

XSUNX INC
Form 10-Q
May 15, 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: March 31, 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.

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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 May 15, 2017 was 967,714,645.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

XSUNX, INC.

CONDENSED BALANCE SHEETS

	March 31, 2017 (Unaudited)	September 30, 2016
ASSETS		
CURRENT ASSETS		
Cash	\$43,692	\$22,172
Accounts receivable	52,955	30,800
Cost in excess of billing	98,849	10,126
Prepaid expenses	13,166	2,266
Total Current Assets	208,662	65,364
PROPERTY & EQUIPMENT		
Office & miscellaneous equipment	29,842	29,842
Machinery & equipment	626	626
	30,468	30,468
Less accumulated depreciation	(29,993)	(29,930)
Net Property & Equipment	475	538
TOTAL ASSETS	\$209,137	\$65,902
LIABILITIES AND SHAREHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable	\$208,613	\$46,515
Credit card payable	65,191	65,114
Accrued interest on notes payable	35,290	28,849
Billing in excess of cost	22,818	41,454
Derivative liability	437,862	430,532
Promissory note, related party	35,000	35,000
Convertible promissory note, related party	12,000	12,000
Convertible promissory notes, current portion net of debt discount of \$0 and \$11,148, respectively	18,033	131,886
Total Current Liabilities	834,807	791,350
LONG TERM LIABILITIES		
Convertible promissory notes, net of debt discount of \$1,450 and \$0, respectively	168,362	115,000
Total Long Term Liabilities	168,362	115,000

TOTAL LIABILITIES	1,003,169	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 927,562,458 and 783,080,479 shares issued and outstanding, respectively		
Additional paid in capital	5,335,398	5,335,398
Paid in capital, common stock warrants	3,811,700	3,811,700
Accumulated deficit	(42,630,975)	(42,628,436)
TOTAL SHAREHOLDERS' DEFICIT	(794,032)	(840,448)
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT	\$209,137	\$65,902

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

Table of ContentsXSUNX, INC.
CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended		Six Months Ended	
	March 31, March 31, 2017	March 31, 2016	March 31, 2017	March 31, 2016
SALES	\$537,909	\$372,718	\$931,611	\$575,948
COST OF GOODS SOLD	363,551	204,974	662,605	363,695
GROSS PROFIT	174,358	167,744	269,006	212,253
OPERATING EXPENSES				
Selling, general and administrative expenses	114,132	127,059	241,052	251,761
Depreciation and amortization expense	32	736	63	1,541
TOTAL OPERATING EXPENSES	114,164	127,795	241,115	253,302
INCOME (LOSS) FROM OPERATIONS BEFORE OTHER INCOME/(EXPENSES)	60,194	39,949	27,891	(41,049)
OTHER INCOME/(EXPENSES)				
Penalties	-	(222)	(200)	(222)
Gain on sale of asset	-	11,249	-	12,249
Gain (Loss) on conversion of debt and change in derivative liability	(15,976)	140,227	(7,330)	219,557
Interest expense	(11,246)	(30,740)	(22,900)	(61,493)
TOTAL OTHER INCOME/(EXPENSES)	(27,222)	120,514	(30,430)	170,091
NET INCOME (LOSS)	\$32,972	\$160,463	\$(2,539)	\$129,042
BASIC EARNING (LOSS) PER SHARE	\$0.00	\$0.00	\$(0.00)	\$0.00
DILUTED EARNING (LOSS) PER SHARE	\$0.00	\$0.00	\$(0.00)	\$0.00
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING				
BASIC	895,278,221	711,892,631	869,114,613	708,386,589
DILUTED	1,266,192,697	811,358,293	869,114,613	807,852,251

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

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XSUNX, INC.
 CONDENSED STATEMENT OF SHAREHOLDERS' DEFICIT
 FOR THE SIX MONTHS ENDED MARCH 31, 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	-	-	144,481,979	48,955	-	-	-	48,955
Net Loss for the six months ended March 31, 2017	-	-	-	-	-	-	(2,539)	(2,539)
Balance at March 31, 2017 (unaudited)	5,000	\$ 50	927,562,458	\$32,689,795	\$5,335,398	\$ 3,811,700	\$(42,630,975)	\$(794,032)

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

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CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended	
	March	March 31,
	31, 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	\$(2,539)	\$129,042
Adjustment to reconcile net (loss) income to net cash provided (used) in operating activities		
Depreciation & amortization	63	1,541
Gain on sale of asset	-	(12,249)
Loss on conversion of debt and change in derivative liability	7,330	(219,557)
Amortization of debt discount recorded as interest expense	9,697	44,170
(Increase) Decrease in Change in Assets:		
Accounts receivable	(22,155)	(91,578)
Cost in excess of billing	(88,723)	6,661
Prepaid expenses	(10,900)	(9,399)
Increase (Decrease) in Change in Liabilities:		
Accounts payable	162,175	85,398
Accrued expenses	10,208	15,724
Billing in excess of cost	(18,636)	(15,000)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	46,520	(65,247)
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
Payments on convertible promissory notes	(25,000)	(50,000)
Proceeds from related party promissory notes	-	35,000
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(25,000)	35,000
NET INCREASE/(DECREASE) IN CASH	21,520	(14,873)
CASH, BEGINNING OF PERIOD	22,172	78,770
CASH, END OF PERIOD	\$43,692	\$63,897
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	\$2,996	\$410

Taxes paid	\$-	\$-
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SUPPLEMENTAL DISCLOSURES OF NON CASH TRANSACTIONS

Issuance of common stock upon conversion of debt and accrued interest	\$48,955	\$122,161
Debt discount on new issuances	\$-	\$13,539
Accrued interest capitalized into convertible notes	\$-	\$16,033

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

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XSUNX, INC.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS – UNAUDITED

MARCH 31, 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 six months ended March 31, 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 and Form 10-K/A 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 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 six months ended March 31, 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.

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 March 31, 2017, the cost in excess of billing was \$98,849 and the billing in excess of costs was \$22,818.

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XSUNX, INC.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS – UNAUDITED
MARCH 31, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 six months ended March 31, 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 six months ended March 31, 2017, the Company calculated the dilutive impact of the convertible debt of \$199,845, 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 six months ended March 31, 2016, the Company calculated the dilutive impact of the convertible debt of \$265,033, 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 March 31, 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.

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.

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XSUNX, INC.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS – UNAUDITED
MARCH 31, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2017:

	Total	(Level 1)	(Level 2)	(Level 3)
Liabilities				
Derivative Liability	\$437,862	\$ -	\$ -	\$437,862
Total Liabilities measured at fair value	\$437,862	\$ -	\$ -	\$437,862

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
Net Loss on change in derivative liability and conversion of debt	7,330
Ending balance as of December 31, 2016	\$437,862

Recent Accounting Pronouncements

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.

In May, 2016, FASB issued accounting standards update ASU-2016-12, Revenue from Contracts with Customers (Topic 606) – Narrow-Scope Improvements and Practical Expedients. The amendments do not change the core revenue recognition principle in Topic 606. The amendments provide clarifying guidance in certain narrow areas and add some practical expedients. These amendments are effective at the same time Topic 606 is effective. Topic 606 is effective for public entities for annual reporting periods beginning after December 15, 2017, including interim reporting periods therein (i.e., January 1, 2018, for a calendar year entity). The Company is currently evaluating the impact of the adoption of ASU 2016-12 on the Company’s financial statements.

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.

3. CAPITAL STOCK

At March 31, 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 six months ended March 31, 2017, the Company issued 144,481,979 shares of common stock upon conversion of principal in the amount of \$42,500, plus accrued interest of \$6,455.

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XSUNX, INC.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS – UNAUDITED

MARCH 31, 2017

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:

	3/31/2017	Weighted average exercise price
	Number of Options	
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 recognized stock-based compensation expense in the statement of operations during the six months ended March 31, 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 period the Company paid \$25,000 of the principal balance, leaving a remaining balance of \$18,033. At March 31, 2017, the Note matured and the Company and the Holder entered into discussions for the repayment of the Note.

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 lowest trade price on any trade day following issuance of

the Note, or the lowest effective price per share granted to any person or entity to acquire common stock after the issuance date of the Note, with the exception of the price per share offered to officers and directors of the Company. The Company recorded debt discount of \$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 September 30, 2016, the lender advanced an additional \$350,000 under the Note. During the six months ended March 31, 2017, the Company issued 144,481,979 shares of common stock upon conversion of \$42,500 in principal, plus accrued interest of \$6,455. As of March 31, 2017, there remains an aggregate outstanding principal balance of \$169,812. During the six months ended March 31, 2017, the Company recognized debt amortization as interest expense in the amount of \$9,697.

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XSUNX, INC.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS – UNAUDITED

MARCH 31, 2017

5. CONVERTIBLE PROMISSORY NOTES (Continued)

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 97.53% and 173.0%
Months to Maturity	5 years
Expected dividend yield	None

At March 31, 2017, the fair value of the derivative liability was \$437,862.

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. The balance as of March 31, 2017 was \$35,000, plus accrued interest of \$5,841.

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 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 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 May 12, 2017 XsunX, Inc. (the “Company”) issued a 10% unsecured convertible promissory note (the “Note”) to an accredited investor (the “Lender”) for the principal sum of up to \$150,000 plus accrued interest on any advanced principal sums. Upon delivery the Lender advanced \$25,000 to the Company under the Note, and, subject to the Lender’s discretion, may advance additional sums to the Company up to the full principal sum of \$150,000.

The Company is only required to repay the amounts advanced by the Lender, and not required to repay any unfunded portion of the Note. The Note matures twelve months from the date of issuance and, commencing on the date of any advance, bears interest at 10% per annum on the sums advanced by the Lender. Sums advanced by the Lender under the Note may be converted into shares of the Company's common stock by the Lender at a conversion price of the lesser of \$0.01 (subject to adjustment for stock splits, dividends, combinations and other similar transactions), or 50% of the lowest trade price on any trade day following issuance of the Note, or the lowest effective price per share granted to any person or entity to acquire common stock after the issuance date of the Note, with the exception of the price per share offered to officers and directors of the Company.

The Lender agreed that so long as the Note remains outstanding, the Lender will not enter into or effect "short sales" or hedging transactions of the common stock which would established a short position with respect to the common shares of the Company.

The foregoing is qualified in its entirety by the form of Note attached as Exhibit 10.5, which is incorporated herein by reference.

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.

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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: