XSUNX INC
Form 10-Q
August 14, 2017

---

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

---

FORM 10-Q

---

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

For The Quarterly Period Ended: June 30, 2017

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. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

| | |
|---|---|
| Large accelerated filer | Accelerated filer |
| Non-accelerated filer (Do not check if a smaller reporting company) | Smaller reporting company |
| Emerging growth company | |

If an emerging growth company indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 August 14, 2017 was 995,548,070.

TABLE OF CONTENTS

Table of Contents

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.
XSUNX, INC.
CONDENSED BALANCE SHEETS

| | June 30, 2017 (Unaudited) | September 30, 2016 |
|---|---|---|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | $53,036 | $22,172 |
| Accounts receivable | 34,499 | 30,800 |
| Cost in excess of billing | 29,269 | 10,126 |
| Prepaid expenses | 6,870 | 2,266 |
| Total Current Assets | 123,674 | 65,364 |
| PROPERTY & EQUIPMENT | | |
| Office & miscellaneous equipment | 29,842 | 29,842 |
| Machinery & equipment | 626 | 626 |
| | 30,468 | 30,468 |
| Less accumulated depreciation | (30,024) | (29,930) |
| Net Property & Equipment | 444 | 538 |
| TOTAL ASSETS | $124,118 | $65,902 |
| LIABILITIES AND SHAREHOLDERS' DEFICIT | | |
| CURRENT LIABILITIES | | |
| Accounts payable | $156,721 | $46,515 |
| Credit card payable | 62,506 | 65,114 |
| Accrued interest on notes payable | 36,506 | 28,849 |
| Billing in excess of cost | - | 41,454 |
| Derivative liability | 392,518 | 430,532 |
| Promissory note, related party | 31,500 | 35,000 |
| Convertible promissory note, related party | 12,000 | 12,000 |
| Convertible promissory notes, current portion net of debt discount of $463 and $11,148, respectively | 42,570 | 131,886 |
| Total Current Liabilities | 734,321 | 791,350 |
| LONG TERM LIABILITIES | | |
| Convertible promissory notes, net of debt discount of $466 and $0, respectively | 142,334 | 115,000 |
| Total Long Term Liabilities | 142,334 | 115,000 |

| | | |
|---|---|---|
| TOTAL LIABILITIES | 876,655 | 906,350 |
| | | |
| 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 and 5,000 shares issued and outstanding, respectively | 50 | 50 |
| Common stock, no par value; 2,000,000,000 authorized common shares 995,548,070 and 783,080,479 shares issued and outstanding, respectively | 32,891,129 | 32,640,840 |
| Additional paid in capital | 5,335,398 | 5,335,398 |
| Paid in capital, common stock warrants | 3,811,700 | 3,811,700 |
| Accumulated deficit | (42,790,814) | (42,628,436) |
| | | |
| TOTAL SHAREHOLDERS' DEFICIT | (752,537) | (840,448) |
| | | |
| TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT | $124,118 | $65,902 |

The accompanying notes are an integral part of these unaudited condensed financial statements

3

Table of Contents

XSUNX, INC.
CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | June 30, 2017 | June 30, 2016 | June 30, 2017 | June 30, 2016 |
| SALES | $159,647 | $52,813 | $1,091,258 | $628,761 |
| COST OF GOODS SOLD | 77,825 | 37,182 | 740,430 | 400,877 |
| GROSS PROFIT | 81,822 | 15,631 | 350,828 | 227,884 |
| OPERATING EXPENSES | | | | |
| Selling, general and administrative expenses | 110,895 | 122,282 | 351,946 | 374,044 |
| Depreciation and amortization expense | 31 | 57 | 94 | 1,598 |
| TOTAL OPERATING EXPENSES | 110,926 | 122,339 | 352,040 | 375,642 |
| LOSS FROM OPERATIONS BEFORE OTHER INCOME/(EXPENSES) | (29,104) | (106,708) | (1,212) | (147,758) |
| OTHER INCOME/(EXPENSES) | | | | |
| Penalties | - | - | (200) | (222) |
| Gain on sale of asset | - | - | - | 12,249 |
| Gain (Loss) on conversion of debt and change in derivative liability | (124,245) | (109,454) | (131,575) | 110,103 |
| Interest expense | (6,490) | (24,239) | (29,391) | (85,732) |
| TOTAL OTHER INCOME/(EXPENSES) | (130,735) | (133,693) | (161,166) | 36,398 |
| NET LOSS | $(159,839) | $(240,401) | $(162,378) | $(111,360) |
| BASIC AND DILUTED LOSS PER SHARE | $(0.00) | $(0.00) | $(0.00) | $(0.00) |
| WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING BASIC AND DILUTED | 967,318,748 | 743,854,380 | 901,849,325 | 727,873,505 |

The accompanying notes are an integral part of these unaudited condensed financial statements

Table of Contents

XSUNX, INC.
CONDENSED STATEMENT OF SHAREHOLDERS' DEFICIT
FOR THE NINE MONTHS ENDED JUNE 30, 2017
(Unaudited)

| | Preferred Stock | | Common Stock | | Additional Paid-in Capital | Stock Options/ Warrants Paid-in-Capital | Accumulated Deficit | Total |
|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | | | | |
| Balance at September 30, 2016 | 5,000 | $ 50 | 783,080,479 | $32,640,840 | $5,335,398 | $ 3,811,700 | $(42,628,436) | $(840,448) |
| Common stock issued upon conversion of debt and accrued interest | - | - | 212,467,591 | 250,289 | - | - | - | 250,289 |
| Net Loss for the nine months ended June 30, 2017 | - | - | - | - | - | - | (162,378) | (162,378) |
| Balance at June 30, 2017 (unaudited) | 5,000 | $ 50 | 995,548,070 | $32,891,129 | $5,335,398 | $ 3,811,700 | $(42,790,814) | $(752,537) |

The accompanying notes are an integral part of these unaudited condensed financial statements

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

| | Nine Months Ended June 30, 2017 | Nine Months Ended June 30, 2016 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | $(162,378) | $(111,360) |
| Adjustment to reconcile net loss to net cash provided (used) in operating activities | | |
| Depreciation & amortization | 94 | 1,598 |
| Gain on sale of asset | - | (12,249) |
| (Gain)/Loss on conversion of debt and change in derivative liability | 131,575 | (110,103) |
| Amortization of debt discount recorded as interest expense | 10,752 | 60,819 |
| (Increase) Decrease in Change in Assets: | | |
| Accounts receivable | (3,699) | (20,000) |
| Cost in excess of billing | (19,143) | 6,661 |
| Prepaid expenses | (4,604) | (3,710) |
| Increase (Decrease) in Change in Liabilities: | | |
| Accounts payable | 107,598 | 6,584 |
| Accrued expenses | 15,623 | 25,322 |
| Billing in excess of cost | (41,454) | 26,137 |
| Deferred revenue | - | (15,000) |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | 34,364 | (145,301) |
| 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 | 25,000 | 130,000 |
| Payments on convertible promissory notes | (25,000) | (80,000) |
| Proceeds from related party promissory notes | - | 35,000 |
| Payments on related party promissory notes | (3,500) | - |
| NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES | (3,500) | 85,000 |
| NET INCREASE/(DECREASE) IN CASH | 30,864 | (44,927) |
| CASH, BEGINNING OF PERIOD | 22,172 | 78,770 |
| CASH, END OF PERIOD | $53,036 | $33,843 |

| | | |
|---|---|---|
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |
| Interest paid | $18,638 | $410 |
| Taxes paid | $- | $- |
| | | |
| SUPPLEMENTAL DISCLOSURES OF NON CASH TRANSACTIONS | | |
| Fair value of issuance of common stock upon conversion of debt and accrued interest | $250,289 | $223,372 |
| Debt discount on new issuances | $369 | $15,347 |
| Accrued interest capitalized into convertible notes | $- | $16,033 |

The accompanying notes are an integral part of these unaudited condensed financial statements

Table of Contents
XSUNX, INC.
NOTES TO THE CONDENSED FINANCIAL STATEMENTS – UNAUDITED
JUNE 30, 2017

1. Basis of Presentation

The accompanying unaudited condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all normal recurring adjustments considered necessary for a fair presentation have been included. Operating results for the nine months ended June 30, 2017 are not necessarily indicative of the results that may be expected for the year ended September 30, 2017. 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, 2016.

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 nine months ended June 30, 2017. 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, revenue recognition, the deferred tax valuation allowance, the fair value of stock options, and derivative liabilities. 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. Revenue is recognized based on the percentage of cost incurred. 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
JUNE 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Asset, "Costs in excess of billing" represents revenues recognized in excess of amounts billed on contracts in progress. The Liability, "Billing in excess of costs", represents billings in excess of revenues recognized on contracts in progress. At June 30, 2017, the cost in excess of billing was $29,269 and the billing in excess of costs was $0.

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 access potential warranty costs, and other allowances, based on our experience in servicing warranty claims as they may arise in the future. During the nine months ended June 30, 2017 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.

Net Earnings (Loss) per Share Calculations
Net earnings (Loss) per share dictates the calculation of basic earnings (loss) per share and diluted earnings per share. Basic earnings (loss) per share are computed by dividing by the weighted average number of common shares outstanding during the year. Diluted net earnings (loss) per share is computed similar to basic earnings (loss) per share except that the denominator is increased to include the effect of stock options and stock based awards (Note 4), plus the assumed conversion of convertible debt (Note 5).

For the nine months ended June 30, 2017, the Company calculated the dilutive impact of the convertible debt of $197,833, which is convertible into shares of common stock. The convertible debt was not included in the calculation of net loss per share, because their impact was anti-dilutive.

For the nine months ended June 30, 2016, the Company calculated the dilutive impact of the convertible debt of $290,000, which is convertible into shares of common stock. The convertible debt was included in the calculation of net earnings per share, because their impact was dilutive.

Fair Value of Financial Instruments

Fair Value of Financial Instruments, requires disclosure of the fair value information, whether or not recognized in the balance sheet, where it is practicable to estimate that value. As of June 30, 2017, 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.

Table of Contents
XSUNX, INC.
NOTES TO THE CONDENSED FINANCIAL STATEMENTS – UNAUDITED
JUNE 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

We measure certain financial instruments at fair value on a recurring basis. Assets and liabilities measured at fair value on a recurring basis are as follows at June 30, 2017:

| | Total | (Level 1) | (Level 2) | (Level 3) |
|---|---|---|---|---|
| Liabilities | | | | |
| Derivative Liability | $392,518 | $ - | $ - | $392,518 |
| Total Liabilities measured at fair value | $392,518 | $ - | $ - | $392,518 |

Fair Value of Financial Instruments

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, 2016 | $430,532 |
| Fair value of derivative liabilities issued | 535 |
| Gain on change in derivative liability and conversion of debt | (38,549 ) |
| Ending balance as of June 30, 2017 | $392,518 |

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) to clarify the principles of recognizing revenue and create common revenue recognition guidance between U.S. GAAP and International Financial Reporting Standards. Under ASU 2014-09, revenue is recognized when a customer obtains control of promised goods or services and is recognized at an amount that reflects the consideration expected to be received in exchange for such goods or services. In addition, ASU 2014-09 requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The ASU is effective for fiscal years beginning after December 15, 2017. The new revenue standard is principle based and interpretation of those principles may vary from company to company based on their unique circumstances. The Company is still in the process of evaluating the effect of the new standard on the Company's historical financial statements and disclosures. While the Company has not completed its evaluation, the Company currently believes that the impact to revenue and expense recognized will not be material to any of the years presented.

XSUNX, INC.
NOTES TO THE CONDENSED FINANCIAL STATEMENTS – UNAUDITED
JUNE 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In August 2016, FASB issued accounting standards update ASU-2016-15, "Statement of Cash Flows" (Topic 230) – Classification of Certain Cash Receipts and Cash Payments", to address diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments in this ASU are effective for public and nonpublic entities for fiscal years beginning after December 15, 2018, and interim periods with fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. The Company is currently evaluating the impact of the adoption of ASU 2016-15 on the Company's financial statements.

Management does not believe that any other 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 June 30, 2017, the Company's authorized stock consisted of 2,000,000,000 shares of common stock, with no par value. The Company is also authorized to issue 50,000,000 shares of preferred stock with a par value of $0.01 per share of which 10,000 shares have been designated as Series A Preferred Stock. The rights, preferences and privileges of the holders of the preferred stock are determined by the Board of Directors prior to issuance of such shares.

During the nine months ended June 30, 2017, the Company issued 212,467,591 shares of common stock upon conversion of principal in the amount of $69,512, plus accrued interest of $10,653, with an aggregate fair value loss on settlement of debt of $170,124.

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:

| | 6/30/2017 | |
|---|---|---|
| | Number of Options | Weighted average exercise price |
| Outstanding, beginning of the period | 1,500,000 | $ 0.045 |
| Granted | - | - |
| Exercised | - | - |
| Expired | (1,500,000) | 0.045 |

| | | |
|---|---|---|
| Outstanding, end of the period | - | $ - |
| Exercisable at the end of the period | - | $ - |
| Weighted average fair value of options granted during the period | | $ - |

We account for stock-based payment award forfeitures as they occur. The Company did not recognize stock-based compensation expense in the statement of operations during the nine months ended June 30, 2017.

Table of Contents
XSUNX, INC.
NOTES TO THE CONDENSED FINANCIAL STATEMENTS – UNAUDITED
JUNE 30, 2017

## 5. CONVERTIBLE PROMISSORY NOTES

On October 20, 2015, the Company entered into a third extension of a Note originally issued September 30, 2013. The extension terms included 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 of the Note remained substantially the same. During the nine months ended June 30, 2017 the Company paid $25,000 of the principal balance, leaving a remaining balance of $18,033. As of June 30, 2017, the Note has matured and the Company and the Holder have entered into discussions for the repayment of the Note.

On November 20, 2014, the Company issued a 10% unsecured convertible promissory note (the "November Note") for the principal sum of up to $400,000 plus accrued interest on any advanced principal funds. The November Note matures eighteen months from each advance. The November Note may be converted by the lender into shares of common stock of the Company at the lesser of $.0125 per share or (b) fifty percent (50%) of the three lowest trade prices following issuance of the November Note or (c) the lowest effective price per share granted to any person or entity. On November 20, 2014, the lender advanced $50,000 to the Company under the November Note at inception. On various dates from February 18, 2015 through September 30, 2016, the lender advanced an additional $350,000 under the November Note. During the nine months ended June 30, 2017, the Company issued 212,467,591 shares of common stock upon conversion of $69,512 in principal, plus accrued interest of $10,653. As of June 30, 2017, there remains an aggregate outstanding principal balance of $142,800. During the nine months ended June 30, 2017, the Company recognized debt amortization as interest expense in the amount of $10,680.

On May 12, 2017, the Company issued a 10% unsecured convertible promissory note (the "May Note") for the principal sum of up to $150,000 plus accrued interest on any advanced principal funds. The Company received a tranche in the amount of $25,000 upon execution of the May Note. The Lender may pay additional consideration at the Lenders discretion. The May Note matures twelve months from each tranche. Within thirty (30) days prior to the maturity date, the Lender may extend the maturity date to sixty (60) months. The May Note may be converted by the lender into shares of common stock of the Company at the lesser of $.01 per share or (b) fifty percent (50%) of the lowest trade price of common stock recorded on any trade day after the effective date, or (c) the lowest effective price per share granted to any person or entity. The Company recorded debt discount of $535 related to the conversion feature of the May Note, along with derivative liability at inception. During the nine months ended June 30, 2017, the Company recognized debt amortization as interest expense in the amount of $72.

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 0.51% and 2.03% |
| Stock volatility factor | Between 93.0% and 173.0% |
| Months to Maturity | 1 - 5 years |
| Expected dividend yield | None |

At June 30, 2017, the fair value of the derivative liability was $392,518.

Table of Contents
XSUNX, INC.
NOTES TO THE CONDENSED FINANCIAL STATEMENTS – UNAUDITED
JUNE 30, 2017

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. 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 twenty four (24) months from each advance. During the period the Company paid back $3,500 of the Note. The balance as of June 30, 2017 was $31,500, plus accrued interest of $6,633.

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 subsequent events to report.

On July 31, 2017, the Company received an additional tranche in the amount of $25,000 from a May 12, 2017 10% unsecured convertible promissory note (the May Note).

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 and Form 10-K/A.

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 and Form 10-K/A 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.

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.

Table of Contents

Business Overview/Summary

XsunX specializes in the sale, design, and installation of solar photovoltaic power generation (PV), energy storage, and energy efficiency technologies to provide our clients long term savings, predictability, and control of their energy costs. Making solar energy a sound investment for our clients is our mission.

We service the commercial and residential PV markets in California specializing in solar carport, truckport, and solar PV canopy systems providing project assessment and installation services to our customers including technology selection, system engineering, procurement, permitting, construction, grid connection, warranty management, system monitoring and maintenance. We offer a wide variety of energy production and management technologies, design our systems in-house to ensure that the performance of the systems we deliver match the financial projections, and our full-time project management and licensed assembly crews ensure a seamless process, from start to finish.

The Company operates as licensed contractor in California, and our executive management provides over 30 years of extensive experience in all aspects of construction and project assembly to ensure the accuracy and quality of systems, the continued integrity of the improved building or site, and compliance with all construction codes.

We guide our performance by striving to deliver consistently on the following core objectives:

Commitment – to keeping the customer’s best interests at the forefront at all times; and,

Value – through a focus on performance and follow through that meets or exceeds customer expectations.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2017 COMPARED TO THREE MONTHS ENDED JUNE 30, 2016.

Revenue and Cost of Sales:

The Company generated revenues in the three months ended June 30, 2017 and 2016 of $159,647 and $52,813 respectively. The increase in revenue during the three months ended June 30, 2017 was the result of our marketing efforts for the sale of our commercial solar carport and truckport PV systems.

We believe that the development of our solar canopy PV systems in prior periods continues to provide us with the greatest opportunity for sales growth, and revenue generation in future periods. However, the sale and delivery of our canopy systems can experience extended sales cycles attributable to delays in customer project financing that can delay our ability to close sales timely, or to recognize revenues through extended planning or permitting processes for the canopy structures that may span reporting periods. We anticipate that through our marketing efforts purchase interest, and sales, in this product group will continue to improve and provide us with increased project flow that may result in more consistent period to period revenue generation results.

The costs of goods sold for the three months ended June 30, 2017 and 2016 was $77,825 and $37,182, respectively. The Company to date has had minimal revenue and cost of sales, and anticipates continuing to generate revenues while working to increase sales volumes 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 $11,387 during the three months ended June 30, 2017 to $110,895 as compared to $122,282 for the three months ended June 30, 2016. The decrease in SG&A expenses was related primarily due to the Company experiencing a decrease in administrative costs. Management expects SG&A expenses to increase in future periods as the Company continues to expand its marketing, sales, and service efforts.

Depreciation Expense:

Depreciation expense for the three months ended June 30, 2017 was $31, compared to $57 for the three months ended June 30, 2016.

Other Income/(Expenses):

Other income and (expenses) decreased by $(2,958) to $(130,735) for the three months ended June 30, 2017, compared to $(133,693) for the three months ended June 30, 2016. The decrease was the result of a decrease in interest expense of $17,749, which included a decrease in non-cash amortization of debt discount in the amount of $15,593, and a decrease in non-cash loss on conversion of debt and change of fair value of the derivative instruments of $103,282, with an increase in fair value of loss on settlement of debt of $118,073.

Table of Contents

Net Income (Loss):

For the three months ended June 30, 2017, our net loss was $(159,839) as compared to net loss of $(240,401) for the three months ended June 30, 2016. This decrease in net income 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 increase in revenue.

RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED JUNE 30, 2017 COMPARED TO NINE MONTHS ENDED JUNE 30, 2016.

Revenue and Cost of Sales:

The Company generated revenues in the nine months ended June 30, 2017 and 2016 of $1,091,258 and $628,761 respectively. The increase in revenue during the nine months ended June 30, 2017 was the result of our marketing efforts for the sale of our commercial solar carport and truckport systems.

We believe that the development of our solar canopy PV systems in prior periods continues to provide us with the greatest opportunity for sales growth and revenue generation in future periods. However, the sale and delivery of our canopy systems can experience extended sales cycles attributable to delays in customer project financing that can delay our ability to close sales timely, or to recognize revenues through extended planning or permitting processes for the canopy structures that may span reporting periods. We anticipate that through our marketing efforts purchase interest, and sales, in this product group will continue to improve and provide us with increased project flow that may result in more consistent period to period revenue generation results.

The costs of goods sold for the nine months ended June 30, 2017 and 2016 was $740,430 and $400,877, respectively. The Company to date has had minimal revenue and cost of sales, and anticipates continuing to generate revenues while working to increase sales volumes 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 $22,098 during the nine months ended June 30, 2017 to $351,946 as compared to $374,044 for the nine months ended June 30, 2016. The decrease in SG&A expenses was related primarily due to the Company experiencing a decrease in the administrative costs. Management expects SG&A expenses to increase in future periods as the Company continues to expand its marketing, sales, and service efforts.

Depreciation Expense:

Depreciation expense for the nine months ended June 30, 2017 was $94, compared to $1,598 for the nine months ended June 30, 2016.

Other Income/(Expenses):

Other income and (expenses) increased by $(197,564) to $(161,166) for the nine months ended June 30, 2017, compared to $36,398 for the nine months ended June 30, 2016. The decrease was the result of a decrease in interest expense of $56,341, which included a decrease in non-cash amortization of debt discount in the amount of $50,066, a decrease in penalties of $22, a decrease in gain on sale of asset of $12,249, with an increase in non-cash loss on conversion of debt and change of fair value of the derivative instruments of $198,439, and an increase in loss on fair value on settlement of debt of $43,239.

Net Income (Loss):

For the nine months ended June 30, 2017, our net loss was $(162,378) as compared to net loss of $(111,360) for the nine months ended June 30, 2016. This increase in net loss primarily stems from the increase 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 increase in revenue.

Liquidity and Capital Resources

We had a working capital deficit at June 30, 2017 of $610,647, as compared to a working capital deficit of $725,986 as of September 30, 2016. The decrease in working capital deficit of $115,339 was the result of an increase in cash, accounts receivable, cost in excess of billing, prepaid expenses, accounts payable, accrued expenses, with a decrease in derivative liability, a decrease in billing in excess of cost, and convertible notes and other payable.

Table of Contents

Cash flow provided by operating activities was $34,364 for the nine months ended June 30, 2017, as compared to cash flows used in operating activities of $(145,301) for the nine months ended June 30, 2016. The increase in cash flow provided by operating activities was due to an increase in income, with a decrease in administrative expenses.

Cash flow provided by investing activities for the nine months ended June 30, 2017 and 2016 were $0 and $15,374, respectively. The net change in investing activities was primarily due to proceeds received of $16,000 from the sale of certain assets and purchases of fixed assets in the prior period.

Cash used in financing activities for the nine months ended June 30, 2017 was $(3,500), as compared to $85,000 provided by financing activities for the nine months ended June 30, 2016. 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 June 30, 2017 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 December 14, 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 three months ended June 30, 2017, 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, (ii) revenues in the amount of $1,091,258, and equity financing in the amount $25,000.

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.

Table of Contents

## 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

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

### Changes in Internal Control over Financial Reporting

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

Table of Contents

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings.

None

### Item 1A. Risk Factors

There are no material changes from the risk factors previously disclosed in the Registrant's Form 10-K filed with the Securities and Exchange Commission dated December 14, 2016, and Form 10-K/A dated February 17, 2017.

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

During the three months ended June 30, 2017, the Company issued 67,985,612 shares of common stock upon partial conversion of a convertible notes in principal in the amount of $27,012, plus the accrued interest of $4,198.

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 21, 2017 the Company authorized the issuance of 40,152,187 shares of common stock upon the conversion of $17,411.51 of principal and $2,664.58 of accrued interest, and again on June 1, 2017 authorized the issuance of 27,833,425 shares of common stock upon the conversion of $9,600 of principal and $1,533.37 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.

On July 31, 2017, the Company received a tranche in the amount of $25,000 from a May 12, 2017 10% unsecured convertible promissory note (the May Note).

The securities above were offered and sold pursuant to an exemption from the registration requirements under Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act") and Rule 506 of Regulation D promulgated thereunder since, among other things, the transactions did not involve a public offering and the securities were acquired for investment purposes only and not with a view to or for sale in connection with any distribution thereof.

18

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 engagement of |

| | |
|---|---|
| | Liggett & Webb P.A. as the independent registered public accounting firm for XsunX, Inc. (4) |
| 10.5 | Form of Convertible 10% Promissory Note issued on May 12, 2017, used in connection with the sale of a convertible promissory note in an amount up to $150,000. (5) |
| 31.1 | Certification of Chief Financial Officer and Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act (6) |
| 32.1 | Certification of Principal Executive and Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act (6) |
| 101.INS | XBRL Instance Document (6) |
| 101.SCH | XBRL Taxonomy Extension Schema Document(6) |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document (6) |

| | |
|---|---|
| 101.DEF | XBRL Taxonomy Extension Label Linkbase Document (6) |
| 101.LAB | XBRL Taxonomy Extension Presentation Linkbase Document (6) |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document (6) |

| | |
|---|---|
| (1) | Incorporated by reference to exhibits included with the Company's Report on Form 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) | Incorporated by reference to exhibits included with the Company's Report on Form 10-Q filed with the Securities and Exchange Commission dated May 15, 2017. |
| (6) | Filed Herewith |

Table of Contents

## SIGNATURES

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

| | |
|---|---|
| | XSUNX, INC. |
| Dated: August 14, 2017 | By: /s/ Tom M. Djokovich |
| | Tom M. Djokovich, |
| | Principal Executive and Accounting Officer |