

XSUNX INC
Form 10-Q
May 19, 2014

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, 2014

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

For The Transition Period From _____ to _____

Commission File Number: 000-29621

XSUNX, INC.

(Exact name of registrant as specified in its charter)

Colorado
(State of incorporation)

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

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

Edgar Filing: XSUNX INC - Form 10-Q

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

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

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

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

Large accelerated filer Accelerated filer 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 20, 2014 was 549,793,160.

TABLE OF CONTENTS

	PAGE
PART I - FINANCIAL INFORMATION	
Item 1. Financial Statements	3
Balance Sheets March 31, 2014 (unaudited) and September 30, 2013 (audited)	3
Statements of Operations for the Three Months and Six Months ended March 31, 2014 and 2013 (unaudited) and the period February 25, 1997 (inception) to March 31, 2014 (unaudited)	4
Statements of Shareholders Equity for the Six Months ended March 31, 2014 (unaudited)	5
Statements of Cash Flows for the Six Months ended March 31, 2014 and 2013 (unaudited) and the period February 27, 1997 (inception) to March 31, 2014 (unaudited)	6
Notes to Financial Statements (unaudited)	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	13
Item 3 Qualitative and Quantitative Disclosures About Market Risk	17
Item 4. Controls and Procedures	17
PART II - OTHER INFORMATION	
Item 1. Legal Proceedings	19
Item 1A.Risk Factors	19
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	19
Item 3. Defaults upon Senior Securities	20
Item 4. Mine Safety Disclosure	20
Item 5. Other Information	20
Item 6. Exhibits	21
Signatures	22

PART I FINANCIAL INFORMATION**Item 1. Financial Statements.**

XSUNX, INC.

(A Development Stage Company)

BALANCE SHEETS

	March 31, 2014 (Unaudited)	September 30, 2013
ASSETS		
CURRENT ASSETS		
Cash	\$	\$
Accounts Receivable	51,232	38,573
	2,705	\$
Prepaid expenses	38,252	-
Total Current Assets	92,189	54,690
PROPERTY & EQUIPMENT		
Office & miscellaneous equipment	35,853	35,853
Machinery & equipment	228,074	266,366
Leasehold improvements	-	17,500
	263,927	319,719
Less accumulated depreciation	(205,604)	(225,397)
Net Property & Equipment	58,323	94,322
OTHER ASSETS		
Security deposit	-	2,500
Total Other Assets	-	2,500
TOTAL ASSETS	\$	\$
	150,512	151,512
LIABILITIES AND SHAREHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable	\$	\$
	127,830	147,629
Credit card payable	3,777	1,962
Accrued expenses	1,008	107
Accrued interest on notes payable	25,750	14,358
Derivative liability	692,552	705,118
	233,727	74,964

Convertible promissory notes, net of \$261,021
and

\$462,143 in discounts

Total Current Liabilities

1,084,644

944,138

TOTAL LIABILITIES

1,084,644

944,138

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 0 shares issued and outstanding,

50

50

respectively

Common stock, no par value;

2,000,000,000 authorized common shares

536,827,516 and 429,043,441 shares issued and

30,465,922

29,175,261

outstanding, respectively

Additional paid in capital

5,335,398

5,335,398

Paid in capital, common stock warrants

3,811,700

3,811,700

Deficit accumulated during the development stage

(40,547,202)

(39,115,035)

TOTAL SHAREHOLDERS' DEFICIT

(934,132)

(792,626)

TOTAL LIABILITIES AND SHAREHOLDERS'

\$

\$

DEFICIT

150,512

151,512

The accompanying notes are an integral part of these financial statements

XSUNX, INC.

(A Development Stage Company)

STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended		Six Months Ended		From Inception February 25, 1997 through March 31, 2014
	March 31, 2014	March 31, 2013	March 31, 2014	March 31, 2013	
	\$	\$	\$	\$	\$
SALES	114,117	-	144,925	-	159,805
COST OF GOODS SOLD	79,429	-	109,220	-	109,220
GROSS PROFIT	34,688	-	35,705	-	50,585
OPERATING EXPENSES					
Selling, general and administrative expenses	129,160	160,799	267,888	289,805	19,322,858
Research and development	-	15,676	2,566	30,676	3,714,564
Depreciation and amortization expense	4,621	9,169	9,239	23,821	773,708
TOTAL OPERATING EXPENSES	133,781	185,644	279,693	344,302	23,811,130
LOSS FROM OPERATIONS BEFORE OTHER INCOME/(EXPENSES)	(99,093)	(185,644)	(243,988)	(344,302)	(23,760,545)
OTHER INCOME/(EXPENSES)					
Interest income	-	-	-	-	445,537
Gain/(Loss) on sale of asset	(937)	-	(5,360)	-	19,063
Impairment of assets	-	-	-	-	(7,285,120)
Derivative financing cost	(65,299)	-	(302,477)	-	(624,056)
Write down of inventory asset	-	-	-	-	(1,177,000)
Gain on legal settlement	-	-	-	-	1,279,580
Loan and commitment fees	-	-	-	(8,966)	(7,096,690)
Forgiveness of debt	-	-	-	-	592,154
Gain/(Loss) on settlement of debt	(141,221)	(544,379)	(954,295)	(670,850)	(2,633,000)
Gain/(loss) on change in derivative liability	112,532	(106,178)	533,043	(198,645)	1,319,968
Other, non-operating	-	-	-	-	(5,215)
Penalties	-	-	(226)	-	(845)
Interest expense	(181,444)	(157,725)	(458,864)	(305,794)	(1,621,033)
TOTAL OTHER INCOME/(EXPENSES)	(276,369)	(808,282)	(1,188,179)	(1,184,255)	(16,786,657)
NET LOSS	(375,462)	(993,926)	(1,432,167)	(1,528,557)	(40,547,202)
	\$	\$	\$	\$	

Edgar Filing: XSUNX INC - Form 10-Q

BASIC AND DILUTED LOSS PER SHARE WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING	(0.00)	(0.00)	(0.00)	(0.00)
BASIC AND DILUTED	527,408,190	331,618,588	507,955,350	309,237,827

The accompanying notes are an integral part of these financial statements

XSUNX, INC.

(A Development Stage Company)

STATEMENT OF SHAREHOLDERS DEFICIT

(Unaudited)

	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Stock Options/Warrants Paid-in-Capital	Deficit Accumulated during the Development Stage	Total
Balance at September 30, 2013	5,000	50	429,043,441	29,175,261	5,335,398	3,811,700	(39,115,035)	(792,626)
Issuance of common stock for conversion of notes and interest	-	-	107,784,075	1,290,661	-	-	-	1,290,661
Net loss for the six months ended March 31, 2014	-	-	-	-	-	-	(1,432,167)	(1,432,167)
Balance at March 31, 2014	5,000	50	536,827,516	30,465,922	5,335,398	3,811,700	(40,547,202)	(934,132)

The accompanying notes are an integral part of these financial statements

XSUNX, INC.

(A Development Stage Company)

STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended		From Inception
	March 31,	March 31,	February 25,1997
	2014	2013	through March 31, 2014
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	(1,432,167)	(1,528,557)	(40,547,202)
Adjustment to reconcile net loss to net cash used in operating activities:			
Depreciation & amortization	9,239	23,821	773,708
Common stock issued for services and other expenses/prepaid	22,997	-	2,628,156
Stock option and warrant expense	-	43,140	4,085,890
Convertible notes issued for services	48,000	-	48,000
Commitment fees	-	8,966	5,780,273
Asset impairment	-	-	7,285,120
Write down of inventory asset	-	-	1,177,000
Loss on conversion and settlement of debt	954,295	670,850	2,166,039
(Gain)/Loss on sale of asset	5,360	-	(19,063)
Financing cost associated with issuance of convertible notes	302,477	-	624,056
Contributed capital and services	-	-	97,035
Settlement of lease	-	-	59,784
(Gain)/Loss on change in derivative liability	(533,043)	210,683	(1,319,968)
Amortization of debt discount	419,122	269,126	1,264,746
Change in Assets and Liabilities:			
(Increase) Decrease in:			
Accounts receivable	(2,705)	-	(2,705)
Inventory	-	-	(1,417,000)
Prepaid expenses	(22,135)	45,995	36,943
Other assets	2,500	-	-
Increase (Decrease) in:			
Accounts payable	(17,984)	6,750	2,355,974
Accrued expenses	17,303	18,043	211,685
NET CASH USED IN OPERATING ACTIVITIES	(226,741)	(231,183)	(14,711,529)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of manufacturing equipment and facilities in process	-	(32,736)	(5,909,913)
Payments on note receivable	-	-	(1,500,000)
Proceeds from sale of assets	21,400	-	290,500

Edgar Filing: XSUNX INC - Form 10-Q

Receipts on note receivable	-	-	1,500,000
Purchase of marketable prototype	-	-	(1,780,396)
Purchase of fixed assets	-	-	(630,708)
NET CASH PROVIDED/(USED) BY INVESTING ACTIVITIES	21,400	(32,736)	(8,030,517)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from warrant conversion	-	-	3,306,250
Proceeds from convertible promissory notes	218,000	258,000	6,839,000
Proceeds for issuance of common stock, net	-	-	12,648,028
NET CASH PROVIDED BY FINANCING ACTIVITIES	218,000	258,000	22,793,278
NET INCREASE (DECREASE) IN CASH	12,659	(5,919)	51,232
CASH, BEGINNING OF PERIOD	38,573	44,527	-
	\$	\$	\$
CASH, END OF PERIOD	51,232	38,608	51,232
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION	\$	\$	\$
Interest paid	343	359	121,690
	\$	\$	\$
Taxes paid	-	-	-
SUPPLEMENTAL DISCLOSURES OF NON CASH TRANSACTIONS	\$	\$	
Issuance of common stock upon conversion of debt	1,290,661	414,764	
	\$	\$	
Issuance of common stock for debt	-	765,436	

The accompanying notes are an integral part of these financial statements

XSUNX, INC.

(A Development Stage Company)

Notes to Financial Statements (Unaudited)

March 31, 2014

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, 2014 are not necessarily indicative of the results that may be expected for the year ending September 30, 2014. For further information refer to the financial statements and footnotes thereto included in the Company's Form 10-K/A for the year ended September 30, 2013.

Going Concern

The accompanying unaudited financial statements have been prepared on a going concern basis of accounting, which contemplates continuity of operations, realization of assets and liabilities and commitments in the normal course of business. The accompanying financial statements do not reflect any adjustments that might result if the Company is unable to continue as a going concern. The Company does not generate significant revenue, and has negative cash flows from operations, which raise substantial doubt about the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern and appropriateness of using the going concern basis is dependent upon, among other things, additional cash infusion. The Company has obtained funds from its shareholders since its inception through the period ended March 31, 2014. Management believes the existing shareholders and the prospective new investors will provide the additional cash needed to meet the Company's obligations as they become due, and will allow the development of its business.

2.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of XsunX, Inc. is presented to assist in understanding the Company's financial statements. The financial statements and notes are representations of the Company's management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Development Stage Activities and Operations

The Company has been in its initial stages of formation and for the six months ended March 31, 2014, had revenues of \$144,925 associated with the initial sales efforts for its solar electric photovoltaic (PV) system installation services which the Company began to market in the period covered by this report. A development stage activity is one in which all efforts are devoted substantially to establishing a new business and even if planned principal operations have commenced, revenues are insignificant.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the accompanying financial statements. Significant estimates made in preparing these financial statements include the estimate of useful lives of property and equipment, the deferred tax valuation allowance, and the fair value of stock options. Actual results could differ from those estimates.

Cash and Cash Equivalents

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

Loss per Share Calculations

Loss per Share is 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 Company's diluted loss per share is the same as the basic loss per share for the six months ended March 31, 2014, as the inclusion of any potential shares would have had an anti-dilutive effect due to the Company generating a loss.

Revenue Recognition

The Company recognizes revenue when services are performed, and at the time of shipment of products, provided that evidence of an arrangement exists, title and risk of loss have passed to the customer, fees are fixed or determinable, and collection of the related receivable is reasonably assured. To date the Company has had minimal revenue and is still in the development stage.

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.

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, 2014, the balances reported for cash, prepaid expenses, accounts payable, accrued expenses, and derivative liability approximate the fair value because of their short maturities.

We adopted ASC Topic 820 (originally issued as SFAS 157, Fair Value Measurements) as of January 1, 2008 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;
.

Edgar Filing: XSUNX INC - Form 10-Q

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, 2014:

	Total	(Level 1)	(Level 2)	(Level 3)
Assets	\$	\$	\$	\$
	-	-	-	-
Total assets measured at fair value	\$	\$	\$	\$
	-	-	-	-
Liabilities				
Derivative Liability	\$	\$	\$	\$
	692,552	-	-	692,552
Convertible Promissory Notes, net of discount	233,727	-	-	233,727
Total liabilities measured at fair value	\$	\$	\$	\$
	926,279	-	-	926,279

Recently Adopted Accounting Pronouncements

Management reviewed accounting pronouncements issued during the six months ended March 31, 2014, and no pronouncements were adopted during the period.

3.

CAPITAL STOCK

At March 31, 2014, 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, 2014, the Company issued 107,784,075 shares of common stock upon conversion of convertible notes in the aggregate fair value of \$1,290,661 at prices ranging between \$0.0021 and \$0.0077.

4.

STOCK OPTIONS AND WARRANTS

On January 5, 2007, the Board of Directors of XsunX resolved to establish the Company's 2007 Stock Option Plan (the Plan) to enable the Company to obtain and retain the services of the types of employees, consultants and directors who could contribute to the Company's long range success and to provide incentives which are linked directly to increases in share value which will inure to the benefit of all stockholders of the Company. Options granted under the Plan may be either Incentive Options or Nonqualified Options and shall be administered by the Company's Board of Directors ("Board"). Each Option shall be exercisable to the nearest whole share, in installments or otherwise, as the respective Option agreements may provide. Notwithstanding any other provision of the Plan or of any Option agreement, each Option shall expire on the date specified in the Option agreement. A total of 20,000,000 shares of common stock are authorized under the plan, of which 9,500,000 options were issued and outstanding under the Plan at March 31, 2014.

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

	For the period ended 3/31/2014	
	Number of Options	Weighted average exercise price
Outstanding, beginning of the period	9,500,000	\$

Edgar Filing: XSUNX INC - Form 10-Q

		0.066
Granted	-	-
Exercised	-	-
Expired	-	-
Outstanding, end of the period	9,500,000\$	
		0.066
Exercisable at the end of the period	8,500,000\$	
		0.043
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, 2014 was as follows:

Exercisable Prices	Stock Options Outstanding	Stock Options Exercisable	Weighted Average Remaining Contractual Life (years)
\$	2,500,000	2,500,000	0.0 years
0.160	500,000	500,000	1.22 years
\$	1,000,000	-	1.55 years
0.100	4,000,000	4,000,000	1.98 years
\$	1,500,000	1,500,000	2.78 years
0.014	9,500,000	8,500,000	

Stock-based compensation expense recognized during the period is based on the value of the portion of stock-based payment awards that is ultimately expected to vest. Stock-based compensation expense recognized in the financial statements of operations during the six months ended March 31, 2014, included compensation expense for the stock-based payment awards granted prior to, but not yet vested, as of March 31, 2014 based on the grant date fair value estimated, and compensation expense for the stock-based payment awards granted subsequent to March 31, 2014, based on the grant date fair value estimated. We account for forfeitures as they occur, and no options were forfeited during the period ended March 31, 2014. There was \$0 and \$43,140 of stock-based compensation expense recognized in the statement of income during the six months ended March 31, 2014, and 2013 respectively.

Warrants

The Company had no warrants outstanding as of March 31, 2014.

5. CONVERTIBLE PROMISSORY NOTES

As previously disclosed by XsunX, Inc. (the Company) in its Annual Report on Form 10-K for the year ended September 30, 2012, filed on January 11, 2013, the Company, in exchange for a promissory note (the Note) that had matured on September 30, 2012, issued in November 2012 a new unsecured 12% convertible promissory exchange note (the Exchange Note) for the remaining accrued principal and interest totaling \$385,863. The Exchange Note had a maturity date of September 30, 2013. On September 30, 2013, the Exchange Note had an outstanding balance of \$293,496, including accrued interest. Effective September 30, 2013, the Company and the Holder entered into an Extension and Amendment Agreement (Amendment Agreement), under which the Company issue an Amended and Restated 12% Promissory Note (the Amended Note.) The Amended Note provides for, among other things, an extension of the maturity date to September 30, 2014, and amended the conversion price to be 60% of the lowest volume weighted average price (VWAP) occurring during the twenty trading days preceding any conversion date by Holder. The balance of provisions remained substantially the same. No additional cash consideration was provided or exchanged. During the six period ended March 31, 2014, the lender converted \$90,000 in principal of the note, plus interest of \$858, leaving a remaining principal balance of \$203,496. Upon conversion the Company issued an aggregate of 41,299,127 shares common stock to the lender. As of March 31, 2014, the Company recognized interest expense of \$15,105.

On November 7, 2012, the Company issued a 10% unsecured convertible promissory note (the Note) for the principal sum of up to \$78,000 plus accrued interest on any advanced principal funds. On November 6, 2013, the lender advanced \$28,000 to the Company under the note. As of March 31, 2014, the lender has advanced \$78,000 to the Company, and has a remaining principal balance of \$28,000. The Note matures one year 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 at fifty percent (50%) of the lowest trade price in the twenty five (25) trading days prior to the conversion of any outstanding funded principal or accrued interest under the Note. On November 1, 2013, the lender converted \$25,000 in principal, plus \$1,171 of accrued interest. Upon conversion the Company issued 14,954,989 shares of common stock to the

lender. During the period ended March 31, 2014, the Company recognized interest expense of \$1,331.

On December 13, 2012, the Company issued a 10% unsecured convertible promissory note (the Note) for the principal sum of up to \$250,000 and accrued interest on any advanced principal funds. The consideration is \$225,000 with an original issue discount of \$25,000. As of March 31, 2014, the Lender has advanced an aggregate principal sum of \$225,000 to the Company which includes \$40,000 on December 10, 2013, and \$10,000 on February 20, 2014. The Note matures one year from the date each advance under the Note. The Note may be converted by the Lender into shares of common stock of the Company at the lesser of \$.025 per share or sixty percent (60%) of the lowest trade price in the twenty five (25) trading days prior to the conversion of any outstanding funded principal or accrued interest under the Note. During the six months ended March 31, 2014, the lender converted \$90,870 of the convertible note, plus original issue discount and interest of \$16,667 leaving a remaining principal balance of \$59,130, plus original issue discount and accrued interest of \$13,889 for a total sum of \$73,019. Subject to the conversions the Company issued 27,875,454. During the six months ended March 31, 2014, the Company recognized interest expense of \$13,889, which includes original issue discount of \$6,666.

On October 16, 2013 through March 14, 2014, the Company issued securities purchase agreements to an unrelated third party providing for the sale of four 8% convertible promissory notes (the Convertible Notes) for an aggregate of \$140,000. The Convertible Notes were issued to an existing holder under terms substantially similar to previous Convertible Notes. After one hundred and eighty days from the date consideration is provided to the Company, the Convertible Notes can be converted into shares of common stock at a conversion price of 60% of the average lowest three (3) closing bid prices for the common stock, during the ten (10) trading day period ending on the latest complete trading day prior to the conversion date. Each of the Convertible Notes mature nine months after the date of issuance. The Company has the right to redeem a portion or all amounts outstanding under the Convertible Notes prior to one hundred and eighty one days from issuance of the Convertible Notes under a variable redemption rate premium. During the six months ended March 31, 2014, the lender converted notes in the principal amount of \$107,500, plus \$4,300 in accrued interest, leaving a remaining aggregate principal balance of \$140,000. Upon conversion the Company issued an aggregate of 23,654,503 shares of voting common stock to the lender. The remaining Notes mature on July 18, 2014, August 15, 2014, October 16, 2014 and March 14, 2014. During the six months ended March 31, 2014, the Company recognized \$5,174 in interest expense.

Issuance of Convertible Promissory Notes for Services to Related Party

On October 1, 2013, the Company issued a total of \$48,000 in unsecured Convertible Promissory Notes (the Promissory Notes) in the amount of \$12,000 each to Board members Joseph Grimes, Tom Anderson, Dr. Michael Russak, and Oz Fundingsland (the Holders) in exchange for their retention as directors during the fiscal year ending September 30, 2014. The Promissory Notes can be converted into shares of common stock by the Holder for \$0.0045 per share. The Promissory Notes mature on October 1, 2015, and bear zero (0%) percent interest during the first 12 months from the date of issuance. If the Promissory Note is not paid in full by the Company, or through conversion by the Holder, on or before the first anniversary, a one-time interest charge of 10% shall be applied to any remaining principal sum. So long as any shares issuable under a conversion are subject to transfer and sale restrictions imposed pursuant to SEC Rule 144 of the Rules promulgated under the Securities Act of 1933, the Company shall, upon written request by Holder, file Form S-8, if applicable, with the U.S. Securities and Exchange commission to register the issued shares.

6. DERIVATIVE LIABILITIES

In June 2008, the FASB issued authoritative guidance on determining whether an instrument (or embedded feature) is indexed to an entity's own stock. Under the authoritative guidance, effective January 1, 2009, instruments which did not have fixed settlement provisions were deemed to be derivative instruments. As a result, certain convertible notes issued described in Notes 5 do not have fixed settlement provisions because their conversion prices may be lowered if the Company issues securities at lower prices in the future. The conversion feature has been characterized as derivative liabilities to be re-measured at the end of every reporting period with the change in value reported in the statement of operations.

At September 30, 2013, the outstanding fair value of the convertible notes accounted as derivative liabilities amounted to \$705,118.

During the six months ended March 31, 2014, as a result of aggregate total of convertible notes we issued that were accounted for as derivative liabilities, we determined that the fair value of the conversion feature of the convertible notes at issuance was \$520,477, based upon a Black-Sholes calculation. We recorded the full value of the derivative as a liability at issuance with an offset to valuation discount, which will be amortized over the life of the notes. As the aggregate fair value of these liabilities of \$520,477 exceeded the aggregate value of the notes, the excess of the liability over the total combined note value of \$302,477 was considered as a cost of the debt and reported in the accompanying Statement of Operation as financing cost.

During the six months ended March 31, 2014, approximately \$313,370 convertible notes were converted. As a result of the conversion of these notes, the Company recorded a gain in change in fair value of the derivative liability of \$1,148,306 due to the extinguishment of the corresponding derivative liability. Furthermore, during the six months ended March 31, 2014, the Company recognized a loss of \$615,265 to account for the change in fair value of the derivative liabilities. At March 31, 2014, the fair value of the derivative liability was \$692,552.

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 0.03% and 0.14%
Stock volatility factor	Between 106.82% and 409.17%
Months to Maturity	9 months to 1 year
Expected dividend yield	None

7.

SUBSEQUENT EVENTS

The following are items management has evaluated as subsequent events pursuant to the requirement of ASC Topic 855.

Between April 24, 2014 and April 29, 2014 the Company issued 5,503,968 shares of common stock at prices ranging from \$0.0072 to \$0.0070 upon conversion of the aggregate amount of \$39,000 dollars of principal and accrued interest to the holder of 8% convertible notes. The shares were issued in a transaction exempt from registration pursuant to Section 4(2) of the Securities Act.

On April 11, 2014 the Company issued 2,128,342 shares of common stock upon conversion of the aggregate amount of \$14,686 dollars of principal, interest, and original issue discount fees by the holder of a 10% convertible. The shares were issued in a transaction exempt from registration pursuant to Section 4(2) of the Securities Act.

On April 25, 2014 the Company issued a 10% unsecured convertible promissory note (the Note) for the principal sum of up to \$100,000 plus accrued interest on any advanced principal funds. On April 28, 2014, the lender advanced \$50,000 to the Company under the note and may elect to advance additional consideration in its sole discretion. 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.

On March 15, 2014 the Company issued Board members Joseph Grimes, and Oz Fundingsland 2,666,667 shares each of restricted common stock in exchange for their conversion of convertible Promissory Notes in the principal amount

of \$12,000 each. The Promissory Notes had been issued in exchange for each Board members retention as a director, and could be converted into shares of common stock by the Holder for \$0.0045 per share.

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

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

Business Overview

XsunX, Inc. focuses on providing solar energy solutions that provide the greatest bottom-line financial benefits to businesses. Our background and experience spans virtually all aspects of solar including technology assessment, design, and development.

During the fiscal year ending September 30, 2014, the Company is executing a plan that focuses operations on the sale, design, and installation of Solar Photovoltaic (PV) Systems for commercial and industrial real-estate applications as a licensed contractor in California.

The purpose of our efforts are to capitalize on the increasing demand within the California commercial real-estate markets for the installation of solar electric PV systems. The improving demand, underscored in a 2013 market data from the U.S. Solar Energy Industries Association (SEIA) indicating 26% growth in the non-residential PV systems market year-over-year, stems from the significant reductions to the per-watt sales price for silicon solar modules which has resulted in the general overall significant reductions to the installed cost-per-watt for solar PV systems. These reductions, coupled with government tax and investment incentives, can provide significant investment incentives for consumers whom we market to in efforts to make sales.

In October 2013, we completed the required licensing process and began to focus our efforts on the marketing and sales of Solar PV Systems. To aid us in developing a competitive advantage we have established factory direct pricing for the major components of the Solar PV Systems we design and sell, and have qualified to offer 100% financing options through licensed lenders.

We see these efforts as a significant business development opportunity as management has the skillset associated with construction management, we have extensive experience associated with PV technologies and the design requirements associated with the delivery of a solar PV systems, and there is a market demand available for us to provide these services to.

Our operations are currently focused on the rapid development and market acceptance for our Solar PV Systems design and installation services. We feel that these efforts will provide us the ability to reduce future dependency on the sale of debt or equity to fund operations, as during the six months ended March 31, 2014, we began to recognize initial revenues from these activities

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2014 COMPARED TO THREE MONTHS ENDED MARCH 31, 2013.

Revenue and Cost of Sales:

The Company generated revenues in the three months ended March 31, 2014 and 2013 of \$114,117 and \$0, respectively. The \$114,117 in revenue during the three months ended March 31, 2014 were a result of our initial efforts in the sale of commercial solar PV systems. These efforts included market and advertisement testing, sales presentation development, the development of financing alternatives for clients, and product supply chain development. The costs of goods sold for the three months ended March 31, 2014 and 2013 was \$79,429 and \$0, respectively. The Company to date has had minimal revenue and cost of sales, and is still in the development stage. 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 \$31,639 during the three months ended March 31, 2014 to \$129,160 as compared to \$160,799 for the three months ended March 31, 2013. The decrease in SG&A expenses was related primarily to a decrease in non-cash expense for outside services of \$24,000, with a decrease in other SG&A expenses of \$7,639 resulting from the Company's change in business and the ability to reduce facility and other expenses during the Company's initial efforts in marketing and sales of commercial solar PV systems. Management expects SG&A expenses to increase in future periods as the Company begins to expand its marketing, sales, and service efforts.

Research and Development:

Research and development decreased by \$15,676 during the three months ended March 31, 2014 to \$0 as compared to \$15,676 for the three months ended March 31, 2013. The decrease was primarily due to a reduction in research related employees used in the prior period. We anticipate this trend to continue as we do not anticipate devoting substantial resources towards additional testing, calibration, or enhancements to our CIGSolar® technology until such time that we either enter into a sales agreement for the technology or the market demand for thin film technologies warrants additional investments.

Net Loss:

For the three months ended March 31, 2014, our net loss was \$375,462 as compared to a net loss of \$993,926 for the three months ended March 31, 2013. This decrease in net loss of \$618,464 primarily stems from a loss on settlement of debt accounted for in the prior period ended March 31, 2013. 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, 2014 COMPARED TO THE SIX MONTHS ENDED MARCH 31, 2013.

Revenue:

The Company generated revenues in the six months ended March 31, 2014 and 2013 of \$144,925 and \$0, respectively. The \$144,925 in revenue during the six months ended March 31, 2014 were a result of our initial efforts in the sale of commercial solar PV systems. These efforts included market and advertisement testing, sales presentation development, the development of financing alternatives for clients, and product supply chain development. The costs of goods sold for the six months ended March 31, 2014 and 2013 was \$109,220 and \$0, respectively. The Company to date has had minimal revenue and cost of sales, and is still in the development stage. 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:

General and administrative expenses for the six months ended March 31, 2014, were \$267,888 as compared to \$289,805 during the six months ended March 31, 2013. The decrease in SG&A expenses was related primarily to the Company's change in business and the ability to reduce facility and other expenses during the Company's initial efforts in marketing and sales of commercial solar PV systems. Management expects SG&A expenses to increase in future periods as the Company begins to expand its marketing, sales, and service efforts.

Research and Development:

Research and development for the six months ended March 31, 2014 were \$2,566 as compared to \$30,676 during the six months ended March 31, 2013. The decrease was primarily due to a reduction in research related employees used in the prior period. We anticipate this trend to continue as we do not anticipate devoting substantial resources towards additional testing, calibration, or enhancements to our CIGSolar® technology until such time that we either enter into a sales agreement for the technology or the market demand for thin film technologies warrants additional investments.

Net Loss:

The net loss for the six months ended March 31, 2014 was \$1,432,167 as compared to a net loss of \$1,528,557 for the six months ended March 31, 2013. The decrease in net loss of \$96,390, primarily includes the reduction to operating expenses of \$64,609, and a net increase in other expenses related to financing costs of \$3,924, which consisted primarily of an increase in loss on loan and conversion of debt for \$585,922, an increase in amortization of debt discount and interest expense of \$153,070, and the increase in gain on change in derivative of \$731,688, commitment fees of \$8,966, loss on sale of asset and penalties of \$226. 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, 2014 of \$992,455, as compared to a working capital deficit of \$889,448 as of September 30, 2013. The increase of \$103,007 in working capital deficit was the result of an increase in cash, accounts receivable, prepaid expenses, credit card payable, accrued expenses, and convertible notes, with a decrease in accounts payable, and derivative liability.

Cash flow used by operating activities was \$226,741 for the six months ended March 31, 2014, as compared to cash flow used by operating activities of \$231,183 for the six months ended March 31, 2013. The increase in cash flow used by operating activities was primarily due to a net change in non-cash expenses, accounts receivable, prepaid expenses, and accrued expenses, with a decrease in other assets and accounts payable.

Cash flow provided by investing activities was \$21,400 for the six months ended March 31, 2014, as compared to cash flow used in investing activities of \$32,736 during the six months ended March 31, 2013. The net change in investing activities was primarily due to proceeds received of \$21,400 from the sale of certain assets in the current period.

Cash provided by financing activities for the six months ended March 31, 2014 was \$218,000, as compared to \$258,000 for the same period 2013. Our capital needs have primarily been met from the proceeds of private placements, and convertible notes as we are currently in the development stage and had minimal initial revenues in the period.

Our financial statements as of March 31, 2014 have been prepared under the assumption that we will continue as a going concern from inception (February 25, 1997) through March 31, 2014. Our independent registered public accounting firm has issued their report dated January 14, 2014, 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, 2014, 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 convertible debt proceeds totaling \$218,000, and (iii) revenues in the amount of \$144,925.

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 will 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.

DEVELOPMENT STAGE COMPANY

The Company is currently engaged in efforts to establish substantial brand recognition and sales within the California solar PV markets for our commercial solar PV system sales, design, and installation service business, and as of the period ended March 31, 2014, did not generate revenues sufficient to fund these operations. We have in the past experienced substantial losses and negative cash flow from operations and have required financing, including equity and debt financing. We expect that we will continue to need significant financing to operate our business. If additional financing is not available or not available on terms acceptable to us, our ability to fund our operations, or otherwise respond to competitive pressures may be significantly impaired. We could also be forced to curtail our business operations, reduce our investments, decrease or eliminate capital expenditures and delay the execution of our business plan which would have a material adverse effect on our business.

While we have been able to raise capital in a series of equity and debt offerings in the past there can be no assurances that we will be able to obtain such additional financing, on terms acceptable to us and at the times required, or at all.

Irrespective of whether the Company's cash assets prove to be inadequate to meet the Company's operational needs, the Company might seek to compensate providers of services by issuances of stock in lieu of cash.

OFF-BALANCE SHEET ARRANGEMENTS

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

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

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

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

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

Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control structure and procedures over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f)) under the Exchange Act. The SEC rule making for the Sarbanes-Oxley Act of 2002 Section 404 requires that a company's internal controls over financial reporting be based upon a recognized internal control framework. Our management conducted an assessment of the effectiveness of our internal control over financial reporting as of March 31, 2014 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, 2014 was effective. Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Changes in Internal Control over Financial Reporting

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended March 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors

Not Applicable.

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

Issuance of Convertible Promissory Notes

On January 14, 2014 and March 14, 2014, the Company issued securities purchase agreements to an unrelated third party providing for the sale of two 8% convertible promissory notes (the Convertible Notes) for an aggregate of \$70,000. The Convertible Notes were issued to an existing holder under terms substantially similar to previous Convertible Notes. After one hundred and eighty days from the date consideration is provided to the Company, the Convertible Notes can be converted into shares of common stock at a conversion price of 60% of the average lowest three (3) closing bid prices for the common stock, during the ten (10) trading day period ending on the latest complete trading day prior to the conversion date. Each of the Convertible Notes mature nine months after the date of issuance. The Company has the right to redeem a portion or all amounts outstanding under the Convertible Notes prior to one hundred and eighty one days from issuance of the Convertible Notes under a variable redemption rate premium.

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.

Common Stock Issued Upon Conversion of Notes

During the period of January 1, 2014 through March 31, 2014 the Company made the following unregistered issuances of securities:

The Company issued 9,681,073 shares of common stock at fair value ranging from \$0.068 to \$0.0077 upon conversion of the aggregate amount of \$72,800 dollars of principal and accrued interest to the holder of 8% convertible notes.

The Company issued 9,825,187 shares of common stock at fair value ranging from \$0.0069 to \$0.0054 upon conversion of the aggregate amount of \$58,081 dollars of principal, interest, and original issue discount fees by the holder of a 10% convertible.

The securities above were issued pursuant to an exemption from the registration requirements under Section 4(2) of the Securities Act since, among other things, the transactions did not involve a public offering.

Receipt of Additional Consideration

On February 20, 2014 the holder of 10% unsecured convertible promissory note, issued by the Company on December 14, 2012, with an accrued principal, interest, and original issue discount balance of \$91,667 elected to advance the final \$10,000 under the note to the Company. Any funds advanced under the note mature one year from payment to the Company and may be converted by the Lender into shares of common stock of the Company, subject to securities compliance, at the lesser of \$.025 per share or sixty percent (60%) of the lowest trade price in the twenty five (25) trading days prior to the conversion.

The securities above were issued pursuant to an exemption from the registration requirements under Section 4(2) of the Securities Act since, among other things, the transactions did not involve a public offering.

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

Not Applicable

Item 5. Other information

Between April 24, 2014 and April 29, 2014 the Company issued 5,503,968 shares of common stock at prices ranging from \$0.0072 to \$0.0070 upon conversion of the aggregate amount of \$39,000 dollars of principal and accrued interest to the holder of 8% convertible notes. The shares were issued in a transaction exempt from registration pursuant to Section 4(2) of the Securities Act.

On April 11, 2014 the Company issued 2,128,342 shares of common stock upon conversion of the aggregate amount of \$14,686 dollars of principal, interest, and original issue discount fees by the holder of a 10% convertible. The shares were issued in a transaction exempt from registration pursuant to Section 4(2) of the Securities Act.

On April 25, 2014 the Company issued a 10% unsecured convertible promissory note (the Note) for the principal sum of up to \$100,000 plus accrued interest on any advanced principal funds. On April 28, 2014, the lender advanced \$50,000 to the Company under the note and may elect to advance additional consideration in its sole discretion. 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.

On March 15, 2014 the Company issued Board members Joseph Grimes, and Oz Fundingsland 2,666,667 shares of restricted common stock each in exchange for their conversion of Promissory Notes in the principal amount of \$12,000 each. The Promissory Notes had been issued in exchange for each Board members retention as a director, and could be converted into shares of common stock by the Holder for \$0.0045 per share.

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 Securities Purchase Agreement and Convertible Promissory Note used in connection with the sale of eighteen 8% convertible promissory notes between October 27, 2011, and March 14, 2014. (1)
10.2	Form of Exchange Agreement and 12% Note used in connection with the exchange and 12 month extension to a promissory note that had become due September 30, 2012. (2)
10.3	Form of Convertible Promissory Note issued on November 7, 2012, used in connection with the sale of a 10% convertible promissory note in the amount of up to \$78,000. (2)
10.4	Form of Convertible Promissory Note issued on December 14, 2012, used in connection with the sale of a 10% convertible promissory note in the amount of up to \$250,000. (2)
10.5	Form of Extension Agreement and Restated 12% Note used in connection with the exchange and 12 month extension to a promissory note that had become due September 30, 2013. (3)
10.6	Form of Convertible Promissory Notes issued to four members of the Board of Directors dated October 1, 2013. (3)
10.7	Form of Stock Option Agreement used by the Company to grant 500,000 common stock purchase options to each of three members of the Board of Directors on January 11, 2012. (4)
10.8	Form of Stock Option Agreement used by the Company to grant 1,000,000 common stock purchase options to each of four members of the Board of Directors on March 21, 2013. (5)
10.9	Form of Convertible Promissory Note issued on April 25, 2014, used in connection with the sale of a 10% convertible promissory note in the amount of up to \$100,000. (6)
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 (7)
101.SCH	XBRL Taxonomy Extension Schema Document(7)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (7)
101.DEF	XBRL Taxonomy Extension Label Linkbase Document (7)
101.LAB	XBRL Taxonomy Extension Presentation Linkbase Document (7)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document (7)
(1)	Incorporated by reference to exhibits included with the Company's Report on Form 10-K filed with the Securities and Exchange Commission dated December 29, 2011.
(2)	Incorporated by reference to exhibits included with the Company's Report on Form 10-K filed with the Securities and Exchange Commission dated January 11, 2013.
(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 12, 2013.
(4)	Incorporated by reference to exhibits included with the Company's Report on Form 10-Q filed with the Securities and Exchange Commission dated February 13, 2012.
(5)	

Edgar Filing: XSUNX INC - Form 10-Q

Incorporated by reference to exhibits included with the Company's Report on Form 10-K/A filed with the Securities and Exchange Commission dated January 14, 2014.

(6)

Filled Herewith

(7)

Pursuant to Rule 406T of Regulation S-T, this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

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 19, 2014

By:

*/s/ Tom M. Djokovich
Tom M. Djokovich,*

Principal Executive and Accounting Officer