serve.

Market for Solar Power

We believe that a significant demand for our 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 solar power systems have begun to produce long term statistical data. This historical performance data allows investment benefits for near and 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 PV systems allow us to provide per watt pricing that, coupled with tax and operating benefits, can often result in capital investment recovery within 3 to 4 years.

Table of Contents

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.
- **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 through our network of lenders 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 2015 fiscal period we provided proposals for systems ranging in size from 20kW to 980kW with 30kW to 200kW 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.

Table of Contents

Sales, Marketing, and Planned Operations

We have traditionally focused our sales efforts and operations on the delivery of commercial solar power systems in the California market. We believe that our focus provides us long term benefits for brand development as a commercial solar power specialist within a market that we believe to be in the early stages of growth, and poised for a broad adoption of solar power generation.

We see this as a significant business development opportunity as management has the skillset associated with construction management, the licensing qualifications necessary for us to qualify as a licensed contractor in California, we have extensive experience associated with solar PV technologies and the design requirements associated with the delivery of a commercial solar power system, and there is a market demand available for us to provide these services to. We believe that these efforts may provide us with the fastest path to increasing revenue generation, and the ability to reduce future dependency on the sale of debt or equity to fund operations.

In the second half of 2015 period we began to expand our marketing efforts to include residential sales, however an area in which we believe we can establish distinct marketing and sales advantages is through the sale and delivery of commercial solar carport systems.

While we believe that the commercial and residential rooftop solar will continue to offer sales growth opportunities, non-residential solar carport systems can, in many instances, provide us the opportunity to offer customers larger project sizing, greater electricity savings, and the ability to differentiate XsunX from competitors.

In the 2015 period we established the capabilities to design, directly source all of the major system components, and deliver solar carport systems allowing us to eliminate reliance on costly third party specialty subcontractors whom we believe the majority of our competitors rely on. This has allowed us to reduce our carport structure installation costs by approximate 35%, and the overall PV system cost by approximately 15% which, we believe, provides us with a distinct pricing advantage for solar carports within the greater Southern California markets that we serve.

We plan to market the advantages we have developed through efforts that include advertising, direct outside sales, targeted direct marketing, commissioned consultants, and the referral of satisfied customers.

Solar System Operations and Supply

We purchase major components such as solar panels, inverters, and solar module mounting hardware directly from manufacturers and supply houses. When possible, we have establish direct factory purchasing relationships. We have selected these suppliers and components based on cost, reliability, warranty coverage, ease of installation, application design and suitability, and technology advantages.

Additionally, to compete favorably we have establish relationships with lenders through which we can introduce financing options for the systems we design and install. These financing options provide an alternative cash management solution for our target customers, and a sales inducement to purchase systems.

For the foreseeable future we anticipate that we will purchase the system components for each project on an as-needed basis from suppliers at the then-prevailing prices pursuant to purchase orders issued. Due to the volatility of component pricing we do not anticipate any supplier arrangements that will contain long-term pricing or volume commitments. Should our sales results, volume, and market conditions warrant we may in the future elect to make purchase commitments to ensure sufficient supply and reduced pricing of the components that we use.

Our operations focus is to provide complete solar power project design, management of engineering, facility preparation, installation of systems, repair or restoration to all affected areas resulting from the installation process, and any ongoing maintenance agreements as may be sold. To accomplish this we use the services of licensed service professionals in each of the representative trades or specialties necessary. Additionally, we provide qualified staff to supervise project operations, inspections, and system start up and energizing. In the 2016 fiscal period we anticipate that the addition of direct delivery of solar carport systems may allow our sales to increase, and we plan to expand our direct project management capabilities through the addition of qualified field supervisory and engineering staff.

CIGSolar® Thin Film Operations

Prior to the start of our commercial solar power sales operations we had, through September 2013, devoted the majority of our resources to the development of a low cost solution for the manufacture of Copper Indium Gallium Selenide (CIGS) thin film solar cells which we call CIGSolar®. Our target market and customer for this technology are manufacturers who produce solar cells and assemble solar modules.

Table of Contents

During the 2012 and 2013 periods all manufacturers of thin film solar technologies experienced a significant erosion of any cost advantages that their technologies may have provided relative to the use of silicon technologies. As a result of the rapid and unprecedented cost reductions to the use of silicon technologies, the thin film industry has experienced a significant reduction to the number of companies that produce, or intended to produce, thin film solar products in the 2014 and 2015 periods as compared to earlier periods. Silicon solar modules are anticipated to remain the dominant technology and increase market share in 2016 while thin film technology production is anticipated to continue to lose market share.

In response to these continuing trends we do not plan to devote resources towards additional testing, calibration, or enhancements to our thin film technologies.

Competition

We believe that our primary competitors are traditional utilities who have a well-established relationship with our target customers, and provide the ease of a status quo relationship without upfront investment costs. To compete with these traditional utilities our products and services must present compelling financial incentives to induce customers to make initial investments that, prior to the application of investment incentives, may equal 8 to 10 years of typical incremental traditional utility service costs.

Helping to accelerate the capital recovery timelines, and the attractiveness of purchasing our systems, are City, State, and Federal government based installation and tax incentives. Additionally, net energy metering (NEM) programs provide customers the ability to receive credits from their respective utility for the production of solar power that at times may be unused and sent into the utility network. Together these programs often help to accelerate capital recovery timelines for customers to within 3 to 5 years.

To compete with a traditional utility we present customers with compelling differentiating benefits to support commercial solar power investment decisions. These include lifecycle investment rate of returns that can exceed 30%, long term control and predictability of energy costs, reductions to facility operating costs, increased property or business re-sale value, turn-key system installation, the management of available utility incentives, and the ability to view all aspects of electrical power usage to further improve operational efficiencies. Based on these factors we believe that we compete favorably with traditional utilities in the regions we service.

We also compete with companies that provide products and services in other segments of the solar energy and energy-related products value chain. To expand our sales and revenue options, and to improve our competitive position, we plan to offer customers more options that we anticipate will include energy storage systems, energy efficiency consultations, and additional energy-related products and services.

In the 2015 period we established the capabilities to design, directly source all of the major system components, and deliver solar carport systems allowing us to eliminate reliance on costly third party specialty subcontractors whom we believe the majority of our competitors rely on. This has allowed us to reduce our carport structure installation costs by approximate 35%, and the overall PV system cost by approximately 15% which, we believe, provides us with a distinct pricing advantage for solar carports within the greater Southern California markets that we serve.

Our plan for operations is to offer customers distinct practical benefits as an all-in-one provider. However, we cannot assure that we will be able to compete successfully in the solar power industry, or that future competition will not have a material adverse effect on our business, operating results, and financial condition.

Intellectual Property

The following is an outline of certain patents and technologies we have developed, attempted to develop, have acquired, or licensed:

The Company has previously worked to develop a hybrid manufacturing solution to produce high performance Copper Indium Gallium (di) Selenide (CIGS) thin film solar cells. Our technology, which we call CIGSolar®, focuses on the mass production of individual thin-film CIGS solar cells that match silicon solar cell dimensions and could offered as a non-toxic, high-efficiency and lowest-cost alternative to the use of silicon solar cells.

In April 2012 we filed claims related to our thermal effusion source design. In October 2014 we received a Restriction Requirement from the United States Patent and Trademark Office that reports the results of the initial examination of the patent application. The examination by the USPTO asserts that the application is directed to two distinct inventions and has issued a restriction requirement. The term “restriction” is applied where the Examiner believes that two (2) or more inventions are separately claimed in the same patent application. Thus, by issuing the restriction requirement, the Examiner is asserting that our application covers more than one invention.

Table of Contents

After completing a review of options related to modifying our patent application, and the limited market conditions related to the demand for thin film technologies, we elected to abandon our claims. We do not anticipate any further efforts related to filing or pursuing patent claims related to our prior thin film CIGS efforts.

In September 2003, the Company was assigned the rights to three patents as part of an Asset Purchase Agreement with Xoptix Inc., a California corporation. The patents acquired were No. 6,180,871 for Transparent Solar Cell and Method of Fabrication (Device), granted on January 30, 2001; No. 6,320,117 for Transparent Solar Cell and Method of Fabrication (Method of Fabrication), granted on November 20, 2001; and No. 6,509,204 for Transparent Solar Cell and Method of Fabrication (formed with a Schottky barrier diode and method of its manufacture), granted on January 21, 2003. We do not currently employ nor envision the use of the above named patents in the development or commercialization of our CIGSolar® technology. Because of technological and business developments within the solar industry, we believe that these patents no longer provide business opportunities for the Company to pursue.

On July 10, 2012, the United States Patent and Trademark Office issued a certificate of registration No. 4,172,218 granting the Company a trademark for the use of “CIGSolar”.

We rely on trademark and copyright law, trade secret protection and confidentiality or license agreements with our employees, customers, partners and others to protect our proprietary rights. We have not been subject to any intellectual property claims.

Company History

XsunX is a Colorado corporation formerly known as Sun River Mining Inc. (“Sun River”). The Company was originally incorporated in Colorado on February 25, 1997. Effective September 24, 2003, the Company completed a Plan of Reorganization and Asset Purchase Agreement (the “Plan”).

Pursuant to the Plan, the Company acquired the following three patents from Xoptix, Inc., a California corporation for Seventy Million (70,000,000) shares of common stock (post reverse split one for twenty): No. 6,180,871 for Transparent Solar Cell and Method of Fabrication (Device), granted on January 30, 2001; No. 6,320,117 for Transparent Solar Cell and Method of Fabrication (Method of Fabrication), granted on November 20, 2001; and No. 6,509,204 for Transparent Solar Cell and Method of Fabrication (formed with a Schottky barrier diode and method of its manufacture), granted on January 21, 2003.

Pursuant to the Plan, the Company authorized the issuance of 110,530,000 (post reverse split) common shares. Prior to the Plan, the Company had no tangible assets and insignificant liabilities. Subsequent to the Plan, the Company completed its name change from Sun River Mining, Inc. to XsunX, Inc. The transaction was completed on September 30, 2003.

Government Contracts

There are no government contracts as of the fiscal year ended September 30, 2015.

Compliance with Environmental Laws and Regulations

The operations of the Company are subject to local, state and federal laws and regulations governing environmental quality and pollution control. Compliance with these regulations by the Company has required that, when necessary, we retain the use of consulting firms to assist in the engineering and design of systems related to equipment operations, management of industrial gas storage and delivery systems, and occupancy fire and safety construction standards to deal with emergency conditions. We do not anticipate that these costs will have a material effect on the

Company's operations or competitive position, and the cost of such compliance has not been material to date. The Company is unable to assess or predict at this time what effect additional regulations or legislation could have on its activities.

Employees and Consultants

As of the fiscal year ended September 30, 2015, we had three full-time employees including Mr. Tom Djokovich who is President and CEO. While we do add to, and reduce, the size of our workforce based on current needs this represents no full-time employee change to the same period ended 2014. To compensate our need for additional staff the Company also relies on qualified consultants and licensed professionals to perform specific functions that otherwise would require an employee. As we continue to expand our business developments efforts we may need to add staff to adequately respond to sales inquiries, project management, and general labor as warranted. We consider relations with our employees and consultants to be good.

Seasonality

Our operations can experience some seasonality with increased demand early and later in in each year.

Table of Contents

Available Information

Our website address is www.xsunx.com. We make available on our website access to our Annual Report on Form 10-K, quarterly reports on Form 10-Q, and amendments to these reports that we have filed with the U.S. Securities and Exchange Commission ("SEC"). The information found on our website is not part of this or any other report we file with, or furnish to, the SEC.

Item 1A. Risk Factors

An investment in our common stock involves a high degree of risk. You should carefully consider the following risk factors, as well as the other information in this Annual Report on Form 10-K, in evaluating XsunX and our business. If any of the following risks occur, our business, financial condition and results of operations could be materially and adversely affected. Accordingly, the trading price of our common stock could decline and you may lose all or part of your investment in our common stock. The risks and uncertainties described below are not the only ones we face. Additional risks that we currently do not know about or that we currently believe to be immaterial may also impair our business operations.

We Have Not Generated Significant Revenues and Our Financial Statements Raise Substantial Doubt About Our Ability to Continue As A Going Concern.

We are in the early stages of executing our plans to grow our business through the sale, design, installation, and servicing of commercial solar power systems and, to date, have not generated any significant revenues. The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate our continuation as a going concern. Net loss for the years ended September 30, 2015 and 2014 was \$(1,320,648) and \$(1,949,887), respectively. Net cash used for operations was \$(207,068) and \$(368,368) for the years ended September 30, 2015 and 2014, respectively. At September 30, 2015, we had a working capital deficit of \$(884,516). We had an accumulated deficit at September 30, 2015 and 2014 of \$(42,385,570) and \$(41,064,922), respectively.

The items discussed above and herein raise substantial doubt about our ability to continue as a going concern. We cannot assure you that we can achieve or sustain profitability in the future. Our operations are subject to the risks and competition inherent in the establishment of a business enterprise. There can be no assurance that future operations will be profitable. Revenues and profits, if any, will depend upon various factors, including whether our product development can be completed, whether our products will achieve market acceptance and whether we obtain additional financing. We may not achieve our business objectives and the failure to achieve such goals would have a materially adverse impact on us.

We expect that we will need to obtain additional financing to continue to operate our business, including expenditures to expand operations for the sales, design, and installation of solar PV systems, and, should we elect to complete the development of marketable thin film manufacturing technologies. This financing may be unavailable or available only on disadvantageous terms which could cause the use to curtail our business operations and delay the execution of our business plan.

We have in the past experienced substantial losses and negative cash flow from operations and have required financing, including equity and debt financing, in order to pursue the commercialization of products based on our technologies. We expect that we will continue to need significant financing to operate our business. Furthermore, there can be no assurance that additional financing will be available or that the terms of such additional financing, if available, will be acceptable to us. If additional financing is not available or not available on terms acceptable to us, our ability to fund our operations, successfully expand operations to include the sales, design, and installation of solar

PV systems, complete the sales or development of marketable technologies, products, or services, develop a sales network, or otherwise respond to competitive pressures may be significantly impaired. We could also be forced to curtail our business operations, reduce our investments, decrease or eliminate capital expenditures and delay the execution of any portion or all of our business plans, including, without limitation, all aspects of our operations, which would have a material adverse effect on our business.

We may be required to raise additional financing by issuing new securities with terms or rights superior to those of our shares of common stock, which could adversely affect the market price of our shares of common stock and our business.

We will require additional financing to fund future operations, including expansion in current and new markets, development and acquisition, capital costs and the costs of any necessary implementation of technological innovations or alternative technologies. We may not be able to obtain financing on favorable terms, if at all. If we raise additional funds by issuing equity securities, the percentage ownership of our current stockholders will be reduced, and the holders of the new equity securities may have rights superior to those of the holders of shares of common stock, which could adversely affect the market price and the voting power of shares of our common stock. If we raise additional funds by issuing debt securities, which we have relied on significantly during the year ended September 30, 2015, the holders of these debt securities could have some rights senior to those of the holders of shares of common stock, and the terms of these debt securities could impose restrictions on operations and create a significant interest and derivative expenses for us which could have a materially adverse effect on our business.

Table of Contents

As we continue to expand our business development efforts within the solar PV system sales, design, and installation market existing electric utility industry regulations, and changes to regulations, may present technical, regulatory and economic barriers to the purchase and use of solar energy systems that may significantly reduce demand for the solar energy systems we design and market.

Federal, state and local government regulations and policies concerning the electric utility industry, and internal policies and regulations promulgated by electric utilities, heavily influence the market for electricity generation products and services. These regulations and policies often relate to electricity pricing and the interconnection of customer-owned electricity generation. In the United States, governments and utilities continuously modify these regulations and policies. These regulations and policies could deter customers from purchasing renewable energy, including solar energy systems. This could result in a significant reduction in the potential demand for our solar energy systems. For example, utilities commonly charge fees to larger, industrial customers for disconnecting from the electric grid or for having the capacity to use power from the electric grid for back-up purposes. These fees could increase our target customers' cost to use our systems and make them less desirable, thereby harming our future business, prospects, financial condition and results of operations.

In addition, any changes to government or internal utility regulations and policies that favor electric utilities could reduce our competitiveness and cause a significant reduction in demand for our products and services. For example, certain jurisdictions have proposed imposing a new charge that would disproportionately impact solar energy system customers who utilize net metering, either of which would increase the cost of energy to those customers and could reduce demand for our solar energy systems. Any similar government or utility policies adopted in the future could reduce demand for our products and services and adversely impact our growth.

We rely on net metering and related policies to offer competitive pricing to our target customers in our key market of California.

California has a regulatory policy known as net energy metering, or net metering. Net metering typically allows our target customers to interconnect their on-site solar energy systems to the utility grid and offset their utility electricity purchases by receiving a bill credit at the utility's retail rate for energy generated by their solar energy system in excess of electric load that is exported to the grid. At the end of the billing period, the customer simply pays for the net energy used or receives a credit at the retail rate if more energy is produced than consumed. Our ability to sell solar energy systems or the benefits of the electricity they generate may be adversely impacted by the failure to expand existing limits on the amount of net metering, or the imposition of new charges that only or disproportionately impact customers that utilize net metering. Our ability to sell solar energy systems or the benefits of the electricity they generate may also be adversely impacted by the unavailability of expedited or simplified interconnection for grid-tied solar energy systems or any limitation on the number of customer interconnections or amount of solar energy that utilities are required to allow in their service territory or some part of the grid.

Limits on net metering, interconnection of solar energy systems and other operational policies in our key market could limit the number of solar energy systems installed there. For example, California utilities are currently required to provide net metering to their customers until the total generating capacity of net metered systems exceeds 5% of the utilities' "aggregate customer peak demand." This cap on net metering in California was increased to 5% in 2010 as utilities neared the prior cap of 2.5%. New California legislation passed in October 2013 establishes a process and timeline for developing a new program with no participation cap that would apply after the current cap of 5% is reached. If the current net metering caps in California, or other jurisdictions, are reached, or if the amounts of credit that customers receive for net metering are significantly reduced, our target customers will be unable to recognize the current cost savings associated with net metering. We anticipate that we will substantially rely on net metering to establish competitive pricing for our solar PV system sales with our prospective customers. The absence of net metering for customer acquisition would greatly limit demand and our ability to effectively market our solar energy

system benefits.

As we continue to expand our business development efforts within the solar PV system sales, design, and installation market these business operations will depend on the availability of rebates, tax credits and other financial incentives. The expiration, elimination or reduction of these rebates, credits and incentives would adversely impact our planned business expansion.

U.S. federal, state and local government bodies provide incentives to end users, distributors, system integrators and manufacturers of solar energy systems to promote solar electricity in the form of rebates, tax credits and other financial incentives such as system performance payments and payments for renewable energy credits associated with renewable energy generation. We will rely on these governmental rebates, tax credits and other financial incentives to market the low cost operating and investment benefits of solar PV systems to our target customers. However, these incentives may expire on a particular date, end when the allocated funding is exhausted, or be reduced or terminated as solar energy adoption rates increase. Certain reductions or terminations could occur without warning.

The federal government currently offers a 30% investment tax credit under Section 48(a)(3) of the Internal Revenue Code, or the Federal ITC, for the installation of certain solar power facilities until December 31, 2016. This credit is due to adjust to 10% in 2017. Reductions in, or eliminations or expirations of, governmental incentives could adversely impact our future results of operations and our ability to offer solar PV systems as a competitive alternative to utility provided electricity.

Table of Contents

A material drop in the retail price of utility-generated electricity or electricity from other sources would harm our business development efforts for the sale of solar PV systems and cause a material adverse effect to our future financial condition and results of operations.

Our target customer's decision to invest in renewable energy through us will be primarily driven by their desire to pay less for electricity. The customer's decision may also be affected by the cost of other renewable energy sources. Decreases in the retail prices of electricity from the utilities or from other renewable energy sources would harm our ability to offer competitive alternatives and could harm our business. The price of electricity from utilities could decrease as a result of any number of market conditions including:

- the construction of a significant number of new power generation plants, including nuclear, coal, natural gas or renewable energy technologies, and;
- a reduction in the price of natural gas as a result of new drilling techniques or a relaxation of associated regulatory standards;

A reduction in utility electricity prices would make the investment by our target customers into the solar PV systems that we design and install less economically attractive. In addition, a shift in the timing of peak rates for utility-generated electricity to a time of day when solar energy generation is less efficient could make our solar energy system offerings less competitive and reduce demand for our products and services. If the retail price of energy available from utilities were to decrease due to any of these reasons, or others, we would be at a competitive disadvantage, we may be unable to attract customers and our growth would be limited.

A material drop in the retail price of utility-generated electricity would particularly adversely impact our ability to attract commercial customers which represent our target customer base.

We anticipate that commercial customers will comprise a significant portion of our business, and the commercial market for energy is particularly sensitive to price changes. Typically, commercial customers pay less for energy from utilities than residential customers. Any future decline in the retail rate of energy for commercial entities could have a significant impact on our ability to attract commercial customers. We may be unable to offer solar energy systems for the commercial market that produce electricity at rates that are competitive with the price of retail electricity on a non-subsidized basis. If this were to occur, we would be at a competitive disadvantage to other energy providers and may be unable to attract new commercial customers, and our future business operations would be harmed.

Rising interest rates could adversely impact all aspects of current and planned business operations.

Changes in interest rates could have an adverse impact on our business by increasing the cost of capital for our target customers. For example rising interest rates may negatively impact our ability to provide financing sources on favorable terms to facilitate our customers' purchase of our solar PV systems.

As we continue to expand our business development efforts within the solar PV system sales, design, and installation market we will act as the licensed general contractor for our customers and will be subject to risks associated with construction, cost overruns, delays, regulatory compliance and other contingencies, any of which could have a material adverse effect on our business and results of operations.

We intend to and are required to operate as a licensed contractor in every region we intend to service, and we will be responsible for every customer installation. For our commercial solar PV system projects, we intend to be the general contractor and construction manager, and we will typically rely on licensed subcontractors representing specialty trades such as electrical, roofing, and carpentry to install the commercial systems we sell. We may be liable to

customers for any damage we cause to their facility, belongings or property during the installation of our systems. In addition, any shortages that may occur of skilled subcontractor labor for our commercial projects could significantly delay a project or otherwise increase our costs. Because our profit on a particular installation will be based in part on assumptions as to the cost of such project, cost overruns, delays or other execution issues may cause us to not achieve our expected margins or cover our costs for that project.

In addition, the installation of solar energy systems and the evaluation and modification of buildings that may be necessary as part of our business is subject to oversight and regulation in accordance with national, state and local laws and ordinances relating to building codes, safety, environmental protection, utility interconnection and metering, and related matters. Any new government regulations or utility policies pertaining to the systems we design and install may result in significant additional expenses to us and our future customers and, as a result, could cause a significant reduction in demand for our systems and services.

Table of Contents

Compliance with occupational safety and health requirements and best practices can be costly, and noncompliance with such requirements may result in potentially significant monetary penalties, operational delays and adverse publicity.

The installation of solar energy systems will require our employees and any subcontractors that we engage to work at heights with complicated and potentially dangerous electrical systems. The evaluation and modification of buildings that may be necessary as part of our business may require our employees to work in locations that may contain potentially dangerous levels of asbestos, lead or mold. Our operations are subject to regulation under the U.S. Occupational Safety and Health Act, or OSHA, and equivalent state laws. Changes to OSHA requirements, or stricter interpretation or enforcement of existing laws or regulations, could result in increased costs. If we fail to comply with applicable OSHA regulations, even if no work-related serious injury or death occurs, we may be subject to civil or criminal enforcement and be required to pay substantial penalties, incur significant capital expenditures, or suspend or limit operations.

As we continue to expand our business development efforts within the solar PV system sales, design, and installation market future problems with product quality or performance may cause us to incur warranty expenses, and may damage our market reputation and cause our financial results to decline.

Customers in our target market of California who purchase solar energy systems are covered by a warranty of up to 10 years in duration for material defects and workmanship. In addition, we provide a pass-through of the major components such as module mounting, inverter and solar panel manufacturers' warranties to our customers, which generally range from 10 to 25 years. We may also make extended warranties available at an additional cost to customers.

As we continue to expand our business development efforts within the solar PV system installation market we may be required to make assumptions and apply judgments regarding a number of factors, including our anticipated rate of warranty claims, and the durability, performance and reliability of the components employed in the assembly of solar energy systems. The Company has a limited history of project installations and will access potential warranty costs, and other allowances, based on our experience in servicing warranty claims as they may arise in the future.

If products and technologies that we market or products based on technologies we are developing cannot be developed for manufacture and sold commercially or our products or the products we market become obsolete or noncompetitive, we may be unable to recover our investments or achieve profitability which will have a materially adverse effect on our business.

There can be no assurance that any of the products that we will market that comprise the solar PV systems we intend to offer will gain or maintain market acceptance, or our research and development efforts will be successful or that we will be able to develop commercial applications for our products and technologies. Further, the areas in which we have developed technologies and products are characterized by rapid and significant technological change. Rapid technological development may result in our products becoming obsolete or noncompetitive. If products based on our technologies cannot be developed for manufacture and sold commercially or our products become obsolete or noncompetitive, we may be unable to recover our investments or achieve profitability. In addition, any commercialization schedule may be delayed if we experience delays in meeting development goals, if products based on our technologies exhibit technical defects, or if we are unable to meet cost or performance goals. In this event, potential purchasers of products based on our technologies may choose alternative technologies and any delays could allow potential competitors to gain market advantages.

There is no assurance that the market will accept the products that we offer or have developed once development has been completed which could have an adverse effect on our business.

There can be no assurance that products we market or products based on technologies that we may develop will be perceived as being superior to existing products or new products offered or being developed by competing companies or that such products will otherwise be accepted by consumers. The market prices for products based on our technologies may exceed the prices of competitive products based on existing technologies or new products based on technologies currently under development by competitors. There can be no assurance that the prices of products based on our technologies, or the technologies of others that we market will be perceived by consumers as cost-effective or that the prices of such products will be competitive with existing products or with other new products or technologies. If consumers do not accept products based on our technologies, we may be unable to recover our investments or achieve profitability.

There is no assurance that the market will accept our continued efforts to offer design, engineering, and installation services for solar electric PV systems which could have an adverse effect on our business.

The market for sales and installation of solar electric PV systems is highly competitive with limited barriers to entry by potential competitors. There can be no assurance that the products and services we will offer will be perceived as being superior or a better value to other similar products and services offered by competing companies or that such products will otherwise be accepted by consumers. If consumers do not accept our design, engineering, and installations services at the pricing we offer we may be unable to recover our investments, make sales of any significance, or achieve profitability.

Table of Contents

Other companies, many of which have greater resources than we have, may develop or offer competing products or technologies which cause products based on our technologies or the technologies we market to become noncompetitive which could have an adverse effect on our business.

We have and will continue to compete with firms, both domestic and foreign, that perform research and development, as well as firms that manufacture, sell, or install solar products. In addition, we expect additional potential competitors to enter the markets for solar products and installation services in the future. Some of these competitors are large companies with longer operating histories, greater name recognition, access to larger customer bases, well-established business organizations and product lines and significantly greater resources and research and development staff and facilities. There can be no assurance that one or more such companies will not succeed in developing technologies or products that will become available for commercial sale prior to our products, that will have performance superior to products based on our technologies or that would otherwise render our products noncompetitive. If we fail to compete successfully, our business would suffer and we may lose or be unable to gain market share.

There continues to be a few thin film companies that produce thin film solar products such as First Solar and Solar Frontier, and a limited number of others, compared to previous periods, are currently working to develop and commercialize thin film manufacturing methods. Given the benefit of time, investment, and advances in manufacturing technologies any of these competing technologies may achieve manufacturing costs per watt lower than cost per watt to manufacture technologies developed by us. However, while these risks do exist the Company believes that the more prevalent and greater risk posing both the Company, and the thin film market, will continue to be further and prolonged market price reductions from manufacturers of silicon solar technologies. The majority of the companies within the silicon industry have greater resources to devote to research, development, manufacturing and marketing than we do.

The loss of strategic relationships used in provisioning the products that comprise the solar PV systems that we intend to offer, and strategic relationships used in any future development of our thin film manufacturing technologies and products could impede our ability to offer competitive solar PV system products or further the development of our products and have a material adverse effect on our business.

We have established a plan of operations under which a significant portion of our operations will rely on strategic relationships with third parties to provide materials and components necessary for the assembly of solar PV systems, systems design, assembly and support, and any future development of our thin film technologies. A loss of any of our third party relationships for any reason could cause us to experience difficulties in implementing our business strategy. There can be no assurance that we could establish other relationships of adequate expertise in a timely manner or at all.

We may suffer the loss of key personnel or may be unable to attract and retain qualified personnel to maintain and expand our business which could have a material adverse effect on our business.

Our success is highly dependent on the continued services of a limited number of skilled managers, technicians, and access to qualified consultants and licensed subcontractors. The loss of any of these individuals or resources will have a material adverse effect on us. In addition, our success will depend upon, among other factors, the recruitment and retention of additional highly skilled and experienced management and technical personnel. There can be no assurance that we will be able to retain existing employees or to attract and retain additional personnel on acceptable terms given the competition for such personnel in industrial, academic and nonprofit research sectors.

We may not be successful in protecting our intellectual property and proprietary rights and may be required to expend significant amounts of money and time in attempting to protect these rights. If we are unable to protect our intellectual property and proprietary rights, our competitive position in the market could suffer.

Our current intellectual property consists of trade secrets, and trade dress. Our success depends in part on our ability to create and maintain intellectual property to differentiate our services, how we provision our services, the ability to obtain patents as either business processes or technology development mature, and maintain adequate protection of our other intellectual property for our technologies and products in the U.S. and in other countries. The laws of some foreign countries do not protect proprietary rights to the same extent as do the laws of the U.S., and many companies have encountered significant problems in protecting their proprietary rights in these foreign countries. These problems may be caused by, among other factors, a lack of rules and methods for defending intellectual property rights. Also, the costs associated with the development of intellectual property rights can be significant and we may not be able to pursue rights initially in any region that we operate in and that may pose competitive challenges to us.

Our future commercial success may require us not to infringe on patents and proprietary rights of third parties, or breach any licenses or other agreements that we have entered into with respect to the products that we market, our technologies, products and businesses. The enforceability of patent positions cannot be predicted with certainty. We have in the past applied for patents covering certain aspects of the technology we have developed and we may elect to file additional patents, if any, as we deem appropriate. Patents, if issued, may be challenged, invalidated or circumvented. There can be no assurance that no other relevant patents have been issued that could block our ability to obtain patents or to operate as we would like. Others may develop similar technologies or may duplicate technologies developed by us.

Table of Contents

We are not currently a party to any litigation with respect to any of our patent positions or trade secrets. However, if we become involved in litigation or interference proceedings declared by the United States Patent and Trademark Office, or other intellectual property proceedings outside of the U.S., we might have to spend significant amounts of money to defend our intellectual property rights. If any of our competitors file patent applications or obtain patents that claim inventions or other rights also claimed by us, we may have to participate in interference proceedings declared by the relevant patent regulatory agency to determine priority of invention and our right to a patent of these inventions in the U.S. Even if the outcome is favorable, such proceedings might result in substantial costs to us, including, significant legal fees and other expenses, diversion of management time and disruption of our business. Even if successful on priority grounds, an interference proceeding may result in loss of claims based on patentability grounds raised in the interference proceeding. Uncertainties resulting from initiation and continuation of any patent or related litigation also might harm our ability to continue our research or to bring products to market.

An adverse ruling arising out of any intellectual property dispute, including an adverse decision as to the priority of our inventions would undercut or invalidate our intellectual property position. An adverse ruling also could subject us to significant liability for damages, prevent us from using certain processes or products, or require us to enter into royalty or licensing agreements with third parties. Furthermore, necessary licenses may not be available to us on satisfactory terms, or at all.

Confidentiality agreements with employees and others may not adequately prevent disclosure of trade secrets and other proprietary information.

To protect our proprietary business methods, technologies and processes, we rely on trade secret protection and we have also sought formal legal devices such as patents. Although we have taken security measures to protect our trade secrets and other proprietary information, these measures may not provide adequate protection for such information. Our policy is to execute confidentiality and proprietary information agreements with each of our employees and consultants upon the commencement of an employment or consulting arrangement with us. These agreements generally require that all confidential information developed by the individual or made known to the individual by us during the course of the individual's relationship with us be kept confidential and not be disclosed to third parties. These agreements also generally provide that technology conceived by the individual in the course of rendering services to us shall be our exclusive property. Even though these agreements are in place there can be no assurances that that trade secrets and proprietary information will not be disclosed, that others will not independently develop substantially equivalent proprietary information and techniques or otherwise gain access to our trade secrets, or that we can fully protect our trade secrets and proprietary information. Violations by others of our confidentiality agreements and the loss of employees who have specialized knowledge and expertise could harm our competitive position and cause our sales and operating results to decline as a result of increased competition. Costly and time-consuming litigation might be necessary to enforce and determine the scope of our proprietary rights, and failure to obtain or maintain trade secret protection might adversely affect our ability to continue our research or bring products to market.

Downturns in general economic conditions could adversely affect our ability to attract customers and our potential for future profitability.

Downturns in general economic conditions can cause fluctuations in demand for any products we may offer, product prices, volumes and margins. Economic conditions may at any time not be favorable to our industry. A decline in the demand for our products and services or a shift to lower-margin products due to deteriorating economic conditions could adversely affect sales of our intended products and our profitability and could also result in impairments of certain of our assets.

Standards for compliance with section 404 of The Sarbanes-Oxley Act Of 2002 are subject to change, and if we fail to comply in a timely manner, our business could be harmed and our stock price could decline.

This annual report does not include an attestation report of the company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report. The standards that must be met for management to assess the internal control over financial reporting as effective are new and complex, and require significant documentation, testing and possible remediation to meet the detailed standards and will impose significant additional expenses on us. We may encounter problems or delays in completing activities necessary to make an assessment of our internal control over financial reporting. If we cannot assess our internal control over financial reporting as effective, investor confidence and share value may be negatively impacted.

Table of Contents

Our common stock is considered a “Penny Stock” and as a result, related broker-dealer requirements affect its trading and liquidity.

Our common stock is considered to be a “penny stock” since it meets one or more of the definitions in Rules 15g-2 through 15g-6 promulgated under Section 15(g) of the Exchange Act. These include but are not limited to the following: (i) the common stock trades at a price less than \$5.00 per share; (ii) the common stock is not traded on a “recognized” national exchange; (iii) the common stock is not quoted on the NASDAQ Stock Market, or (iv) the common stock is issued by a company with average revenues of less than \$6.0 million for the past three (3) years. The principal result or effect of being designated a “penny stock” is that securities broker-dealers cannot recommend our Common Stock to investors, thus hampering its liquidity.

Section 15(g) and Rule 15g-2 require broker-dealers dealing in penny stocks to provide potential investors with documentation disclosing the risks of penny stocks and to obtain a manually signed and dated written receipt of the documents before effecting any transaction in a penny stock for the investor’s account. Potential investors in our Common Stock are urged to obtain and read such disclosure carefully before purchasing any of our shares.

Moreover, Rule 15g-9 requires broker-dealers in penny stocks to approve the account of any investor for transactions in such stocks before selling any penny stock to that investor. This procedure requires the broker-dealer to (i) obtain from the investor information concerning his or her financial situation, investment experience and investment objectives; (ii) reasonably determine, based on that information, that transactions in penny stocks are suitable for the investor and that the investor has sufficient knowledge and experience as to be reasonably capable of evaluating the risks of penny stock transactions; (iii) provide the investor with a written statement setting forth the basis on which the broker-dealer made the determination in (ii) above; and (iv) receive a signed and dated copy of such statement from the investor, confirming that it accurately reflects the investor’s financial situation, investment experience and investment objectives.

The trading market in our common stock is limited and may cause volatility in the market price.

Our common stock is currently traded on a limited basis on the OTC. The OTC is an inter-dealer, over-the-counter market that provides significantly less liquidity than the NASDAQ Stock Market and the other national markets. Quotes for stocks included on the OTC are not listed in the financial sections of newspapers as are those for the NASDAQ Stock Market. Therefore, prices for securities traded solely on the OTC may be difficult to obtain.

The quotation of our common stock on the OTC does not assure that a meaningful, consistent and liquid trading market currently exists, and in recent years such market has experienced extreme price and volume fluctuations that have particularly affected the market prices of many smaller companies like us. Thus, the market price for our common stock is subject to volatility and holders of common stock may be unable to resell their shares at or near their original purchase price or at any price. In the absence of an active trading market:

- investors may have difficulty buying and selling or obtaining market quotations;
- market visibility for our common stock may be limited; and
- a lack of visibility for our common stock may have a depressive effect on the market for our common stock.

Due to the low price of the securities, many brokerage firms may not be willing to effect transactions in the securities. Even if a purchaser finds a broker willing to effect a transaction in these securities, the combination of brokerage commissions, state transfer taxes, if any, and any other selling costs may exceed the selling price. Further, many

lending institutions will not permit the use of such securities as collateral for any loans. Such restrictions could have a materially adverse effect on our business.

We may have difficulty raising necessary capital to fund operations as a result of market price volatility for our shares of common stock.

The market price of our common stock is likely to be highly volatile and could fluctuate widely in price in response to various factors, many of which are beyond our control, including:

- technological innovations or new products and services by us or our competitors;
- additions or departures of key personnel;
- sales of our common stock;
- our ability to integrate operations, technology, products and services;

Table of Contents

- our ability to execute our business plan;
- operating results below expectations;
- loss of any strategic relationship;
- industry developments;
- economic and other external factors; and
- period-to-period fluctuations in our financial results.

Because we have a limited operating history with limited revenues to date, you may consider any one of these factors to be material. Our stock price may fluctuate widely as a result of any of the above listed factors. In recent years, the securities markets in the United States have experienced a high level of price and volume volatility, and the market price of securities of many companies have experienced wide fluctuations that have not necessarily been related to the operations, performances, underlying asset values or prospects of such companies. For these reasons, our shares of common stock can also be expected to be subject to volatility resulting from purely market forces over which we will have no control. If our business development plans are successful, we will require additional financing to continue to develop and exploit existing and new technologies and to expand into new markets. The exploitation of our technologies may, therefore, be dependent upon our ability to obtain financing through debt, equity or other means.

Item 1B. Unresolved Staff Comments

As of the date of this Annual Report on Form 10-K, there are no unresolved staff comments regarding our previously filed periodic or current reports under the Securities Exchange Act of 1934, as amended.

Item 2. Properties

California Corporate Office Lease

At September 30, 2015 the Company leased corporate facilities located in Aliso Viejo, CA. The lease for the Aliso Viejo location is month to month at a rate of \$200 per month. The Company may expand into larger facilities to support expanding operations in the 2016 fiscal period.

The Company owns no real property.

Item 3. Legal Proceedings

In the conduct of our business, we may become involved in various lawsuits and legal proceedings, which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. We are currently not aware of any such legal proceedings or claims that we believe will have, individually or in the aggregate, a material adverse effect on our business.

Item 4. Mining and Safety Disclosures

Not applicable

Table of Contents

PART II

Item 5. Market for Registrant’s Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities

Price Range of Common Stock

The Company’s common stock trades on the OTC Market under the symbol “XSUNX”. The range of high, low and close quotations for the Company’s common stock by fiscal quarter within the last two fiscal years, as reported by the OTC Markets, was as follows:

| Year Ended September 30, 2015 | High | Low | Close |
|--|--------|--------|--------|
| First Quarter ended December 31, 2014 | 0.009 | 0.0047 | 0.0051 |
| Second Quarter ended March 31, 2015 | 0.029 | 0.0051 | 0.0125 |
| Third Quarter ended June 30, 2015 | 0.014 | 0.0090 | 0.0109 |
| Fourth Quarter ended September 30, 2015 | 0.011 | 0.0061 | 0.0082 |
| Year Ended September 30, 2014 | | | |
| First Quarter ended December 31, 2013 | 0.0290 | 0.0035 | 0.0095 |
| Second Quarter ended March 31, 2014 | 0.0182 | 0.0090 | 0.0143 |
| Third Quarter ended June 30, 2014 | 0.0146 | 0.0085 | 0.0110 |
| Fourth Quarter ended September 30, 2014 | 0.0133 | 0.0040 | 0.0072 |

The market price for our common stock, like that of other technology or service companies, is highly volatile and is subject to fluctuations in response to variations in our operating results, announcements related to technological innovation or business development, or other events and factors. Our stock price may also be affected by broader market trends unrelated to our performance.

The above quotations reflect inter-dealer prices, without retail mark-up, mark-down, or commission and may not necessarily represent actual transactions.

Number of Holders

As of September 30, 2015, there were approximately 863 record holders of the Company’s common stock, not counting shares held in “street name” brokerage accounts, which account for an approximate 16,000 additional stock holders. As of September 30, 2015, there were 704,918,657 shares of common stock outstanding on record with the Company’s stock transfer agent, Island Stock Transfer. On September 30, 2015 the last reported sales price of our common stock on the OTC Market was approximately \$0.0082 per share.

Transfer Agent

Our transfer agent is Island Stock Transfer located at 15500 Roosevelt Boulevard, Suite 301, Clearwater, Florida 33760, Office phone: 727-289-0010| Fax: 727-289-0069

Dividends

The Company has not declared or paid any cash dividends on its common stock and does not anticipate paying dividends for the foreseeable future.

Stock Option Plan

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. 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. A total of 50,000,000 shares of common stock are authorized under the Plan, of which 4,500,000 options were issued and outstanding under the Plan at September 30, 2015.

Stock Compensation, Issuance of Stock Purchase Options

During the year ended September 30, 2015 the Company did not grant or issue any stock purchase options.

Table of Contents

Recent Sales of Securities (Registered and Unregistered)

During the year ended September 30, 2015, the Company made the following unregistered issuances at fair value in the aggregate amount of 113,518,588 shares of common stock upon the conversion by holders of convertible notes as follows:

The Company issued 38,586,633 shares of common stock at prices ranging from \$0.003 to \$0.0039 upon conversion of the aggregate amount of \$127,761 dollars of principal and accrued interest to the holder of a 12% convertible note.

The Company issued 35,325,699 shares of common stock at prices ranging from \$0.00242 to \$0.00587 upon conversion of the aggregate remaining amount of \$107,814 dollars of principal and accrued interest to the holder of a 10% convertible note.

The Company issued 36,672,923 shares of common stock at \$0.00235 upon conversion of the aggregate remaining amount of \$86,182 dollars of principal and accrued interest by the holder of a 10% convertible note.

On February 12, 2015 the Company issued Board member Dr. Michael Russak 2,933,333 shares each of restricted common stock in exchange for his conversion of a convertible Promissory Note in the principal and accrued interest amount of \$13,200.

Unless noted otherwise, all of the above issuances by the Company of its unregistered securities were made by the Company in reliance upon Section 4(2) of the Securities Act of 1933, as amended (the "1933 Act").

All purchasers were provided access to all material information, which they requested, and all information necessary to verify such information and were afforded access to management of the Company in connection with their purchases. All purchasers of the unregistered securities acquired such securities for investment and not with a view toward distribution, acknowledging such intent to the Company. All certificates or agreements representing such securities that were issued contained restrictive legends, prohibiting further transfer of the certificates or agreements representing such securities, without such securities either being first registered or otherwise exempt from registration in any further resale or disposition.

Use of Proceeds from the Sale of Securities

The proceeds from the above sales of securities were used primarily to fund efforts by the Company to develop business operations for the sale of commercial solar power systems, and in the day-to-day operations of the Company and to pay the accrued liabilities associated with these operations.

Item 6. Selected Financial Data

N/A

Item 7. Management's Discussion and Analysis or Plan of Operations

Cautionary and Forward-Looking Statements

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K. In addition to historical consolidated financial information, the following discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions as described under the

“Cautionary Note Regarding Forward-Looking Statements” that appears earlier in this Annual Report on Form 10-K. 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” and elsewhere in this Annual Report on Form 10-K.

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 Report on Form 10-K filed and any Current Reports on Form 8-K filed by the Company.

Business Overview

XsunX specializes in the sale, design, and installation of solar photovoltaic power generation (PV), and energy saving technologies that provide our clients long term savings, predictability, and control of their energy costs. Our background and experience spans virtually all aspects of solar including technology assessment, design, and development.

Table of Contents

The Company has developed a highly skilled team of qualified engineering and specialty contractors with extensive commercial and residential solar experience necessary to service the diverse conditions that can be encountered in the design and installation of PV, and energy saving technologies. The company couples this superior design and delivery capability with factory direct pricing, and zero down financing options to provide our clients with energy solutions that can quickly pay for themselves.

Our business development objectives are to capitalize on the demand within the California commercial and residential markets for the installation of solar electric power systems. The demand, underscored in a 2015 market data report from the U.S. Solar Energy Industries Association (SEIA) indicates \$11.7 billion dollars was invested into PV system installations in California in 2014 representing a 66% increase over the previous year, and nationally capacity is forecasted to double through the addition of roughly 20,000 megawatts (MW) in the 2015-16 period. Helping to drive these significant solar adoption numbers are continued cost reductions, coupled with government tax and investment incentives providing significant investment incentives for consumers whom we market to in efforts to make sales.

We have historically focused our operations toward commercial rooftop solar power sales. In the second half of 2015 period we began to expand our marketing efforts to include residential sales, however an area in which we believe we can establish distinct marketing and sales advantages is through the sale and delivery of commercial solar carport systems.

While we believe that the commercial and residential rooftop solar will continue to offer sales growth opportunities, non-residential solar carport systems can, in many instances, provide us the opportunity to offer customers larger project sizing, greater electricity savings, and the ability to differentiate XsunX from competitors.

In the 2015 period we established the capabilities to design, directly source all of the major system components, and deliver solar carport systems allowing us to eliminate reliance on costly third party specialty subcontractors whom we believe the majority of our competitors rely on. This has allowed us to reduce our carport structure installation costs by approximate 35%, and the overall PV system cost by approximately 15% which, we believe, provides us with a distinct pricing advantage for solar carports within the greater Southern California markets that we serve.

Plan of Operations

For the fiscal year ending September 30, 2016, the Company has developed a plan of operations focused on the sale, design, and installation of solar power systems as a licensed contractor in California.

Our Plan of Operations, based upon the aforementioned activities, requires approximately \$360,000 to support sales and marketing efforts, \$955,000 for general and administrative activities to support operations, and \$235,000 to support project bid and field management costs. These costs are attributable to the marketing, sales, planning, and supervision costs associated with solar power system installations. However the cash flow requirements associated with these efforts may continue to exceed cash generated from operations in the current and future periods. If we are unable to develop sufficient solar power system installation sales or profitability through solar power system sales prior to completion of this plan we will need to obtain additional financing from other sources or adjust the timing of our plans. However, we have been able to raise capital in a series of equity and debt offerings in the past. While there can be no assurances that we will be able to obtain additional financing, on terms acceptable to us and at the times required, or at all, we believe that sufficient capital can be raised in the foreseeable future as necessary.

The Company may change any or all of the budget categories in the execution of its business attempts. None of the items is to be considered fixed or unchangeable.

Management believes the summary data and audit presented herein is a fair presentation of the Company's results of operations for the periods presented. Due to the Company's expansion of primary business focus and new business opportunities associated with the sales and installations of solar PV systems 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.

Results of Operations for the Fiscal Year Ended September 30, 2015 Compared to Fiscal Year Ended September 30, 2014.

Revenue and Cost of Sales:

The Company generated revenues of \$1,215,632 and \$393,522 in the fiscal years ended September 30, 2015, and 2014. The \$1,215,632 in revenue, representing an increase of \$822,110, during the fiscal period ended September 30, 2015 was the result of our improving efforts in the sale of commercial solar power systems. The costs of goods sold in the fiscal years ended September 30, 2015 and 2014 were \$912,404 and \$283,224, 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.

Table of Contents

Selling, General and Administrative Expenses:

Selling, General and Administrative (SG&A) expenses decreased by \$7,126 during the fiscal year ended September 30, 2015 to \$520,800 as compared to \$527,926 for the prior fiscal year ended September 30, 2014. The decrease in SG&A expenses was related primarily to a decrease in investor relations, with an increase in marketing resulting from the Company's change in business during the Company's initial efforts in marketing and sales of 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.

Other Income/(Expenses)

Other income and (expenses) decreased by \$419,104 to \$(1,098,426) for the fiscal year ended September 30, 2015, compared to \$(1,517,530) for the prior fiscal year ended September 30, 2014. The decrease was the result of a decrease in interest expense in the amount of \$542,800, which includes amortization of debt discount of \$524,817, an increase in loss on conversion and change of fair value of the derivative instruments of \$166,685, an increase in gain on write-off of accounts payable of \$58,273, a decrease in loss on sale of assets in the amount of \$7,044, an increase in penalties in the amount of \$247, and an increase to commitment fees in the amount of \$22,081. The decrease was due to the Company entering into debt financing through the issuance of convertible promissory notes.

Net Loss:

For the fiscal year ended September 30, 2015, our net loss was \$(1,320,648) as compared to a net loss of \$(1,949,887) for the fiscal year ended September 30, 2014. The decrease in net loss of \$(629,239) primarily stems from a decrease in operating expenses, and other income/(expenses), with an increase in gross profit in the current period. The Company anticipates the trend of losses to 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 September 30, 2015 of \$(884,516), as compared to a working capital deficit of \$(912,699) as of September 30, 2014. The decrease of \$28,183 in working capital deficit was the result of an increase in cash, accounts receivable, accrued expenses, deferred revenue, and derivative liability with a decrease in prepaid expenses, accounts payable, and convertible notes. The Company had revenue during the current period, and a reduction in derivative liability associated with the convertible notes.

For the fiscal year ended September 30, 2015, our cash flow used by operating activities was \$207,068, as compared to cash flow used by operating activities of \$368,368 for the prior fiscal year ended September 30, 2014. The decrease in cash flow used of \$161,300 by operating activities was primarily due to a net change in net loss, non-cash accounts associated with derivative financing, prepaid expenses, accounts payable, with an increase in accounts receivable, accrued expenses, and deferred revenue.

Cash flow provided by investing activities was \$0 for the fiscal year ended September 30, 2015, as compared to cash flow used in investing activities of \$62,633 during the fiscal year ended September 30, 2014. The decrease of \$62,633 in investing activities was primarily due to proceeds received from the sale of certain assets in the prior fiscal year.

Cash flow provided by financing activities was \$235,000 for the fiscal year ended September 30, 2015, as compared to cash provided by financing activities of \$318,000 during the fiscal year ended September 30, 2014. The decrease in cash flow provided by financing activities was the result of a decrease in the Company's reliance on cash provided through equity financing. Our capital needs have primarily been met from the revenue and proceeds of private

placements, and the sale of convertible notes. There is no assurance that our revenue will exceed our operating cost.

For the fiscal year ending September 30, 2016, the Company has developed a plan of operations focused on the sale, design, and installation of solar power systems as a licensed contractor in California.

Our Plan of Operations, based upon the aforementioned activities, requires approximately \$360,000 to support sales and marketing efforts, \$955,000 for general and administrative activities to support operations, and \$235,000 to support project bid and field management costs. These costs are attributable to the marketing, sales, planning, and supervision with costs associated with solar power system installations. However the cash flow requirements associated with these efforts may continue to exceed cash generated from operations in the current and future periods. If we are unable to develop sufficient solar power system installation sales or profitability through solar power system sales prior to completion of this plan we will need to obtain additional financing from other sources or adjust the timing of our plans. However, we have been able to raise capital in a series of equity and debt offerings in the past. While there can be no assurances that we will be able to obtain additional financing, on terms acceptable to us and at the times required, or at all, we believe that sufficient capital can be raised in the foreseeable future as necessary

Table of Contents

Off-Balance Sheet Arrangements

We do not have any relationships with unconsolidated entities or financial partnerships such as entities often referred to as structured finance or special purpose entities that would have been established for the purpose of facilitating off-balance-sheet arrangements or for other contractually narrow or limited purposes. As such, we are not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

Significant 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, 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 items-described herein, are reasonable.

Property and Equipment

Property and equipment are stated at cost, and are depreciated using straight line over its estimated useful lives:

| Leasehold improvements | Length of the lease |
|---------------------------------|---------------------|
| Computer software and equipment | 3 Years |
| Furniture & fixtures | 5 Years |
| Machinery & equipment | 5 Years |

The Company capitalizes property and equipment over \$500. Property and equipment under \$500 are expensed in the year purchased. The depreciation expense for the years ended September 30, 2015, and 2014, were \$4,650 and \$14,729, respectively.

Revenue Recognition

Revenue and related costs on construction contracts are recognized using the “percentage of completion method” of accounting in accordance with ASC 605-35, Accounting for Performance of Construction-Type and Certain Production Type Contracts (“ASC 605-35”). Under this method, contract revenues and related expenses are recognized over the performance period of the contract in direct proportion to the costs incurred as a percentage of total estimated costs for the entirety of the contract, after the contract reaches 10% completion. No revenue is recognized until the percentage of completion reaches 10%. Costs include all direct materials, subcontractor costs, direct labor and those indirect costs related to contract performance, such as indirect labor, supplies, project planning and preparation, tools and repairs. All un-allocable indirect costs and corporate general and administrative costs are charged to operating expenses in the period incurred. However, in the event a loss on a contract is foreseen, the Company will recognize the loss as it is determined.

Revisions in cost and profit estimates during the course of the contract are reflected in the accounting period in which the facts, which require the revision, become known. Provisions for estimated losses on uncompleted contracts are

made in the period in which such losses are determined. Changes in job performance, job conditions, estimated profitability, and final contract settlements may result in revisions to costs and income, and are recognized in the period in which the revisions are determined.

The Asset, "Costs in excess of billings" represents revenues recognized in excess of amounts billed on contracts in progress. The Liability, "Billings in excess of costs and estimated earnings", represents billings in excess of revenues recognized on contracts in progress. At September 30, 2015, the costs in excess of billings balance was \$6,661.

Contract receivables are recorded on contracts for amounts currently due based upon progress billings, as well as any retentions, which are collectible upon completion of the contracts. Accounts payable to material suppliers and subcontractors are recorded for amounts currently due based upon work completed or materials received, as are retention due subcontractors, which are payable upon completion of the contract. General and administrative expenses are charged to operations as incurred and are not allocated to contract costs.

Use of Estimates

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

Table of Contents

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.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Our products will be quoted for sale in United States dollars. To the extent that we may be exposed to foreign currency risks related to the rise and/or fall of foreign currencies against the U.S. dollar we will report in United States dollars.

Item 8. Financial Statements and Supplementary Data

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

Item 9. Changes in and Disagreements on Accounting and Financial Disclosure

None

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

Our Chief Executive Officer has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. The evaluation included certain control areas in which we have made, and are continuing to make, changes to improve and enhance controls. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Based on such evaluation, our Chief Executive Officer has concluded that, as of the end of such period, our disclosure controls and procedures were not effective, and we have discovered a material weakness in our closing process for account reconciliations. The Company is working to improve the effectiveness of the closing process, and as we expand operations additional staff will be added to implement separation of duties, and to improve controls as well.

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 September 30, 2015 based on the framework set forth in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission 2013 (“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 internal control weakness.

During the Company's fiscal year ended September 30, 2015, management continued to assess the Company's internal and controls procedure documents basing any need for revision upon additional guidance for implementing the model framework created by COSO as is appropriate to our operations and operations of smaller public entities. This framework is entitled Internal Control-Integrated Framework. The COSO Framework, which is the common shortened title, was published in 2013, and we believe will satisfy the SEC requirements of Section 404 of the Sarbanes-Oxley Act of 2002. As the Company expands operations, additional staff will be added to implement separation of duties controls as well.

Based on that evaluation, our Chief Executive Officer concluded that our internal control over financial reporting as of September 30, 2015 was not effective in regards to our closing process for account reconciliations. 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.

Table of Contents

Changes in Internal Control over Financial Reporting

Except as noted above, 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 our fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Auditors Report on Internal Control over Financial Reporting

This annual report does not include an attestation report of the company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the company to provide only management's report in this annual report.

Item 9B. Other Information

Between August 7 and August 28, 2015, the Company received an advances of totaling \$80,000 under a 10% unsecured convertible promissory note (the "Note") issued on November 20, 2014 for the principal sum of up to \$400,000 plus accrued interest on any advanced principal funds. On August 28, 2015 the Company issued 14,329,583 shares of common upon conversion of \$32,000 of principal and \$1,675 in accrued interest by the holder of the Note.

Table of Contents

PART III

Item 10. Directors, Executive Officers, and Corporate Governance

The following table lists the executive offices and directors of the Company during the fiscal year ended September 30, 2015:

| Name | Age | Position Held | Tenure |
|-----------------|-----|--|---|
| Tom Djokovich | 58 | CEO, President, Director, Secretary, and acting Principal Accounting Officer | CEO and Director since October 2003, Secretary & PAO since September 2009 President since January 2013 |
| Thomas Anderson | 50 | Director | Since August 2001 |
| Oz Fundingsland | 72 | Director | Since November 2007 |
| Michael Russak | 68 | Director | Since November 2007 |

The above listed directors will serve until the next annual meeting of the stockholders or until their death, resignation, retirement, removal, or disqualification, and until their successors have been duly elected and qualified. Vacancies in the existing Board of Directors are filled by majority vote of the remaining Directors. There are no agreements or understandings for any officer or director to resign at the request of another person and no officer or director is acting on behalf of or will act at the direction of any other person. There is no family relationship between any of our directors.

The directors of the Company will devote such time to the Company's affairs on an "as needed" basis, but typically less than 20 hours per month. As a result, the actual amount of time which they will devote to the Company's affairs is unknown and is likely to vary substantially from month to month.

Biographical Information

Mr. Tom Djokovich, age 58, Chief Executive Officer and a Director as of October 2003, acting Principal Accounting Officer as of September 2009, and President as of January 9, 2013;

Mr. Djokovich was the founder and served from 1995 to 2002 as the Chief Executive Officer of Accesspoint Corporation, a vertically integrated provider of electronic transaction processing and e-business solutions for merchants. Under Mr. Djokovich's guidance, Accesspoint became a member of the Visa/MasterCard association, the national check processing association NACHA, and developed one of the payment industry's most diverse set of network based transaction processing, business management and CRM systems for both Internet and conventional points of sale. Prior to Accesspoint, Mr. Djokovich founded TMD Construction and Development in 1979. TMD provided management for multimillion-dollar projects incorporating at times hundreds of employees, subcontractors and international material acquisitions for commercial, industrial and custom residential construction services as a licensed building and development firm in California. In 1995 Mr. Djokovich developed an Internet based business-to-business ordering system for the construction industry.

Independent Directors

Mr. Thomas Anderson, age 50, became a director of the Company in August 2001;

Prior to co-founding PE/Q Energy, Tom served through October 2012 as Chief Operating and Development Officer for American Capital Energy, a large-scale commercial and small-scale utility solar PV developer and installer. While at ACE, he guided the development, installation, operation and maintenance of large-scale commercial and small

utility rooftop and ground mount projects ranging in size from 200 kW to 6.16 MW; negotiated and secured dozens of MW of Power Purchase Agreements with both commercial and utility clients; and served as project development lead for a fully developed 20 MW utility-PPA project to be constructed in 2014. He has served as Managing Director of the Environmental Science and Engineering Directorate of Qinetiq North America in Los Alamos, New Mexico. He was with Qinetiq North America, formerly Apogen Technologies, from January, 2005, through September, 2008. Mr. Anderson worked for 19 years in the environmental consulting field, providing consulting services in the areas of environmental compliance, characterization and remediation services to Department of Energy, Department of Defense, and industrial clients. He formerly worked as a Senior Environmental Scientist at Concurrent Technologies Corp. from November 2000 to December 2004. He earned his B.S. in Geology from Denison University and his M.S. in Environmental Science and Engineering from Colorado School of Mines.

Table of Contents

Mr. Oz Fundingsland as Director, age 72, became a director of the Company in November 2007;

The Company announced the appointment of Mr. Oz Fundingsland as Director, effective November 12, 2007. Mr. Fundingsland brings over forty years of sales, marketing, executive business management, finance, and corporate governance experience to XsunX. His professional and business experience principally originated with his tenure, commencing in 1964, at Applied Magnetics Corp., a disk drive and data storage company. Prior to his retirement from Applied Magnetics in 1994, Mr. Fundingsland served as an Executive Officer and Vice President of Sales and Marketing for 11 years directing sales growth from \$50 million to over \$550 million. Commencing in 1993 through 2003 Mr. Fundingsland served as a member of the board of directors for the International Disk Drive Equipment Manufacturers Association "IDEMA" where he retired emeritus. Mr. Fundingsland has provided consulting services assisting with sales, marketing, and management to a host of companies within the disk drive, optical, software, and LED industries.

Dr. Michael A. Russak as Director, age 68, became a director of the Company in November 2007;

On November 28, 2007, the Company announced the appointment of Dr. Michael A. Russak as a Director. Dr. Michael A. Russak currently holds the position of Executive Vice President of Business Development with Intevac, Inc. in Santa Clara, CA. He has been working as a consultant in the hard disk drive and photovoltaic industries since Jan 2007. From 2001 to 2006 he was President and Chief Technical Officer of Komag, Inc., a manufacturer of hard magnetic recording disks for hard disk drive applications. From 1993 to 2001 he was Chief Technical Officer of HMT Technology, Inc. also a manufacturer of magnetic recording disks. From 1985 to 1993 he was a research staff member and program manager in the Research Division of the IBM Corporation. Dr. Russak has over thirty five years of industrial experience progressing from a research scientist to senior executive officer of two public companies. He has expertise in thin film materials and devices for magnetic recording, photovoltaic, solar thermal applications, semiconductor devices as well as glass, glass-ceramic and ceramic materials. He also has over twelve years' experience at the executive management level of public companies with significant off shore development and manufacturing functions. He received his B.S. in Ceramic Engineering in 1968 and Ph.D. in Materials Science in 1971, both from Rutgers University in New Brunswick, NJ. During his career, he has been a contributing scientist and program manager at the Grumman Aerospace Corporation, a Research Staff Member and technical manager in the areas of thin film materials and processes at the Research Division of the IBM Corporation at the T.J. Watson Research Laboratories. In 1993, he joined HMT Technology, a manufacturer of thin film disks for magnetic storage, as Vice President of Research and Development. His responsibilities included new product design and introduction. Dr. Russak became Chief Technical Officer of HMT and held that position until 2000 when HMT merged with Komag Inc. Dr. Russak was appointed President and Chief Technical Officer of the combined company. He continued to set technical, operational and business direction for Komag until his retirement at the end of 2006. He has published over 90 technical papers, and holds 23 U.S. patents.

Involvement in Certain Legal Proceedings

None of the members of the Board of Directors or other executives has been involved in any bankruptcy proceedings, criminal proceedings, any proceeding involving any possibility of enjoining or suspending members of our Board of Directors or other executives from engaging in any business, securities or banking activities, and have not been found to have violated, nor been accused of having violated, any federal or state securities or commodities laws.

Board Committees; Audit Committee

As of September 30, 2015, the Company's board was comprised of four directors, three of which are considered independent directors and the Company did not have an audit committee. Further, none of the members of the board of directors is qualified as a financial expert. We are a development stage company with limited resources and we are

actively seeking a qualified financial expert for addition to the board. The board of directors will appoint committees as necessary, including an audit committee as resources permit. In the meantime, the Board serves as the Company's audit committee utilizing business judgment rules and good faith efforts.

Section 16(A) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires the Company's officers and directors, and certain persons who own more than 10% of a registered class of the Company's equity securities (collectively, "Reporting Persons"), to file reports of ownership and changes in ownership ("Section 16 Reports") with the SEC. Reporting Persons are required by the SEC to furnish the Company with copies of all Section 16 Reports they file. Based on its review of the copies of such forms received by it, or written representations from certain reporting persons, the Company believes that, during the fiscal year ended September 30, 2015, all filing requirements applicable to its officers, directors, and greater than ten-percent beneficial owners were complied with.

Code of Ethics

The Company's board of directors adopted a Code of Ethics policy on January 7, 2008.

Table of Contents

Item 11. Executive Compensation

Overview

We are in the early stage of executing a business plan focused on the sale, design, installation, and servicing of commercial solar power systems and we rely on our board of directors to evaluate compensation and incentive offerings made by the Company as it applies to our executive officers, and efforts to attract and maintain qualified staff. To date, our compensation policy has been conducted on a case by case basis with input from our chief executive officer, and focused on the following four primary areas; (a) first the Company's commitment capabilities within the scope of objectives and capital capabilities, (b) salary compensatory with peer group companies and peer position, (c) cash bonuses tied to sales and revenue attainment, and (d) long term equity compensation tied to strategic objectives of establishing marketable solar technologies.

In this Compensation Discussion and Analysis, the individuals in the Summary Compensation Table set forth below are referred to as the "named executive officers". Generally, the types of compensation and benefits provided to the named executive officers may be similar to what we intend to provide to future executive officers.

Executive Compensation

The following table sets forth information with respect to compensation earned by our chief executive officer and our president (collectively, our "named executive officers") for the fiscal years ended September 30, 2015, and 2014 respectively.

Summary Compensation Table

| Name and Principal Position | Year | Salary (\$) | Contributed Services (\$) | Bonus (\$) | Stock Awards (\$) | Option Awards (\$) | All Other Compensation (\$) | Total |
|-----------------------------|------|-------------|---------------------------|------------|-------------------|--------------------|-----------------------------|---------|
| Tom Djokovich, CEO(1) | 2015 | 169,000 | 0 | 0 | 0 | 0 | 15,594 | 184,594 |
| | 2014 | 160,000 | 0 | 0 | 0 | 0 | 9,437 | 169,437 |

(1) In addition to Mr. Djokovich's salary compensation the Company provided Mr. Djokovich with co-payments totaling \$15,594 and \$9,437 for health insurance premiums as part of the Company's health insurance program in the fiscal periods ended 2015, and 2014 respectively.

No other compensation not described above was paid or distributed during the listed fiscal years to the executive officers of the Company.

Grants of Plan-Based Awards Table

The following table sets forth summary information regarding all grants of plan-based awards made to our named executive officers during the two years ended September 30, 2015, and 2014 respectively.

| Name | Grant Date | All Other Option Awards: Number of | Exercise or Base Price of Option Awards | Grant Date Fair Value of Stock and Option Awards |
|------|------------|------------------------------------|---|--|
|------|------------|------------------------------------|---|--|

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| | | Securities Underlying Options (#) | (\$/Sh) | (\$) |
|--------------------|------|--|---------|------|
| Tom Djokovich, CEO | 2015 | 0 | 0 | 0 |
| | 2014 | 0 | 0 | 0 |

23

Table of Contents

Outstanding Equity Awards at Fiscal Year End Table

The following table sets forth the outstanding equity awards with respect our named executive officers for the fiscal year ended September 30, 2015

| Name | OPTION AWARDS | | | | | STOCK AWARDS | | | |
|--------------------|---|---|---|----------------------------|------------------------|---|--|---|---|
| | Number of Securities Underlying Unexercised Options (#) | Number of Securities Underlying Unexercised Options (#) | Equity Incentive Plan Awards: Number of Securities Underlying Unexercisable Options (#) | Option Exercise Price (\$) | Option Expiration Date | Market Value of Shares or Units of Stock That Have Not Vested (#) | Market Value of Shares or Units of Stock that Have Not Vested (\$) | Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) | Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (#) |
| Tom Djokovich, CEO | - | - | - | - | - | - | - | - | - |

Option Exercises

None

Pension Benefits

None

Nonqualified Defined Contribution and Other Nonqualified Deferred Compensation Plans

None

Employment Agreements and Arrangements

Tom M. Djokovich

Mr. Djokovich serves as our Chief Executive Officer, acting Principal Accounting Officer, President effective January 9, 2013, a Director, and the qualifying person for the Company's California State contractor's license. We do not have an employment agreement with Mr. Djokovich. He currently works at the discretion of the board of directors as he has

since October 2003. His annual base compensation for the 2015 fiscal period was \$169,000 in collected wages. Mr. Djokovich was also provided with approximately \$15,594 for use in the payment of medical benefits. His total compensation is based solely on the annual base cash salary and we do not have any equity based, cash bonus, or special compensation agreements or understanding in place with Mr. Djokovich. Mr. Djokovich is also subject to confidentiality and non-solicitation provisions which provide that Mr. Djokovich will not divulge information or solicit employees for 24 months after termination of his employment.

Potential Payments Upon Termination or Change-In-Control

None

Long Term Incentive Plans — Awards in Last Fiscal Year

None

24

Table of Contents

Director Compensation

In the fiscal year ended September 30, 2015, Directors did not receive compensation for their services as Directors. All Directors were reimbursed for any expenses actually incurred in connection with attending meetings of the Board of Directors.

SUMMARY COMPENSATION TABLE OF DIRECTORS

| Name | Fees Earned or Paid in Cash (\$) | Stock Awards (\$) | Option Awards (\$) | All Other Compensation (\$) | Total (\$) |
|------------------------|---|----------------------|-----------------------|--------------------------------------|------------|
| Tom Djokovich | \$ 0 | 0 | 0 | 0 | \$ 0 |
| Thomas Anderson (1) | \$ 0 | 0 | 0 | 1,200 | \$ 1,200 |
| Oz Fundingsland | \$ 0 | 0 | 0 | 0 | \$ 0 |
| Dr. Michael Russak (1) | \$ 0 | 0 | 0 | 1,200 | \$ 1,200 |

(1) On October 1, 2015 Mr. Anderson and Dr. Russak received \$1,200 representing a onetime interest fee applied to the remaining \$12,000 principal balance of Promissory Notes issued as payment for services on October 1, 2013.

Compensation Committee Interlocks and Insider Participation

For the fiscal year ended September 30, 2015, as applicable, new or existing employment agreements were reviewed and deliberated by the four members of the Company's Board of Directors.

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

The following table sets forth, as of September 30, 2015, the number of shares of common stock owned of record and beneficially by executive officers, directors and persons who hold 5.0% or more of the outstanding common stock of the Company. Also included are the shares held by all executive officers and directors as a group. Unless otherwise indicated, the address of each beneficial owner listed below is c/o XsunX, Inc., 65 Enterprise, Aliso Viejo, California 92656.

| Shareholders/Beneficial Owners | Number of Common Shares | Number of Series A Preferred Shares | Ownership Percentage(1) |
|---|----------------------------|---|----------------------------|
| Tom Djokovich (1) (2) (3) President & Director | 14,493,000 | 5,000 | 62.1% |
| Thomas Anderson Director | 4,433,333 | 0 | < 1% |
| Oz Fundingsland Director | 4,166,667 | 0 | < 1% |
| Mike Russak Director | 4,433,333 | 0 | < 1% |
| All Officers & Directors as a Group (4 individuals) | 27,526,333 | 0 | 63.9% |

Each principal shareholder has sole investment power and sole voting power over the shares.

- (1) Applicable percentage ownership is based on 704,918,657 shares of common stock issued and outstanding as of January 8, 2016. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of common stock that are currently exercisable or exercisable within 60 days of January 8, 2016 are deemed to be beneficially owned by the person holding such securities for the purpose of computing the percentage of ownership of such person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person.
- (2) Includes 14,068,000 shares owned by the Djokovich Limited Partnership at September 30, 2015. Mr. Djokovich shares voting and dispositive power with respect to these shares with Mrs. Djokovich.
- (3) The Series A Preferred Shares have the voting equivalent of not less than 60% of the issued and outstanding common stock (representing a super majority voting power) of the vote required to approve any action, in which the shareholders of the Company's common stock may vote. As of September 30, 2015, Mr. Djokovich held 14,493,000 shares of the Company's common stock and 5,000 shares of the Company's Series A Preferred stock representing the combined voting equivalent of 437,444,194 shares of common stock or approximately 62.1% of the Company's voting stock.

Table of Contents

Item 13. Certain Relationships and Related Transactions, and Director Independence

No officer, director, or related person of the Company has or proposes to have any direct or indirect material interest in any asset proposed to be acquired by the Company through securities holdings, contracts, options or otherwise or any transaction in which the amount involved exceeds the lesser of \$120,000 or one percent of the Company's total assets at year end.

The Company has adopted a policy under which any consulting or finder's fee that may be paid to a third party for consulting services to assist management in evaluating a prospective business opportunity can be paid in stock, stock purchase options or in cash. Any such issuance of stock or stock purchase options would be made on an ad hoc basis. Accordingly, the Company is unable to predict whether or in what amount such a stock issuance might be made.

The following directors are independent: Thomas Anderson, Oz Fundingsland, and Dr. Michael Russak.

The following directors are not independent: Tom Djokovich.

Change of Control of the Company

On June 27, 2013, the Company amended its Articles of Incorporation for the creation of its Series A Preferred Stock designating 10,000 shares of its authorized Preferred Stock as Series A Preferred Stock. The Series A Preferred Shares have a par value of \$0.01 per share. The Series A Preferred Shares do not have a dividend rate and are not redeemable. In addition, the Series A Preferred Shares rank senior to the Company's common stock. The Series A Preferred Shares have voting rights equal to that of the common stockholders and may vote on any matter that common shareholders may vote. One or more shares of Series A Preferred Stock has the voting equivalent of not less than 60% of the issued and outstanding common stock (representing a super majority voting power) of the vote required to approve any action, in which the shareholders of the Company's common stock may vote. In the event of any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, the Holders of shares of Series A Preferred Stock shall be entitled to receive, immediately after any distributions to Senior Securities required by the Company's Certificate of Incorporation or any certificate of designation, and prior in preference to any distribution to Junior Securities but in parity with any distribution to Parity Securities, an amount per share equal to \$.01 per share. Holders of shares of Series A Preferred Stock shall not be entitled to any dividends, and the Company has no redemption rights for Series A Preferred Stock issued.

On June 27, 2013, the Board of Directors of the Company authorized the issuance of 5,000 shares of Series A Preferred Stock (the "Shares") to the Company's Chief Executive Officer and Director, Tom M. Djokovich. The Shares were issued in consideration for the contribution of services by Mr. Djokovich to the Company valued at fifty dollars, which the Board deemed full and fair consideration. As a result of such issuance, Mr. Djokovich has the ability to influence and determine stockholder votes.

Issuance of Convertible Promissory Notes

On October 1, 2013, the Company issued unsecured Convertible Promissory Notes (the "Promissory Notes") in the amount of \$12,000 each to Board members Tom Anderson, Dr. Michael Russak, and Oz Fundingsland (the "Holders") in exchange for their retention as directors during the fiscal year ending September 30, 2014. The Promissory Notes can be converted into shares of common stock by the Holder for \$0.0045 per share. The Promissory Notes mature on October 1, 2015, and bear zero (0%) percent interest during the first 12 months from the date of issuance. If the Promissory Note is not paid in full by the Company, or through conversion by the Holder, on or before the first anniversary, a one-time interest charge of 10% shall be applied to any remaining principal sum. 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 Holder, file Form S-8, if applicable, with the U.S. Securities and Exchange commission to register the issued shares. As of September 30, 2015 Dr. Russak and Mr. Fundingsland had converted their Note and received collectively 5,599,999 shares of common stock. Mr. Anderson has not converted his Note as of the date of this report.

Item 14. Principal Accounting Fees and Services

2015

For the fiscal year ended September 30, 2015, HJ Associates & Consultants, LLP incurred \$36,700 in Audit Fees for the following professional services: review of the interim financial statements included in quarterly reports on Form 10-Q for the periods ended December 30, 2014, March 31, 2015, June 30, 2015 and for audit fees related to the Company's annual report on Form 10-K. No Audit-Related, Tax or other fees were billed by HJ Associates & Consultants, LLP in the fiscal year ended September 30, 2015.

2014

For the fiscal year ended September 30, 2014, HJ Associates & Consultants, LLP incurred \$30,500 in Audit Fees for the following professional services: review of the interim financial statements included in quarterly reports on Form 10-Q for the periods ended December 30, 2013, March 31, 2014, June 30, 2014 and for audit fees related to the Company's annual report on Form 10-K. No Audit-Related, Tax or other fees were billed by HJ Associates & Consultants, LLP in the fiscal year ended September 30, 2014.

26

Table of Contents

PART IV

Item 15. Exhibits, Financial Statement Schedules

Exhibits:

| Exhibit | Description |
|---------|---|
| 3.1 | Articles of Incorporation(1) |
| 3.2 | Bylaws(2) |
| 10.1 | XsunX Plan of Reorganization and Asset Purchase Agreement, dated September 23, 2003.(3) |
| 10.2 | 2014 XSUNX, Inc. Stock Option and Award Plan, dated May 20, 2014.(4) |
| 10.3 | Amendment to Articles of Incorporation for the increase to authorized shares.(5) |
| 10.4 | Certificate of Designation for Preferred Shares.(6) |
| 10.5 | Form of Second 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. (7) |
| 10.6 | <u>Form of Third Extension Agreement to 12% Note used in connection with the exchange and 18 month extension to a promissory note that had become due September 30, 2015. (12)</u> |
| 10.7 | 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.(8) |
| 10.8 | 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. (9) |
| 10.9 | Form of Convertible Promissory Notes issued to four members of the Board of Directors dated October 1, 2013. (10) |
| 10.10 | Form of 10% Promissory Note issued on August 5, 2014, used in connection with establishing access to interim financing requirements for solar system installations. (11) |
| 31.1 | <u>Sarbanes-Oxley Certification (12)</u> |
| 32.1 | <u>Sarbanes-Oxley Section 906 Certification (12)</u> |
| 101.INS | XBRL Instance Document (12) |
| 101.SCH | XBRL Taxonomy Extension Schema Document (12) |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document (12) |
| 101.DEF | XBRL Taxonomy Extension Label Linkbase Document (12) |
| 101.LAB | XBRL Taxonomy Extension Presentation Linkbase Document (12) |
| 101.PRE | XBRL Taxonomy Extension Definition Linkbase Document (12) |

- (1) Incorporated by reference to Registration Statement Form 10SB12G #000-29621 dated February 18, 2000 and by reference to exhibits included with the Company's prior Report on Form 8-K/A filed with the Securities and Exchange Commission dated October 29, 2003.
- (2) Incorporated by reference to Registration Statement Form 10SB12G #000-29621 filed with the Securities and Exchange Commission dated February 18, 2000.
- (3) Incorporated by reference to exhibits included with the Company's Report on Form 8-K/A filed with the Securities and Exchange Commission dated October 29, 2003.
- (4) Incorporated by reference to exhibits included with the Company's Report on Form 8-K filed with the Securities and Exchange Commission dated May 21, 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 August 19, 2013.
- (6) Incorporated by reference to exhibits included with the Company's Report on Form 8-K filed with the Securities and Exchange Commission dated July 2, 2013.
- (7)

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- 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.
- (8) 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.
 - (9) 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.
 - (10) 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.
 - (11) 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.
 - (12) Provided Herewith

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) 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.

Date: January 8, 2016

XSUNX, INC.

By: /s/ Tom Djokovich
Name: Tom Djokovich
Title: CEO and Principal Accounting Officer

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

/s/ Tom Djokovich January 8, 2016
Tom Djokovich, Chief Executive Officer,
Principal Executive Officer, Principal
Financial and Accounting Officer, and Director

/s/ Thomas Anderson January 8, 2016
Thomas Anderson, Director

/s/ Oz Fundingsland January 8, 2016
Oz Fundingsland, Director

/s/ Michael Russak January 8, 2016
Michael Russak, Director

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
XsunX, Inc.
Alisa Viejo, California

We have audited the accompanying balance sheets of XsunX, Inc. as of September 30, 2015 and 2014, and the related statements of operations, stockholders' deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of XsunX, Inc. as of September 30, 2015 and 2014, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

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

HJ Associates & Consultants, LLP
Salt Lake City, Utah
January 8, 2016

Table of ContentsXSUNX, INC.
Balance Sheets

| | September 30, 2015 | September 30, 2014 |
|---|-----------------------|-----------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$78,770 | \$50,838 |
| Cost in excess of billing | 6,661 | \$- |
| Prepaid expenses | 4,171 | 8,698 |
| Total Current Assets | 89,602 | 59,536 |
| PROPERTY & EQUIPMENT | | |
| Office & miscellaneous equipment | 35,853 | 35,853 |
| Machinery & equipment | 64,538 | 64,538 |
| Leasehold improvements | - | - |
| | 100,391 | 100,391 |
| Less accumulated depreciation | (95,126) | (90,476) |
| Net Property & Equipment | 5,265 | 9,915 |
| TOTAL ASSETS | \$94,867 | \$69,451 |
| LIABILITIES AND SHAREHOLDERS' DEFICIT | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$41,919 | \$128,528 |
| Credit card payable | 41,707 | 6,095 |
| Accrued expenses | 3,787 | - |
| Accrued interest on notes payable | 22,086 | 30,237 |
| Deferred revenue | 15,000 | 10,000 |
| Derivative liability | 622,201 | 546,280 |
| Convertible promissory notes, net of \$64,582 and \$76,401 in discounts | 227,418 | 251,095 |
| Total Current Liabilities | 974,118 | 972,235 |
| TOTAL LIABILITIES | 974,118 | 972,235 |
| SHAREHOLDERS' DEFICIT | | |
| 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 shares issued and outstanding, respectively | 50 | 50 |
| Common stock, no par value; 2,000,000,000 authorized common shares | 32,359,171 | 31,014,990 |

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704,918,657 and 591,400,069 shares issued and outstanding, respectively

| | | |
|--|-------------------|-------------------|
| Additional paid in capital | 5,335,398 | 5,335,398 |
| Paid in capital, common stock warrants | 3,811,700 | 3,811,700 |
| Accumulated deficit | (42,385,570) | (41,064,922) |
| TOTAL SHAREHOLDERS' DEFICIT | (879,251) | (902,784) |
| TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT | \$94,867 | \$69,451 |

The Accompanying Notes are an Integral Part of These Financial Statements

F-2

Table of Contents

XSUNX, INC.
 Statements of Operations
 For the Years Ended September 30, 2015 and 2014

| | Years Ended | |
|--|-----------------------|-----------------------|
| | September 30, 2015 | September 30, 2014 |
| SALES | 1,215,632 | 393,522 |
| COST OF GOODS SOLD | 912,404 | 283,224 |
| GROSS PROFIT | 303,228 | 110,298 |
| OPERATING EXPENSES | | |
| Selling, general and administrative expenses | 520,800 | 527,926 |
| Depreciation and amortization expense | 4,650 | 14,729 |
| TOTAL OPERATING EXPENSES | 525,450 | 542,655 |
| LOSS FROM OPERATIONS BEFORE OTHER INCOME/(EXPENSES) | (222,222) | (432,357) |
| OTHER INCOME/(EXPENSES) | | |
| Gain on settlement of accounts payable | 58,273 | - |
| Penalties | (472) | (225) |
| Loss on sale of asset | - | (7,044) |
| Loan and commitment fees | (22,081) | - |
| Loss on conversion and change in value of derivative liability | (918,041) | (751,356) |
| Interest expense | (216,105) | (758,905) |
| TOTAL OTHER INCOME/(EXPENSES) | (1,098,426) | (1,517,530) |
| NET LOSS | \$ (1,320,648) | \$ (1,949,887) |
| BASIC AND DILUTED LOSS PER SHARE | \$ (0.00) | \$ (0.00) |
| WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING | | |
| BASIC AND DILUTED | 649,711,950 | 535,803,061 |

The Accompanying Notes are an Integral Part of These Financial Statements

Table of Contents

XSUNX, INC.
 Statements of Shareholders' Deficit
 For the Years Ended September 30, 2015 and 2014

| | Preferred Stock Shares | Preferred Amount | Common Stock Shares | Common Stock Amount | Additional Paid-in Capital | Stock Options/ Warrants Paid-in Capital | Accumulated Deficit | Total |
|--|------------------------------|---------------------|------------------------|------------------------|----------------------------------|---|------------------------|--------------|
| Balance at September 30, 2013 | 5,000 | \$50 | 429,043,441 | \$29,175,261 | \$5,335,398 | \$3,811,700 | \$(39,115,035) | \$(792,626) |
| Issuance of common stock for conversion of notes and interest | - | - | 162,356,628 | 1,839,729 | - | - | - | 1,839,729 |
| Net loss for the year ended September 30, 2014 | - | - | - | - | - | - | (1,949,887) | (1,949,887) |
| 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 common stock for conversion of notes and interest | - | - | 113,518,588 | 1,344,181 | - | - | - | 1,344,181 |
| Net loss for the year ended September 30, 2015 | - | - | - | - | - | - | (1,320,648) | (1,320,648) |
| Balance at September 30, 2015 | 5,000 | \$50 | 704,918,657 | \$32,359,171 | \$5,335,398 | \$3,811,700 | \$(42,385,570) | \$(879,251) |

The Accompanying Notes are an Integral Part of These Financial Statements

F-4

Table of ContentsXSUNX, INC.
Statements of Cash Flows

| | Years Ended | |
|--|-----------------------|-----------------------|
| | September 30, 2015 | September 30, 2014 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (1,320,648) | \$ (1,949,887) |
| Adjustment to reconcile net loss to net cash used in operating activities | | |
| Depreciation & amortization | 4,650 | 14,729 |
| Common stock issued for services and other expenses | - | 47,035 |
| Gain on settlement of accounts payable | (58,273) | - |
| Convertible notes issued for services | - | 48,000 |
| Commitment fees | 22,080 | - |
| (Gain)/loss on sale of asset | - | 7,044 |
| Loss on conversion and change in value of derivative liability | 918,041 | 751,356 |
| Amortization of debt discount and beneficial conversion feature recorded as interest expense | 178,925 | 703,742 |
| Change in Assets and Liabilities: | | |
| (Increase) Decrease in: | | |
| Cost in excess of billing | (6,661) | - |
| Prepaid expenses | 4,527 | 7,419 |
| Other assets | - | 2,500 |
| Increase (Decrease) in: | | |
| Accounts payable | 7,277 | (14,968) |
| Accrued expenses | 38,014 | 4,662 |
| Deferred revenue | 5,000 | 10,000 |
| NET CASH USED IN OPERATING ACTIVITIES | (207,068) | (368,368) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from sale of assets | - | 62,633 |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | - | 62,633 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from convertible promissory notes | 235,000 | 318,000 |
| Proceeds from related party promissory notes | 61,000 | 45,000 |
| Payment of related party notes | (61,000) | (45,000) |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 235,000 | 318,000 |
| NET DECREASE IN CASH | 27,932 | 12,265 |
| CASH, BEGINNING OF YEAR | 50,838 | 38,573 |
| CASH, END OF YEAR | \$ 78,770 | \$ 50,838 |

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

| | | | | |
|---------------|----|-------|----|-------|
| Interest paid | \$ | 2,953 | \$ | 3,359 |
| Taxes paid | \$ | - | \$ | - |

SUPPLEMENTAL DISCLOSURES OF NON CASH TRANSACTIONS

| | | | | |
|--|----|-----------|----|-----------|
| Accrued interest capitalized into principal | \$ | 26,758 | \$ | - |
| Issuance of common stock upon conversion of debt | \$ | 1,344,181 | \$ | 1,839,729 |
| Debt discount recorded for derivative liability | \$ | 167,105 | \$ | 323,554 |

The Accompanying Notes are an Integral Part of These Financial Statements

F-5

Table of Contents

XSUNX, INC.
NOTES TO THE FINANCIAL STATEMENTS – AUDITED
SEPTEMBER 30, 2015 AND 2014

1. ORGANIZATION AND LINE OF BUSINESS

Organization

XsunX, Inc. (“XsunX,” the “Company” or the “issuer”) is a Colorado corporation formerly known as Sun River Mining Inc. (“Sun River”). The Company was originally incorporated in Colorado on February 25, 1997. Effective September 24, 2003, the Company completed a Plan of Reorganization and Asset Purchase Agreement (the “Plan”).

Line of Business

In the year ended September 30, 2015, the Company focused on marketing, sales, and delivery of commercial solar power systems as a licensed contractor in California. 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 solar PV technologies, the design requirements associated with the delivery of a solar power systems, and there is a market demand available for us to provide these services to.

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 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 infusion. The Company has obtained funds from its shareholders since its inception through the year ended September 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 development efforts in the solar PV industry.

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.

Property and Equipment

Property and equipment are stated at cost, and are depreciated using straight line over its estimated useful lives:

| Leasehold improvements | Length of the lease |
|---------------------------------|---------------------|
| Computer software and equipment | 3 Years |
| Furniture & fixtures | 5 Years |
| Machinery & equipment | 5 Years |

The Company capitalizes property and equipment over \$500. Property and equipment under \$500 are expensed in the year purchased. The depreciation expense for the years ended September 30, 2015, and 2014, were \$4,650 and \$14,729, respectively.

F-6

Table of Contents

XSUNX, INC.
NOTES TO THE FINANCIAL STATEMENTS – AUDITED
SEPTEMBER 30, 2015 AND 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Revenue and related costs on construction contracts are recognized using the “percentage of completion method” of accounting in accordance with ASC 605-35, Accounting for Performance of Construction-Type and Certain Production Type Contracts (“ASC 605-35”). Under this method, contract revenues and related expenses are recognized over the performance period of the contract in direct proportion to the costs incurred as a percentage of total estimated costs for the entirety of the contract, after the contract reaches 10% completion. No revenue is recognized until the percentage of completion reaches 10%. Costs include all direct materials, subcontractor costs, direct labor and those indirect costs related to contract performance, such as indirect labor, supplies, project planning and preparation, tools and repairs. All un-allocable indirect costs and corporate general and administrative costs are charged to operating expenses in the period incurred. However, in the event a loss on a contract is foreseen, the Company will recognize the loss as it is determined.

Revisions in cost and profit estimates during the course of the contract are reflected in the accounting period in which the facts, which require the revision, become known. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, estimated profitability, and final contract settlements may result in revisions to costs and income, and are recognized in the period in which the revisions are determined.

The Asset, “Costs in excess of billings” represents revenues recognized in excess of amounts billed on contracts in progress. The Liability, “Billings in excess of costs and estimated earnings”, represents billings in excess of revenues recognized on contracts in progress. At September 30, 2015, the costs in excess of billings balance was \$6,661.

Contract receivables are recorded on contracts for amounts currently due based upon progress billings, as well as any retentions, which are collectible upon completion of the contracts. Accounts payable to material suppliers and subcontractors are recorded for amounts currently due based upon work completed or materials received, as are retention due subcontractors, which are payable upon completion of the contract. General and administrative expenses are charged to operations as incurred and are not allocated to contract costs.

Contract Receivable

To the extent of available information, the Company performs ongoing credit evaluation of its customers. Management closely monitors outstanding receivables based on factors surrounding the credit risk of specific customers, historical trends, and other information, and will record bad debts using the direct write-off method. Generally accepted accounting principles require the allowance method be used to reflect bad debts, however, the effect of the use of the direct write-off method is not materially different from the results that would have been obtained had the allowance method been followed.

Project Warranties

Customers in our target market of California who purchase solar energy systems are covered by a warranty of up to 10 years in duration for material defects and workmanship. In addition, we provide a pass-through of the major components such as module mounting, inverter and solar panel manufacturers’ warranties to our customers, which generally range from 10 to 25 years. The Company has a limited history of project installations and will access potential warranty costs, and other allowances, based on our experience in servicing warranty claims as they may arise in the future. During the year ended September 30, 2015 the Company did not experience costs related to warranty

claims.

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.

F-7

XSUNX, INC.
NOTES TO THE FINANCIAL STATEMENTS – AUDITED
SEPTEMBER 30, 2015 AND 2014

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.

| | For the years ended September 30, | |
|--|--------------------------------------|----------------|
| | 2015 | 2014 |
| (Loss) to common shareholders (Numerator) | \$ (1,320,648) | \$ (1,949,887) |
| Basic and diluted weighted average number of common shares outstanding (Denominator) | 649,711,950 | 535,803,061 |

Income Taxes

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

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than fifty percent 50% likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

Table of Contents

XSUNX, INC.
NOTES TO THE FINANCIAL STATEMENTS – AUDITED
SEPTEMBER 30, 2015 AND 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 September 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 September 30, 2015:

| | Total | Level 1 | Level 2 | Level 3 |
|---|-----------|---------|---------|-----------|
| Liabilities | | | | |
| Derivative Liability | \$622,201 | \$- | \$- | \$622,201 |
| Convertible Promissory Notes, net of discount | 227,418 | - | - | 227,418 |
| Total liabilities measured at fair value | \$849,619 | \$- | \$- | \$849,619 |

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 September 30, 2014:

| | | | | |
|---|------------|------|------|------------|
| Liabilities | | | | |
| Derivative Liability | \$ 546,280 | \$ - | \$ - | \$ 546,280 |
| Convertible Promissory Notes, net of discount | 251,095 | - | - | 251,095 |
| Total liabilities measured at fair value | \$ 797,375 | \$ - | \$ - | \$ 797,375 |

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The following is a reconciliation of the derivative liability for which Level 3 inputs were used in determining the approximate fair value (See Note 5):

| | |
|---|-------------|
| Balance as of September 30, 2013 | \$ 705,118 |
| Fair value of derivative liabilities issued | 707,398 |
| Gain on fair value of converted debt | (1,386,296) |
| Net Loss on change in derivative liability | 520,060 |
| <hr/> | |
| Balance as of September 30, 2014 | 546,280 |
| Fair value of derivative liabilities issued | 201,065 |
| Gain on fair value of converted debt | (1,010,270) |
| Net Loss on change in derivative liability | 885,126 |
| Balance as of September 30, 2015 | \$ 622,201 |

F-9

Table of Contents

XSUNX, INC.
NOTES TO THE FINANCIAL STATEMENTS – AUDITED
SEPTEMBER 30, 2015 AND 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising

Advertising expenses are expensed as incurred. Total advertising expenses were \$22,253 and \$7,501 for the years ended September 30, 2015, and 2014, respectively.

Recent Accounting Pronouncements

In August 2014, FASB issued ASU 2014-15, “Presentation of Financial Statements Going Concern (Subtopic 205-40) – Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern”. Currently, there is no guidance in U.S. GAAP about management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern or to provide related footnote disclosures. The amendments in this ASU provide that guidance. In doing so, the amendments are intended to reduce diversity in the timing and content of footnote disclosures. The amendments require management to assess an entity’s ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. Specifically, the amendments (1) provide a definition of the term substantial doubt, (2) require an evaluation every reporting period including interim periods, (3) provide principles for considering the mitigating effect of management’s plans, (4) require certain disclosures when substantial doubt is alleviated as a result of consideration of management’s plans, (5) require an express statement and other disclosures when substantial doubt is not alleviated, and (6) require an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). The amendments in this ASU are effective for public and nonpublic entities for annual periods ending after December 15, 2016. Early adoption is permitted. The Company is currently evaluating the impact of the adoption of ASU 2014-15 on the Company’s financial statements.

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 September 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.

F-10

Table of Contents

XSUNX, INC.
NOTES TO THE FINANCIAL STATEMENTS – AUDITED
SEPTEMBER 30, 2015 AND 2014

3. CAPITAL STOCK (Continued)

Preferred Stock

On June 27, 2013, the Company amended its Articles of Incorporation for the creation of its Series A Preferred Stock designating 10,000 shares of its authorized Preferred Stock as Series A Preferred Stock. The Series A Preferred Shares have a par value of \$0.01 per share. The Series A Preferred Shares do not have a dividend rate and are not redeemable. In addition, the Series A Preferred Shares rank senior to the Company's common stock. The Series A Preferred Shares have voting rights equal to that of the common stockholders and may vote on any matter that common shareholders may vote. One or more shares of Series A Preferred Stock has the voting equivalent of not less than 60% of the issued and outstanding common stock (representing a super majority voting power) of the vote required to approve any action, in which the shareholders of the Company's common stock may vote. In the event of any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, the Holders of shares of Series A Preferred Stock shall be entitled to receive, immediately after any distributions to Senior Securities required by the Company's Certificate of Incorporation or any certificate of designation, and prior in preference to any distribution to Junior Securities but in parity with any distribution to Parity Securities, an amount per share equal to \$.01 per share. Holders of shares of Series A Preferred Stock shall not be entitled to any dividends, and the Company has no redemption rights for Series A Preferred Stock issued.

On June 27, 2013, the Board of Directors of the Company authorized the issuance of 5,000 shares of Series A Preferred Stock (the "Shares") to the Company's Chief Executive Officer and Director, Tom M. Djokovich. The Shares were issued in consideration for the contribution of services by Mr. Djokovich to the Company valued at fifty dollars, which the Board deemed full and fair consideration. As a result of such issuance, Mr. Djokovich has the ability to influence and determine stockholder votes.

Common Stock

During the year ended September 30, 2015, the Company issued 110,585,255 shares of common stock upon conversion of promissory notes in the principal amount of \$307,335, plus interest of \$14,421 at prices ranging from \$0.0023 to \$0.0059 per share; issued 2,933,333 shares of common stock to a related party upon conversion of \$12,000 in principal, plus \$1,200 in accrued interest. Total fair value of the shares was \$1,344,181 which included writing off derivative liabilities of \$1,010,270 and a gain of \$1,045.

During the year ended September 30, 2014, the Company issued 162,356,628 shares of common stock upon conversion of convertible notes in the aggregate fair value of \$1,839,729 at prices ranging between \$0.0017 and \$0.0077.

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.

F-11

Table of Contents

XSUNX, INC.
NOTES TO THE FINANCIAL STATEMENTS – AUDITED
SEPTEMBER 30, 2015 AND 2014

4. STOCK OPTIONS (Continued)

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

| | 9/30/2015 | | 9/30/2014 | |
|--|-------------------------|--|-------------------------|--|
| | Number of Options | Weighted average exercise price | Number of Options | Weighted average exercise price |
| Outstanding, beginning of the period | 7,000,000 | \$0.033 | 9,500,000 | \$0.066 |
| Granted | - | \$- | - | \$- |
| Exercised | - | \$- | - | \$- |
| Expired | (2,500,000) | \$0.050 | (2,500,000) | \$0.160 |
| Outstanding, end of the period | 4,500,000 | \$0.024 | 7,000,000 | \$ 0.033 |
| Exercisable at the end of the period | 4,500,000 | \$0.017 | 6,000,000 | \$0.015 |
| 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 September 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 | 0.47 years |
| \$ 0.045 | 1,500,000 | 1,500,000 | 1.28 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 years ended September 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 on October 1, 2014. The remaining principal balance of \$203,496, plus interest of \$26,758 and a commitment fee of \$22,081 was combined in the extended new note for a balance of \$252,335 as of October 1, 2014. No additional cash consideration was provided or exchanged. The maturity date of the note was extended to September 30, 2015. On October 20, 2015, the Company entered into a third extension of the note with mandatory payments of \$10,000 per month beginning November 1, 2015 until the note in the amount of \$143,033 is paid in full. 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 year ended September 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 September 30, 2015 was \$127,000, plus accrued interest of \$15,240. As of September 30, 2015, the Company recognized interest expense of \$17,666.

F-12

Table of Contents

XSUNX, INC.
 NOTES TO THE FINANCIAL STATEMENTS – AUDITED
 SEPTEMBER 30, 2015 AND 2014

5. CONVERTIBLE PROMISSORY NOTES (Continued)

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 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 \$100,000 related to the conversion feature of the notes, along with derivative liabilities at inception. During the year ended September 30, 2015, the Company issued 35,325,699 shares of common stock upon conversion of principal in the amount of \$100,000, plus accrued interest of \$7,814. During the year ended September 30, 2015, the Company recognized debt amortization as interest expense in the amount of \$76,401, with a remaining debt discount of \$0.

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. 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 \$201,066 related to the conversion feature of the notes, along with derivative liabilities at inception. 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 August 28, 2015, the lender advanced an additional \$185,000 under the Note, and converted \$82,000 of principal and \$4,181 of accrued interest. The Company issued 36,672,923 shares in exchange for the conversions leaving an aggregate outstanding principal balance of \$153,000 at September 30, 2015. During the year ended September 30, 2015, the Company recognized debt amortization as interest expense in the amount of \$102,524, with a remaining debt discount of \$64,582.

Issuance of Convertible Promissory Notes for Services to Related Party

On October 1, 2013, the Company issued unsecured Convertible Promissory Notes (the “Notes”) in the amount of \$12,000 each to Board members Tom Anderson, Dr. Michael Russak (the “Holders”) in exchange for their retention as directors during the fiscal year ending September 30, 2014. The Notes can be converted into shares of common stock by the Holder for \$0.0045 per share. The Notes mature on October 1, 2015, and each 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 \$2,400. 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 Holder, file Form S-8, if applicable, with the U.S. Securities and Exchange commission to register the issued. On March 23, 2015 the Company issued Dr. Russak 2,933,333 shares of common stock upon the full conversion of the Note. The note remaining has a balance of \$12,000 in principal, plus accrued interest of \$1,200 as of September 30, 2015.

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 0.73% |
|-------------------------|-------------------------|

| | |
|-------------------------|----------------------------|
| Stock volatility factor | Between 71.53% and 213.40% |
| Months to Maturity | 6 months to 2 years |
| Expected dividend yield | None |

At September 30, 2015, the fair value of the derivative liability was \$622,201.

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 year ended September 30, 2015, the Company received advances in the aggregate 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 solar PV systems that we sell and install. Consideration advanced under the Note matures three months from each advance. During the year ended September 30, 2015, the principal balance extended to the Company under Note was paid in full including accrued interest of \$2,467 leaving a remaining balance of accrued interest of \$1,525 at September 30, 2015.

Table of Contents

XSUNX, INC.
NOTES TO THE FINANCIAL STATEMENTS – AUDITED
SEPTEMBER 30, 2015 AND 2014

7. INCOME TAXES

The Company files income tax returns in the U.S. Federal jurisdiction, and the state of California. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2012.

Included in the balance at September 30, 2015, are no tax positions for which the ultimate deductibility is highly certain, but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred tax accounting, other than interest and penalties, the disallowance of the shorter deductibility period would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period.

The Company's policy is to recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. During the period ended September 30, 2015, the Company did not recognize interest and penalties.

8. DEFERRED TAX BENEFIT

At September 30, 2015, the Company had net operating loss carry-forwards of approximately \$21,138,000 that may be offset against future taxable income from the year 2015 through 2036. No tax benefit has been reported in the September 30, 2015 financial statements since the potential tax benefit is offset by a valuation allowance of the same amount.

The income tax provision differs from the amount of income tax determined by applying the U.S. federal and state income tax rate of 40% to pretax income from continuing operations for the years ended September 30, 2015 and 2014 due to the following:

| | 9/30/2015 | 9/30/2014 |
|----------------------------------|--------------|--------------|
| Book Income | \$ (528,300) | \$ (779,950) |
| Nondeductible Stock Compensation | - | - |
| Nondeductible Other Expenses | 50,200 | 109,960 |
| Nondeductible Penalties | 200 | 90 |
| Loss on Settlement of Debt | 403,700 | 491,280 |
| Meals & Entertainment | 500 | 360 |
| Depreciation | 1,300 | (1,970) |
| Related Party Accrual | 1,100 | |
| Valuation Allowance | 71,300 | 180,230 |
| Income Tax Expense | \$ - | \$ - |

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

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Net deferred tax assets consist of the following components as of September 30, 2015 and 2014:

| | 9/30/2015 | 9/30/2014 |
|----------------------------|--------------|--------------|
| Deferred Tax Assets: | | |
| NOL Carryforward | \$ 8,455,200 | \$ 8,387,100 |
| Capital loss Carry-forward | 2,913,800 | 2,916,600 |
| R&D Carryforward | 46,150 | 46,150 |
| Related Party Accruals | 1,090 | - |
| Deferred Tax Liabilities: | | |
| Depreciation | (580) | (1,920) |
| Valuation Allowance | (11,415,660) | (11,347,930) |
| Net Deferred Tax Asset | \$ - | \$ - |

F-14

Table of Contents

XSUNX, INC.
NOTES TO THE FINANCIAL STATEMENTS – AUDITED
SEPTEMBER 30, 2015 AND 2014

9. GAIN ON 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. At September 30, 2015 the balance of the settlement agreement was paid in full. This resulted in a gain on settlement of accounts payable of \$58,273.

10. 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:

Effective October 21, 2015, the Company and the Holder of an Exchange Note with a maturity date of September 30, 2015 entered into a Third Extension and Amendment Agreement ("Agreement"), under which the maturity date was extended 18 months to March 30, 2017 for the remaining principal, interest, and costs totaling \$143,033 at the time of the amendment. Under the Agreement the Company agreed to provide monthly payments of \$10,000. The balance of terms remained unchanged.

On October 26, 2015 the Company received an advance of \$10,000 under a 10% unsecured promissory note (the "Note") issued on August 5, 2014 for the principal sum of up to principal amount of up to \$80,000 to a related party. The principal use of 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.

On October 28, 2015, the Company received an advance in the amount of \$50,000 under a 10% unsecured convertible promissory note (the "Note") issued on November 20, 2014 for the principal sum of up to \$400,000.

