XSUNX INC
Form 10-Q
May 16, 2016

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

FORM 10-Q

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

For The Quarterly Period Ended: March 31, 2016

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

For The Transition Period From ___________ to _______________

Commission File Number: 000-29621

XSUNX, INC.
(Exact name of registrant as specified in its charter)

Colorado	84-1384159
(State of incorporation)	(I.R.S. Employer Identification No.)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No

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

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). Yes
No

The number of shares of common stock issued and outstanding as of May 16, 2016 was 729,872,378.

TABLE OF CONTENTS

Table of Contents

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

XSUNX, INC.
CONDENSED BALANCE SHEETS

	March 31, 2016 (Unaudited)	September 30, 2015
ASSETS		
CURRENT ASSETS		
Cash	$63,897	$78,770
Accounts receivable	91,578	-
Cost and estimated earnings in excess of billing	-	6,661
Prepaid expenses	13,570	4,171
Total Current Assets	169,045	89,602
PROPERTY & EQUIPMENT		
Office & miscellaneous equipment	29,842	35,853
Machinery & equipment	626	64,538
	30,468	100,391
Less accumulated depreciation	(29,868)	(95,126)
Net Property & Equipment	600	5,265
TOTAL ASSETS	$169,645	$94,867
LIABILITIES AND SHAREHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable	$116,008	$41,919
Credit card payable	53,017	41,707
Accrued expenses	2,599	3,787
Accrued interest on notes payable	18,638	22,086
Deferred revenue	-	15,000
Derivative liability	341,349	622,201
Promissory note, related party	35,000	-
Convertible promissory note, related party	12,000	12,000
Convertible promissory notes, net of $33,951 and $64,582 in discounts	219,082	215,418
Total Current Liabilities	797,693	974,118
TOTAL LIABILITIES	797,693	974,118
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		
729,872,377 and 704,918,657 shares issued and outstanding, respectively	32,481,332	32,359,171
Additional paid in capital	5,335,398	5,335,398
Paid in capital, common stock warrants	3,811,700	3,811,700
Accumulated deficit	(42,256,528)	(42,385,570)
TOTAL SHAREHOLDERS' DEFICIT	(628,048)	(879,251)
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT	$169,645	$94,867

The accompanying notes are an integral part of these financial statements

3

Table of Contents

XSUNX, INC.
CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015	Six Months Ended March 31, 2016	Six Months Ended March 31, 2015
SALES	372,718	374,549	575,948	617,757
COST OF GOODS SOLD	204,974	313,671	363,695	514,723
GROSS PROFIT	167,744	60,878	212,253	103,034
OPERATING EXPENSES				
Selling, general and administrative expenses	127,059	129,534	251,761	263,943
Depreciation and amortization expense	736	1,319	1,541	2,243
TOTAL OPERATING EXPENSES	127,795	130,853	253,302	266,186
INCOME (LOSS) FROM OPERATIONS BEFORE OTHER INCOME (EXPENSES)	39,949	(69,975)	(41,049)	(163,152)
OTHER INCOME (EXPENSES)				
Penalties	(222)	(472)	(222)	(472)
Loss on commitment fees	-	-	-	(22,080)
Gain on forgiveness of debt	-	58,273	-	58,273
Gain on sale of asset	11,249	-	12,249	-
Gain on conversion of debt and change in derivative liability	140,227	(762,622)	219,557	(590,042)
Interest expense	(30,740)	(82,089)	(61,493)	(116,289)
TOTAL OTHER INCOME (EXPENSES)	120,514	(786,910)	170,091	(670,610)
NET INCOME (LOSS)	$160,463	$(856,885)	$129,042	$(833,762)
BASIC AND DILUTED EARNINGS (LOSS) PER SHARE	$0.00	$(0.00)	$0.00	$(0.00)
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING				
BASIC	711,892,631	633,858,136	708,386,589	612,395,816
DILUTED	811,358,293	633,858,136	807,852,251	612,395,816

The accompanying notes are an integral part of these financial statements

Table of Contents

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

	Preferred Stock Shares	Amount	Common Stock Shares	Amount	Additional Paid-in Capital	Stock Options/ Warrants Paid-in-Capital	Accumulated Deficit	Total
Balance at September 30, 2015	5,000	$ 50	704,918,657	$32,359,171	$5,335,398	$ 3,811,700	$(42,385,570)	$(879,251)
Common stock issued upon conversion of debt and accrued interest	-	-	24,953,720	122,161	-	-	-	122,161
Net income for the six months ended March 31, 2016	-	-	-	-	-	-	129,042	129,042
Balance at March 31, 2016 (unaudited)	5,000	$ 50	729,872,377	$32,481,332	$5,335,398	$ 3,811,700	$(42,256,528)	$(628,048)

The accompanying notes are an integral part of these financial statements

Table of Contents

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

	Six Months Ended March 31, 2016	Six Months Ended March 31, 2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$129,042	$(833,762)
Adjustment to reconcile net income (loss) to net cash used in operating activities		
Depreciation & amortization	1,541	2,243
Commitment fees	-	22,080
Loss on sale of asset	(12,249)	-
Gain on forgiveness of debt	-	(58,273)
(Gain) Loss on conversion of debt and change in derivative liability	(219,557)	590,042
Amortization of debt discount recorded as interest expense	44,170	92,983
	-	
Change in Assets and Liabilities:		
(Increase) Decrease in:		
Accounts receivable	(91,578)	(20,370)
Cost in excess of billing	6,661	-
Prepaid expenses	(9,399)	(3,413)
Increase (Decrease) in:		
Accounts payable	85,398	3,317
Accrued expenses	15,724	27,042
Deferred revenue	(15,000)	(10,000)
NET CASH USED IN OPERATING ACTIVITIES	(65,247)	(188,111)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed asset	(626)	-
Proceeds from sale of assets	16,000	-
NET CASH PROVIDED BY INVESTING ACTIVITIES	15,374	-
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from convertible promissory notes	50,000	125,000
Payments on convertible promissory notes	(50,000)	-
Proceeds from related party promissory notes	35,000	36,000
NET CASH PROVIDED BY FINANCING ACTIVITIES	35,000	161,000
NET DECREASE IN CASH	(14,873)	(27,111)
CASH, BEGINNING OF PERIOD	78,770	50,838

CASH, END OF PERIOD	$63,897	$23,727
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	$410	$-
Taxes paid	$-	$-
SUPPLEMENTAL DISCLOSURES OF NON CASH TRANSACTIONS		
Fair value of issuance of common stock upon conversion of debt and accrued interest	$122,161	$1,010,117
Derivative liability extinguishment	$75,316	$741,352
Debt discount on new issuances	$13,539	$157,550
Accrued interest capitalized into convertible notes	$16,033	$22,139

The accompanying notes are an integral part of these financial statements
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Table of Contents

XSUNX, INC.
NOTES TO THE CONDENSED FINANCIAL STATEMENTS – UNAUDITED
MARCH 31, 2016

1. Basis of Presentation

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all normal recurring adjustments considered necessary for a fair presentation have been included. Operating results for the six months ended March 31, 2016 are not necessarily indicative of the results that may be expected for the year ended September 30, 2016. For further information refer to the financial statements and footnotes thereto included in the Company's Form 10-K for the year ended September 30, 2015.

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, fair value of derivative liabilities, and the fair value of stock options. Actual results could differ from those estimates.

Cash and Cash Equivalents

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

Revenue Recognition

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 the periods as 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.

Table of Contents

XSUNX, INC.
NOTES TO THE CONDENSED FINANCIAL STATEMENTS – UNAUDITED
MARCH 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Asset, "Costs and estimated earnings 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 March 31, 2016, 100% of the contracts were completed.

Contract Receivables
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.

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 assess potential warranty costs, and other allowances, based on our experience in servicing warranty claims as they may arise in the future. During the six months ended March 31, 2016 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.

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.

The diluted earnings per share included the 99,465,662 shares of common stock issuable from convertible debt of $265,033 for the three months ended March 31, 2016.

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 March 31, 2016, 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.

XSUNX, INC.
NOTES TO THE CONDENSED FINANCIAL STATEMENTS – UNAUDITED
MARCH 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

We measure certain financial instruments at fair value on a recurring basis. Assets and liabilities measured at fair value on a recurring basis are as follows at March 31, 2016:

	Total	(Level 1)	(Level 2)	(Level 3)
Liabilities				
Derivative Liability	$341,349	$ -	$ -	$341,349
Convertible Promissory Notes, net of discount	$219,082	$ -	$ -	$219,082
Total Liabilities measured at fair value	$560,431	$ -	$ -	$560,431

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

Balance as of October 1, 2015	$622,201
Fair value of derivative liabilities issued	13,539
Net Gain on change in derivative liability	(294,391)
Ending balance as of March 31, 2016	$341,349

Recent Accounting Pronouncements

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

3. CAPITAL STOCK

At March 31, 2016, the Company's authorized stock consisted of 2,000,000,000 shares of common stock, with no par value. The Company is also authorized to issue 50,000,000 shares of preferred stock with a par value of $0.01 per share of which 10,000 shares have been designated as Series A Preferred Stock. The rights, preferences and privileges of the holders of the preferred stock are determined by the Board of Directors prior to issuance of such shares.

During the six months ended March 31, 2016, the Company issued 24,953,721 shares of common stock upon conversion of principal in the amount of $43,000, plus accrued interest of $4,327 and recognized loss upon conversion of the note in the amount of $74,834.

Table of Contents

XSUNX, INC.
NOTES TO THE CONDENSED FINANCIAL STATEMENTS – UNAUDITED
MARCH 31, 2016

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.

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

	3/31/2016	
	Number of Options	Weighted average exercise price
Outstanding, beginning of the period	4,500,000	$ 0.024
Granted	-	-
Exercised	-	-
Expired	(3,000,000)	-
Outstanding, end of the period	1,500,000	$ 0.045
Exercisable at the end of the period	1,500,000	$ 0.045
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 March 31, 2016 was as follows:

Exercisable Prices	Stock Options Outstanding	Stock Options Exercisable	Weighted Average Remaining Contractual Life (years)
$ 0.045	1,500,000	1,500,000	0.78 years
	1,500,000	1,500,000	

We account for stock-based payment award forfeitures as they occur. The Company did not recognized stock-based compensation expense in the statement of operations during the six months ended March 31, 2016.

5. CONVERTIBLE PROMISSORY NOTES

On September 30, 2014, the amended note dated September 30, 2013 expired. On October 1, 2014, the Company and the Holder of the note entered into an extension of the note. The remaining principal balance of $203,496, plus interest of $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 period the Company paid $50,000 of the principal balance, leaving a remaining balance of $93,033.

Table of Contents

XSUNX, INC.
NOTES TO THE CONDENSED FINANCIAL STATEMENTS – UNAUDITED
MARCH 31, 2016

5. CONVERTIBLE PROMISSORY NOTES (Continued)

On November 20, 2014, the Company issued a 10% unsecured convertible promissory note (the "Note") for the principal sum of up to $400,000 plus accrued interest on any advanced principal funds. 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 October 27, 2015, the lender advanced an additional $235,000 under the Note. As of March 31, 2016, there remains an aggregate outstanding principal balance of $160,000. During the six months ended March 31, 2016, the Company recognized debt amortization as interest expense in the amount of $44,170.

Issuance of Convertible Promissory Notes for Services to Related Party
As of March 31, 2016, the remaining unsecured Convertible Promissory Notes (the "Notes") in the amount of $12,000 to a Board member (the "Holder") in exchange for retention as a director during the fiscal year ending September 30, 2014. The Note can be converted into shares of common stock by the Holder for $0.0045 per share. The Note matured on October 1, 2015, and bore a one-time interest charge of $1,200 which was applied to the principal on October 1, 2014. 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.

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 1.06%
Stock volatility factor	Between 61.10% and 256.58%
Months to Maturity	6 months to 2 years
Expected dividend yield	None

At March 31, 2016, the fair value of the derivative liability was $341,349.

6. NOTE PAYABLE-RELATED PARTY

On August 5, 2014 the Company issued a 10% unsecured promissory note (the "Note") to a related party in the aggregate principal amount of up to $80,000, plus accrued interest on any advanced principal funds. During the six months ended March 31, 2016, the Company received advances in the aggregate of $35,000. 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. The balance as of March 31, 2016 was $35,000.

7. SUBSEQUENT EVENTS

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

On April 11, 2016, 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 principal amount of up to $400,000.

Table of Contents

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

CAUTIONARY AND FORWARD LOOKING STATEMENTS

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

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

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

(a) volatility or decline of the Company's stock price;

(b) potential fluctuation in quarterly results;

(c) failure of the Company to earn revenues or profits;

(d) inadequate capital to continue or expand its business, inability to raise additional capital or financing to implement its business plans;

(e) failure to commercialize its technology or to make sales;

(f) rapid and significant changes in markets;

(g) litigation with or legal claims and allegations by outside parties;

(h) insufficient revenues to cover operating costs.

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

The Company undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date hereof. Readers should carefully review the factors described in other documents the Company files from time to time with the Securities and Exchange Commission, including the Quarterly Reports on Form 10-Q and Annual Reports on Form 10-K filed by the Company and any Current Reports on Form 8-K filed by the Company.

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

Table of Contents

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 saving 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 efforts, 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 and canopy systems.

While we believe that the commercial and residential rooftop solar will continue to offer sales growth opportunities, non-residential solar carport and canopy 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 began to establish 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 solar canopy 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 and canopies 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 canvasing, 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.

Table of Contents

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2016 COMPARED TO THREE MONTHS ENDED MARCH 31, 2015.

Revenue and Cost of Sales:

The Company generated revenues in the three months ended March 31, 2016 and 2015 of $372,718 and $374,549 respectively. The decrease in revenue during the three months ended March 31, 2016 was a result of having focused our resources during the period into the development of our ability to deliver solar carport and canopy systems directly without the need for specialty third party contractors. We believe that the refocusing of resources into this area during the period has provided us with a distinct pricing advantage for solar carports and canopies that will improve our ability to market these products and services, and to generate revenues, in future periods. The costs of goods sold for the three months ended March 31, 2016 and 2015 was $204,974 and $313,671, respectively. The Company to date has had minimal revenue and cost of sales. Management expects to continue to generate revenues, and is working to increase sales as it matures the scope of the Company's capabilities and brand awareness.

Selling, General and Administrative Expenses:

Selling, General and Administrative (SG&A) expenses decreased by $2,475 during the three months ended March 31, 2016 to $127,059 as compared to $129,534 for the three months ended March 31, 2015. The decrease in SG&A expenses was related primarily due to the Company having focused its marketing and sales resources during the period into the development of our ability to deliver solar carport and canopy systems directly without the need for specialty third party contractors. We believe that the refocusing of resources into this area during the period has provided us with a distinct pricing advantage for solar carports and canopies that will improve our ability to market these products and services, and to generate revenues, in future periods. 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) increased by $907,424 to $120,514 for the three months ended March 31, 2016, compared to $(786,910) for the three months ended March 31, 2015. The decrease was the result of a decrease in interest expense of $51,349, which included a decrease in non-cash amortization of debt discount in the amount of $49,530, a decrease in gain on forgiveness of debt of $58,273, and a decrease in penalties of $250, with an increase in non-cash gain on conversion of debt and change of fair value of the derivative instruments of $902,849, and an increase in gain on sale of asset of $11,249.

Net Income (Loss):

For the three months ended March 31, 2016, our net income was $160,463 as compared to a net loss of $(856,885) for the three months ended March 31, 2015. This decrease in net loss primarily stems from the decrease in other income (expenses) associated with the derivative instruments, and an overall decrease in operating expenses, with an increase in gross profit due to an decrease in cost of sales. While management is working to increase sales and revenues as it matures the scope of the Company's capabilities and brand awareness for its commercial solar PV systems, the Company anticipates the trend of losses may continue in future periods until the Company can recognize sales of significance of which there is no assurance.

RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED MARCH 31, 2016 COMPARED TO SIX MONTHS ENDED MARCH 31, 2015.

Revenue and Cost of Sales:

The Company generated revenues in the six months ended March 31, 2016 and 2015 of $575,948 and $617,757 respectively. The decrease in revenue during the six months ended March 31, 2016 was a result of having focused our resources during the period into the development of our ability to deliver solar carport and canopy systems directly without the need for specialty third party contractors. We believe that the refocusing of resources into this area during the period has provided us with a distinct pricing advantage for solar carports and canopies that will improve our ability to market these products and services, and to generate revenues, in future periods. The costs of goods sold for the six months ended March 31, 2016 and 2015 was $363,695 and $514,723, respectively. The Company to date has had minimal revenue and cost of sales. Management expects to continue to generate revenues, and is working to increase sales as it matures the scope of the Company's capabilities and brand awareness.

Selling, General and Administrative Expenses:

Selling, General and Administrative (SG&A) expenses decreased by $12,182 during the six months ended March 31, 2016 to $251,761 as compared to $263,943 for the six months ended March 31, 2015. The decrease in SG&A expenses was related primarily resulting from the Company having focused its marketing and sales resources during the period into the development of our ability to deliver solar carport and canopy systems directly without the need for specialty third party contractors. We believe that the refocusing of resources into this area during the period has provided us with a distinct pricing advantage for solar carports and canopies that will improve our ability to market these products and services, and to generate revenues, in future periods. 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) increased by $840,701 to $170,091 for the six months ended March 31, 2016, compared to $(670,610) for the six months ended March 31, 2016. The decrease was the result of a decrease in interest expense of $54,796, which included a decrease in non-cash amortization of debt discount in the amount of $48,812, a decrease in loss on commitment fees of $22,080, a decrease in gain on forgiveness of debt of $58,273, and a decrease in penalties of $250, with an increase in non-cash gain on conversion of debt and change of fair value of the derivative instruments of $809,599, and an increase in gain on sale of asset of $12,249.

Net Income (Loss):

For the six months ended March 31, 2016, our net income was $129,042 as compared to a net loss of $(833,762) for the six months ended March 31, 2015. This decrease in net loss primarily stems from the decrease in other income (expenses) associated with the derivative instruments, and an overall decrease in operating expenses, with an increase in gross profit due to an decrease in cost of sales. While management is working to increase sales and revenues as it matures the scope of the Company's capabilities and brand awareness for its commercial solar PV systems, the Company anticipates the trend of losses may continue in future periods until the Company can recognize sales of significance of which there is no assurance.

Liquidity and Capital Resources

We had a working capital deficit at March 31, 2016 of $628,648, as compared to a working capital deficit of $884,516 as of September 30, 2015. The decrease of $255,868 in working capital deficit was the result of a decrease in cash, deferred income, derivative liability, and accrued expenses, with an increase in accounts receivable, cost in excess of billing, prepaid expenses, accounts payable and other payable, an increase in billing in excess of cost, notes payable and convertible notes.

Cash flow used by operating activities was $65,247 for the six months ended March 31, 2016, as compared to cash flow used by operating activities of $188,111 for the six months ended March 31, 2015. The decrease in cash flow used by operating activities was due to a decrease in net loss primarily due to the decrease in cost of goods sold.

Cash flow provided by investing activities for the six months ended March 31, 2016 and 2015 were $15,374 and $0, respectively. The net change in investing activities was primarily due to proceeds received of $16,000 from the sale of certain assets in the current period, with an offset of the purchase of fixed assets.

Cash provided by financing activities for the six months ended March 31, 2016 was $35,000, as compared to $161,000 for the six months ended March 31, 2015. Our capital needs have primarily been met from the proceeds of private placements, convertible notes, and initial revenues resulting from our change in business operations focused on the sale, design, and installation of Solar Photovoltaic (PV) Systems for commercial and industrial real-estate in in the period.

Our financial statements as of March 31, 2016 have been prepared under the assumption that we will continue as a going concern. Our independent registered public accounting firm has issued their report dated January 8, 2016, that included an explanatory paragraph expressing substantial doubt in our ability to continue as a going concern without additional capital becoming available. Our ability to continue as a going concern ultimately is dependent on our ability to generate a profit which is dependent upon our ability to obtain additional equity or debt financing, attain further operating efficiencies and, ultimately, to achieve profitable operations. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

For the six months ended March 31, 2016, the Company's capital needs have been met from the use of working capital provided by the proceeds of (i) the Company’s working capital and (ii) the sale of debt proceeds totaling $50,000, and (iii) revenues in the amount of $575,948.

Short Term

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

Capital Resources

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

Need for Additional Financing

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

OFF-BALANCE SHEET ARRANGEMENTS

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

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

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

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

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

Table of Contents

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 March 31, 2016 based on the framework set forth in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") that has been modified to more appropriately reflect the current limited operational scope of the Company as a Development Stage company. The Company used the COSO guide - The Internal Control over Financial Reporting - Guidance for Smaller Public Companies to implement the Company's internal control framework. Additionally, the limited scope of operations of the Company means that traditional separation of duties controls are not used by the Company as a result of the limited staffing within the Company. The Company relies on alternative procedures to overcome this non-material control weakness.

Based on that evaluation, our Chief Executive Officer/Principal Accounting Officer concluded that our internal control over financial reporting as of March 31, 2016 was effective. Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Changes in Internal Control over Financial Reporting

As a result of what was determined to be ineffective internal controls related to our closing process for account reconciliations as of September 30, 2015 we have made changes to our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the six months ended March 31, 2016.

Table of Contents

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

None

Item 1A. Risk Factors

There are no material changes from the risk factors previously disclosed in the Registrant's Form 10-K filed with the Securities and Exchange Commission dated January 8, 2016.

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

During the three months ended March 31, 2016, the Company issued 24,953,721 shares of common stock upon partial conversion of a convertible note in principal in the amount of $43,000, plus the accrued interest of $4,327.

The Company relied on an exemption pursuant to Section 4(a)(2) of the Securities Act of 1933, as amended, in connection with the foregoing issuance.

Use of Proceeds from the Sale of Securities

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

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mining and Safety Disclosures

None.

Item 5. Other information

On April 11, 2016 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.

On February 11, 2016, the Company authorized the issuance of 9,641,697 shares of common stock upon the conversion of $18,000 of principal, and $1,765 of accrued interest, and on March 27, 2016 the Company authorized the issuance of 15,312,024 shares of common stock upon the conversion of $25,000 of principal, and $2,562 of accrued interest to the holder of a 10% convertible note originally issued November 20, 2014. The securities above were offered and sold pursuant to an exemption from the registration requirements under Section 4(a) 2 of the Securities Act since among other things the transactions did not involve a public offering.

Table of Contents

Item 6. Exhibits

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

Exhibit	Description
10.1	Form of 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. (1)
10.2	Form of Promissory Note issued on August 5, 2014, used in connection with establishing access to interim financing requirements for solar system installations in the amount of up to $80,000. (2)
10.3	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. (3)
10.4	Form 8-K related to the

	resignation of HJ & Associates and the engagement of Haynie & Company as the independent registered public accounting firm for XsunX, Inc. (4)
31.1	Certification of Chief Financial Officer and Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act (5)
32.1	Certification of Principal Executive and Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act (5)
101.INS	XBRL Instance Document (5)
101.SCH	XBRL Taxonomy Extension Schema Document(5)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (5)
101.DEF	XBRL Taxonomy Extension Label Linkbase Document (5)
101.LAB	XBRL Taxonomy Extension

		Presentation Linkbase Document (5)
101.PRE		XBRL Taxonomy Extension Presentation Linkbase Document (5)
(1)	Incorporated by reference to exhibits included with the Company's Report on Form 10-K filed with the Securities and Exchange Commission dated January 8, 2016.	
(2)	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.	
(3)	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.
(4)	Incorporated by reference to exhibits included with the Company's Report on Form 8-K filed with the Securities and Exchange Commission dated January 18, 2016.
(5)	Filed Herewith

20

Table of Contents

SIGNATURES

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

XSUNX, INC.

Dated: May 16, 2016 By: /s/ Tom M. Djokovich
Tom M. Djokovich,
Principal Executive and Accounting Officer