

XSUNX INC  
Form 10-Q  
May 13, 2013

**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, 2013**

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

Edgar Filing: XSUNX INC - Form 10-Q

(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  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 13, 2013 was 356,362,351.

Table of Contents

**TABLE OF CONTENTS**

	PAGE
<u>PART I - FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	3
<u>Balance Sheets March 31, 2013 (unaudited) and September 30, 2012 (audited)</u>	3
<u>Statements of Operations for the Three Months and Six Months ended March 31, 2013 and 2012 (unaudited) and the period February 25, 1997 (inception) to March 31, 2013 (unaudited)</u>	4
<u>Statements of Shareholders' Deficit for the Six Months ended March 31, 2013 (unaudited)</u>	5
<u>Statements of Cash Flows for the Six Months ended March 31, 2013 and 2012 (unaudited) and the period February 25, 1997 (inception) to March 31, 2013 (unaudited)</u>	6
<u>Notes to Financial Statements (unaudited)</u>	7
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	13
<u>Item 3 Qualitative and Quantitative Disclosures About Market Risk</u>	16
<u>Item 4. Controls and Procedures</u>	17
<u>PART II - OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	18
<u>Item 1A. Risk Factors</u>	18
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	18
<u>Item 3. Defaults upon Senior Securities</u>	19
<u>Item 4. (Removed and Reserved)</u>	19
<u>Item 5. Other Information</u>	19
<u>Item 6. Exhibits</u>	21
<u>Signatures</u>	22

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

XSUNX, INC.

(A Development Stage Company)

**BALANCE SHEETS**

	March 31, 2013 (Unaudited)	September 30, 2012
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 38,608	\$ 44,527
Prepaid expenses	41,088	162,186
Total Current Assets	79,696	206,713
<b>PROPERTY &amp; EQUIPMENT</b>		
Office & miscellaneous equipment	35,853	35,853
Machinery & equipment	232,084	232,084
Leasehold improvements	17,500	17,500
Total Property & Equipment	285,437	285,437
Less accumulated depreciation	(229,999 )	(206,178 )
Net Property & Equipment	55,438	79,259
<b>OTHER ASSETS</b>		
Manufacturing equipment in progress	417,476	309,082
Security deposit	5,700	5,700
Total Other Assets	423,176	314,782
<b>TOTAL ASSETS</b>	<b>\$ 558,310</b>	<b>\$ 600,754</b>
<b>LIABILITIES AND SHAREHOLDERS' DEFICIT</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 151,362	\$ 143,555
Credit card payable	1,566	2,623
Accrued expenses	200	840
Accrued interest on notes payable	23,063	40,243
Derivative liability	590,427	150,926
Convertible promissory notes, net of \$337,167 and \$104,035 in discounts	237,807	63,465

Edgar Filing: XSUNX INC - Form 10-Q

Unsecured promissory note	—	350,000
Total Current Liabilities	1,004,425	751,652
<b>TOTAL LIABILITIES</b>	<b>1,004,425</b>	<b>751,652</b>
<b>SHAREHOLDERS' DEFICIT</b>		
Preferred stock, \$0.01 par value; 50,000,000 authorized preferred shares	—	—
Common stock, no par value; 500,000,000 authorized common shares 348,442,652 and 281,233,150 shares issued and outstanding, respectively	28,531,794	27,341,594
Additional paid in capital	5,335,248	5,335,248
Paid in capital, common stock warrants	3,808,053	3,764,913
Deficit accumulated during the development stage	(38,121,210)	(36,592,653)
<b>TOTAL SHAREHOLDERS' DEFICIT</b>	<b>(446,115 )</b>	<b>(150,898 )</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT</b>	<b>\$558,310</b>	<b>\$600,754</b>

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
	March 31,	March 31,	March 31,	March 31,	Inception
	2013	2012	2013	2012	February 25,
					1997
					through
					March 31,
					2013
REVENUE	\$—	\$—	\$—	\$—	\$14,880
OPERATING EXPENSES					
Selling, general and administrative expenses	160,799	167,666	289,805	371,927	18,812,151
Research and development	15,676	27,692	30,676	59,970	3,317,303
Depreciation and amortization expense	9,169	8,737	23,821	17,825	753,353
TOTAL OPERATING EXPENSES	185,644	204,095	344,302	449,722	22,882,807
LOSS FROM OPERATIONS BEFORE OTHER INCOME/(EXPENSES)	(185,644 )	(204,095 )	(344,302 )	(449,722 )	(22,867,927)
OTHER INCOME/(EXPENSES)					
Interest income	—	—	—	—	445,537
Gain on sale of asset	—	—	—	—	16,423
Impairment of assets	—	—	—	—	(7,285,120 )
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
Loss on conversion of debt	(544,379 )	1,500	(670,850 )	(212,935 )	(1,112,372 )
Gain/(loss) on change in derivative	(106,178 )	(31,035 )	(198,645 )	6,599	(158,676 )
Other, non-operating	—	—	—	—	(5,215 )
Penalties	—	—	—	(22 )	(619 )
Interest expense	(157,725 )	(55,055 )	(305,794 )	(81,058 )	(751,285 )

Edgar Filing: XSUNX INC - Form 10-Q

TOTAL OTHER INCOME/(EXPENSES)	(808,282 )	(84,590 )	(1,184,255 )	(287,416 )	(15,253,283)
NET LOSS	\$(993,926 )	\$(288,685 )	\$(1,528,557 )	\$(737,138 )	\$(38,316,848)
BASIC AND DILUTED LOSS PER SHARE	\$(0.00 )	\$(0.00 )	\$(0.00 )	\$(0.00 )	
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING					
BASIC AND DILUTED	331,618,588	235,446,943	309,237,827	234,528,910	

The accompanying notes are an integral part of these financial statements

XSUNX, INC.

(A Development Stage Company)

## STATEMENT OF SHAREHOLDERS' DEFICIT

(Unaudited)

	Preferred Stock	Common Stock		Additional Paid-in	Stock Options/ Warrants	Deficit Accumulated during the Development	Total
Balance at September 30, 2012 (Audited)	— \$ —	281,233,150	\$27,341,594	\$5,335,248	\$3,764,913	\$(36,592,653)	\$(150,898 )
Issuance of common stock for conversion of notes and interest	—	28,437,711	254,538	—	—	—	254,538
Write down of fair value of notes converted	—	—	160,226	—	—	—	160,226
Issuance of common stock for debt	—	38,271,791	765,436	—	—	—	765,436
Issuance of common stock for commitment fees	—	500,000	10,000	—	—	—	10,000
Stock compensation cost	—	—	—	—	43,140	—	43,140
Net loss for the six months ended March 31, 2013	—	—	—	—	—	(1,528,557 )	(1,528,557)
Balance at March 31, 2013	— \$ —	348,442,652	\$28,531,794	\$5,335,248	\$3,808,053	\$(38,121,210)	\$(446,115 )





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		February
	March 31,	March 31,	25,1997
	2013	2012	through
			March 31,
			2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net loss	\$(1,528,557)	\$(737,138)	\$(38,121,210)
Adjustment to reconcile net loss to net cash used in operating activities			
Depreciation & amortization	23,821	17,825	753,353
Common stock issued for services and other expenses	—	16,000	2,160,232
Common stock issued for rent	—	—	13,750
Stock option and warrant expense	43,140	129,834	4,082,243
Commitment fees	8,966	—	5,780,273
Asset impairment	—	—	7,285,120
Write down of inventory asset	—	—	1,177,000
(Gain)/loss on conversion and settlement of debt	670,850	212,935	645,411
Gain on sale of asset	—	—	(16,423 )
Contributed capital and services	—	80,770	97,035
Settlement of lease	—	—	59,784
Change in derivative liability	198,645	(6,599 )	158,676
Amortization of debt discount recorded as interest expense	269,126	58,188	475,591
Common stock issued for interest	12,038	—	17,158
<b>Change in Assets and Liabilities:</b>			
<b>(Increase) Decrease in:</b>			
Prepaid expenses	45,995	(9,588 )	34,661
Inventory held for sale	—	—	(1,417,000 )
Other receivable	—	—	—
Other assets	—	—	(5,700 )
<b>Increase (Decrease) in:</b>			
Accounts payable	6,750	42,664	2,377,294
Accrued expenses	18,043	13,282	168,499
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(231,183 )</b>	<b>(181,827)</b>	<b>(14,274,253)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of manufacturing equipment and facilities in process	(32,736 )	(21,830 )	(5,942,649 )

Edgar Filing: XSUNX INC - Form 10-Q

Payments on note receivable	—	—	(1,500,000 )
Proceeds from sale of assets	—	—	261,100
Receipts on note receivable	—	—	1,500,000
Purchase of marketable prototype	—	—	(1,780,396 )
Purchase of fixed assets	—	—	(597,972 )
<b>NET CASH PROVIDED/(USED) BY INVESTING ACTIVITIES</b>	<b>(32,736 )</b>	<b>(21,830 )</b>	<b>(8,059,917 )</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from warrant conversion	—	—	3,306,250
Proceeds from convertible promissory notes	258,000	165,500	6,418,500
Proceeds for issuance of common stock, net	—	50,000	12,648,028
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>258,000</b>	<b>215,500</b>	<b>22,372,778</b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>(5,919 )</b>	<b>11,843</b>	<b>38,608</b>
<b>CASH, BEGINNING OF PERIOD</b>	<b>44,527</b>	<b>66,576</b>	<b>—</b>
<b>CASH, END OF PERIOD</b>	<b>\$38,608</b>	<b>\$78,419</b>	<b>\$38,608</b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>			
Interest paid	\$359	\$643	\$121,093
Taxes paid	\$—	\$—	\$—

**SUPPLEMENTAL DISCLOSURES OF NON CASH TRANSACTIONS**

During the six months ended March 31, 2013, the Company exchanged a demand note in the amount of \$350,000 plus accrued interest of \$35,863 for a new promissory note for an aggregate principal amount of \$385,863. During the six months ended March 31, 2012, in exchange for the note of \$456,920 plus accrued interest of \$98,645 that was due at September 1, 2011, the Company issued 7,000,000 restricted shares of common stock as payment for the reduction of \$205,565 of the principal balance and accrued interest under the note, and issued a new unsecured promissory exchange note in the amount of \$350,000. During the six months ended March 31, 2012, the Company issued 5,860,791 shares of common stock through a cashless exercise of stock purchase warrants.

The accompanying notes are an integral part of these financial statements

XSUNX, INC.

(A Development Stage Company)

Notes to Financial Statements – (Unaudited)

March 31, 2013

## 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, 2013 are not necessarily indicative of the results that may be expected for the year ending September 30, 2013. For further information refer to the financial statements and footnotes thereto included in the Company's Form 10-K for the year ended September 30, 2012.

### Going Concern

The accompanying financial statements have been prepared on a going concern basis of accounting, which contemplates continuity of operations, realization of assets and liabilities and commitments in the normal course of business. The accompanying financial statements do not reflect any adjustments that might result if the Company is unable to continue as a going concern. The Company does not generate significant revenue, and has negative cash flows from operations, which raise substantial doubt about the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern and appropriateness of using the going concern basis is dependent upon, among other things, additional cash infusion. The Company has obtained funds from its shareholders since its inception through the period ended March 31, 2013. 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 core of 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, 2013, and had no revenues. 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 three months ended March 31, 2013, as the inclusion of any potential shares would have had an anti-dilutive effect due to the Company generating a loss. For further information refer to the financial statements and footnotes thereto included in the Company's Form 10-K for the year ended September 30, 2012.

XSUNX, INC.

(A Development Stage Company)

Notes to Financial Statements – (Unaudited)

March 31, 2013

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Fair Value of Financial Instruments

Fair Value of Financial Instruments, requires disclosure of the fair value information, whether or not recognized in the balance sheet, where it is practicable to estimate that value. As of March 31, 2013, the amounts reported for cash, inventory, prepaid expenses, accounts payable, and accrued expenses, 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;
- 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, 2013:

Fair Value of Financial Instruments

	Total	(Level 1)	(Level 2)	(Level 3)
Assets	\$—	\$ —	\$ —	\$—
Total assets measured at fair value	\$—	\$ —	\$ —	\$—
Liabilities				
Derivative Liability	\$590,427	\$ —	\$ —	\$590,427
Convertible Promissory Notes, net of discount	239,709	—	—	239,709
Total liabilities measured at fair value	\$830,136	\$ —	\$ —	\$830,136

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.

Recently Adopted Accounting Pronouncements

Management reviewed accounting pronouncements issued during the three months ended March 31, 2013, and no pronouncements were adopted during the period.



XSUNX, INC.

(A Development Stage Company)

Notes to Financial Statements – (Unaudited)

March 31, 2013

3.

CAPITAL STOCK

At March 31, 2013, the Company's authorized stock consisted of 500,000,000 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. The rights, preferences and privileges of the holders of the preferred stock will be determined by the Board of Directors prior to issuance of such shares.

During the six months ended March 31, 2013, the Company issued 19,086,303 shares of common stock in response to the conversion by the holder of five Securities Purchase Agreements (the "Purchase Agreements") each providing for the sale by the Company of an 8% unsecured Convertible Note ("the Notes"). In the aggregate the Notes totaled at the time of conversion \$174,800 in principal and accrued interest. Also, during the six months ended March 31, 2013, the Company issued 500,000 shares of common stock at a price of \$0.02 per share as an extension fee for a promissory note that had become due at September 30, 2012, and issued another 9,351,407 shares of common stock to the holder upon conversion by the holder of \$79,738 of principal and accrued interest. The above shares were issued in transactions exempt from registration pursuant to Section 4(2) of the Securities Act.

In accordance with a Stipulation for Settlement of Claims ("Stipulation"), dated June 27, 2012, by and between Ironridge Global IV, Ltd ("Ironridge") and the Company as documented in Los Angeles County Superior Court Case No. BC484549, the Company delivered 27,500,000 shares ("Initial Shares") of the Company's common stock, no par value ("Common Stock") to Ironridge in settlement of approximately \$494,561 in accounts payable of the Company (the "Accounts Payable") and \$54,317 for agent and attorney fees associated with the transaction. The transaction thereby substantially reduced the Company's liabilities, including its outstanding accounts payable balance associated with the assembly of the Company's CIGSolar™ thermal evaporation technology.

The Stipulation provided for an adjustment in the total number of shares, which may be issuable to Ironridge based on a calculation period and formula for the transaction ("Adjustment Shares"). The calculation formula is defined as that number of consecutive trading days following the date on which the Initial Shares were issued (the "Issuance Date") required for the aggregate trading volume of the Common Stock, as reported by Bloomberg LP, to exceed \$2.5 million (the "Calculation Period"). Pursuant to the Stipulation, Ironridge would retain 1,500,000 shares of the Company's Common Stock, plus that number of shares (the "Final Amount") through the end of the Calculation Period with an aggregate value equal to (a) the sum of the Accounts Payable plus 8% agent fee and reasonable attorney fees through the end of the Calculation Period, (b) divided by 80% of the following: the volume weighted average price ("VWAP")

of the Common Stock over the length of the Calculation Period, as reported by Bloomberg, not to exceed the arithmetic average of the individual daily VWAPs of any five trading days during the Calculation Period. Subject to the above Stipulation and formula during the six months ended March 31, 2013, subject to request by Ironridge, the Company has issued 38,271,791 Adjustment Shares to Ironridge Global IV, Ltd. The issuance is exempt from the registration requirements of the Securities Act of 1933, as amended, pursuant to Section 3(a)(10) thereof, as an issuance of securities in exchange for bona fide outstanding claims, where the terms and conditions of such issuance are approved by a court after a hearing upon the fairness of such terms and conditions.

4. STOCK OPTIONS AND WARRANTS

The Company adopted a Stock Option Plan for the purposes of granting stock options to its employees and others providing services to the Company, which reserves and sets aside for the granting of Options for Twenty Million (20,000,000) shares of Common Stock. 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. On March 21, 2013, the Company granted 1,000,000 stock options to each of the four non-affiliated members of its Board of Directors for a total of 4,000,000 options for continued services and performance to the Company. Each option vested upon issuance and provides for an exercise price of \$0.014 per share (104% of the market price on the date of grant) and can be exercised at any time over a three-year period.

	For the period ended 3/31/2013
Risk free interest rate	0.38 %
Stock volatility factor	138.33 %
Weighted average expected option life	3 years
Expected dividend yield	None

XSUNX, INC.

(A Development Stage Company)

Notes to Financial Statements – (Unaudited)

March 31, 2013

## 4. STOCK OPTIONS AND WARRANTS (Continued)

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

	For the period ended 3/31/2012	
	Number of Options	Weighted average exercise price
Outstanding, beginning of the period	5,000,000	\$ 0.110
Granted	4,000,000	0.014
Exercised	—	—
Expired	—	—
Outstanding, end of the period	9,000,000	\$ 0.070
Exercisable at the end of the period	8,000,000	\$ 0.050
Weighted average fair value of options granted during the period		\$ 0.014

The weighted average remaining contractual life of options outstanding issued under the plan as of March 31, 2013 was as follows:

Exercisable Prices	Stock Options Outstanding	Stock Options Exercisable	Weighted Average Remaining Contractual Life (years)
\$ 0.160	2,500,000	2,500,000	1.00 years
\$ 0.100	1,000,000	—	2.55 years
\$ 0.014	4,000,000	4,000,000	2.98 years
\$ 0.045	1,500,000	1,500,000	3.79 years
	9,000,000	8,000,000	

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 three-months ended March 31, 2013, included compensation expense for the stock-based payment awards granted prior to, but not yet vested, as of March 31, 2013 based on the grant date fair value estimated, and compensation expense for the stock-based payment awards granted subsequent to March 31, 2013, based on the grant date fair value estimated. We account for forfeitures as they occur. The stock-based compensation expense recognized in the statement of operations during the three months ended March 31, 2013 and 2012 was \$43,140 and \$45,000, respectively.

### Warrants

The Company had no warrants outstanding as of March 31, 2013.

### 5. CONVERTIBLE PROMISSORY NOTES

In exchange for a promissory note (the "Note") of \$350,000 plus accrued interest of \$35,863 that had become due at September 30, 2012, the Company issued a new unsecured promissory exchange note (the "Exchange Note") for \$385,863 in November 2012. The Holder and the Company exchanged the Note solely for (i) a 12% promissory Exchange Note, (ii) and 500,000 shares of common stock. Interest on the Exchange note accrued interest at the rate of 18% per annum commencing on September 30, 2012 through October 31, 2012 and thereafter at the rate of 12%. The Exchange Note is convertible into securities of the Company by the Holder at the lesser of \$0.025 or 70% of the lowest volume weighted average (VWAP) occurring during the ten consecutive trading days immediately preceding the date on which the Holder may elect to convert portions of the note. The Exchange Note matures on September 30, 2013 and the Company can prepay any then remaining principal and accrued interest balance upon first providing the holder with a ten day prepayment notice.

XSUNX, INC.

(A Development Stage Company)

Notes to Financial Statements – (Unaudited)

March 31, 2013

#### 5. CONVERTIBLE PROMISSORY NOTES (Continued)

On November 7, 2012, the Company issued a 10% unsecured convertible promissory note (the “Promissory Note”) for the principal sum of up to \$78,000 plus accrued interest on any advanced principal funds. Upon issuance of the Promissory Note the lender immediately advanced the sum of \$25,000 to the Company, and may elect to pay additional consideration to the Company in such amounts and at such times as the lender may choose in its sole discretion. The Promissory Note matures one year from its issuance. The Promissory 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 Promissory Note.

On December 13, 2012, the Company issued a 10% unsecured convertible promissory note (the “Promissory 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. Upon issuance of the Promissory Note the lender immediately advanced the sum of \$50,000 to the Company. The lender subsequently advanced an additional \$25,000 each on February 27, 2013 and March 27, 2013, and may elect to pay additional consideration to the Company in such amounts and at such times as the Lender may choose in its sole discretion up to \$150,000 and thereafter only with consent by the Company. The principal sum due the Lender shall be prorated based on the actual total consideration paid to the Company by the Lender such that the Company will only be required to repay the amount funded by the lender, nor shall any interest or other rights extend to any unfunded portion of the Promissory Note.

The Promissory Note matures one year from its issuance. The Promissory 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 Promissory Note.

During the six months ended March 31, 2013, the Company entered into Securities Purchase Agreements (the "Purchase Agreements") on November 7, 2012, January 18, 2013, and February 12, 2013. Each Purchase Agreement provided for the sale by the Company of 8% unsecured Convertible Notes (“the Notes”) in the principal amounts of \$37,500, \$37,500, and \$53,000 respectively for an aggregate total of \$128,500. After one hundred and eighty days from the date of issuance each Note 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. The Notes each mature nine months after issuance. The Company has the right to redeem a portion or all amounts outstanding under the Note prior to one hundred and eighty one days from issuance of the Note under a variable redemption rate premium.

ASC Topic 815 provides guidance applicable to convertible debt issued by the Company in instances where the number into which the debt can be converted is not fixed. For example, when a convertible debt converts at a discount to market based on the stock price on the date of conversion, ASC Topic 815 requires that the embedded conversion option of the convertible debt be bifurcated from the host contract and recorded at their fair value. In accounting for derivatives under accounting standards, the Company recorded a liability representing the estimated present value of the conversion feature considering the historic volatility of the Company's stock, and a discount of \$572,258 representing the imputed interest associated with the embedded derivative. The discount is amortized over the life of the convertible debt, which resulted in the recognition of \$269,126 in interest expense for the period ended March 31, 2013, and the derivative liability is adjusted periodically according to stock price fluctuations.

XSUNX, INC.

(A Development Stage Company)

Notes to Financial Statements – (Unaudited)

March 31, 2013

At the time of conversion, any remaining derivative liability will be charged to additional paid-in capital. For purpose of determining the fair market value of the derivative liability, the Company used Black Scholes option valuation model. The significant assumptions used in the Black Scholes valuation of the derivative are as follows:

Stock price on the valuation dates	\$0.01	
Conversion price for the debt	\$0.005 - \$0.0085	
Dividend yield	0.00	%
Months to Maturity	9 months - 1 yr	
Risk free rate	0.07% - 0.20%	
Expected volatility	147.29% - 316.12%	

The value of the derivative liability at March 31, 2013 was \$590,427.

## 6. SUBSEQUENT EVENTS

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

On April 12, 2013, the Company issued a securities purchase agreement providing for the sales of an 8% convertible promissory note (the "Note") in the amount of \$37,500. After one hundred and eighty days the Note 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. The Note matures nine months after issuance. The Company has the right to redeem a portion or all amounts outstanding under the Note prior to one hundred and eighty one days from issuance of the Note under a variable redemption rate premium.

On May 8, 2013, a holder of 10% unsecured convertible promissory note (the "Promissory Note") for the principal sum of up to \$78,000 under which the lender had advanced the sum of \$25,000 at the time of issuance converted the total principal and accrued interest totaling \$26,250. Upon conversion, the Company issued an aggregate of 4,375,000 shares respectively of common voting stock to the holder.

Between May 8 and 10, 2013, a holder of a Securities Purchase Agreement (the "Purchase Agreement") providing for the sale by the Company of an 8% unsecured Convertible Note ("the Note") in the principal amount of \$37,500 converted \$27,000 of principal. Upon conversion, the Company issued an aggregate of 3,544,699 shares of common voting stock to the holder.



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

**CAUTIONARY AND FORWARD LOOKING STATEMENTS**

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

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

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

- (a) volatility or decline of the Company's stock price;
- (b) potential fluctuation in quarterly results;
- (c) failure of the Company to earn revenues or profits;
- (d) inadequate capital to continue or expand its business, inability to raise additional capital or financing to implement its business plans;
- (e) failure to commercialize its technology or to make sales;

(f) rapid and significant changes in markets;

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

(h) insufficient revenues to cover operating costs.

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

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

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

## **Business Overview**

XsunX, Inc. is developing and has begun to market a hybrid manufacturing solution to produce high performance Copper Indium Gallium (di) Selenide (CIGS) thin film solar cells. Our patent pending processing technology, which we call CIGSolar®, focuses on the mass production of thin-film CIGS solar cells utilizing a proprietary multi-area thermal deposition process to minimize processing defects to create highly uniform CIGS films. The system allows for the use of stainless steel wafers or foils that, in their final size format, can match silicon solar cell dimensions and can be offered as a non-toxic, high-efficiency and lowest-cost alternative to the use of silicon solar cells. We intend to offer licenses for the use of the CIGSolar® process technology thereby generating revenue streams through licensing fees and manufacturing royalties for the use of the technology.

Our efforts have been focused on the development and customization of a series of specialized processing tools that when combined provide a turn-key high-throughput manufacturing system to produce CIGS solar cells.

Core attributes to our process method are the use of multi-area thermal co-evaporation techniques coupled with state-of-the-art sputter deposition technologies to improve manufacturing output, increase cell efficiency, production yields, and lower the costs for the production of high efficiency CIGS cells.

There are five (5) core process tools that when combined will produce thin-film CIGS solar cells. We believe that it will be the ability of our system to minimize processing defects while maintaining exceptional per hour production rates that will provide superior commercial opportunities. CIGSolar® cells can be manufactured on stainless steel squares sized to match silicon solar cells currently used in more than 75% of all solar modules manufactured today.

This innovative approach bridges the gap between inexpensive thin-film and more costly high efficiency silicon wafer technologies to produce a new breed of solar cell combining what we believe are the best attributes of each technology. The mass production of individual, high performance CIGS solar cells – like solar building blocks – we believe will allow solar power to finally compete effectively against other sources of electrical energy.

## **RESULTS OF OPERATIONS FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2013 COMPARED TO THE SAME PERIOD IN 2012**

### Revenue:

The Company generated no revenues for the periods ended March 31, 2013 and 2012 respectively. Additionally, there was no associated cost of sales. The Company to date has had minimal revenue and cost of sales, and is still in the development stage.

General and Administrative Expenses:

General and administrative expenses for the three-month period ending March 31, 2013 were \$160,799 as compared to \$167,666 during the same period in 2012. The decrease of \$(6,867) was related primarily to a general reduction to salaries, staffing, and operating expenses under the Company's re-focused plan of operations that began in January 2012 and which focuses on the development of its new CIGSolar® thin film solar manufacturing technology. We anticipate that expenditures associated with the commercial development and sales of our thin-film solar manufacturing technologies will increase SG&A expenditures in the future. However, we plan to offer our technology as a licensable process to existing solar product manufacturers which we anticipate will mitigate future expenditures that would normally be associated with our need to establish direct large scale manufacturing capabilities and the associated facility infrastructure.

Research and Development:

Research and development for the three-month period ended March 31, 2013 were \$15,676 as compared to \$27,692 during the same period in 2012. The decrease of \$(12,016) was primarily due to a reduction in research related efforts used in the period on the development of our new thin film solar manufacturing technology CIGSolar®. During the period research related efforts were minimized and the majority of resources were focused on our efforts to complete the testing, adjustment, and calibration of a full sized multi-chamber CIGSolar® evaporation processing system for use in marketing efforts of the system and our CIGSolar® technology. We anticipate that future R&D expense will again increase as we complete this process.

Net Loss:

The net loss for the three-months ended March 31, 2013 was \$(993,926) as compared to a net loss of \$(288,685) for the same period 2012. The increase in net loss of \$(705,241) primarily includes the reduction to operating expenses of \$(18,451), and an increase in other expenses of \$723,692 related to financing costs, which consisted primarily of a increase in loss on loan and conversion of debt totaling \$545,879, an increase in amortization of debt discount and interest expense of \$102,670, and the loss on change in derivative expense of \$75,143. The Company anticipates the trend of losses to continue in future periods until the Company can recognize sales of significance of which there is no assurance.

**RESULTS OF OPERATIONS FOR THE SIX-MONTH PERIOD ENDED MARCH 31, 2013 COMPARED TO THE SAME PERIOD IN 2012**

Revenue:

The Company generated no revenues for the six-month periods ended March 31, 2013 and 2012 respectively. Additionally, there was no associated cost of sales. The Company to date has had minimal revenue and cost of sales, and is still in the development stage.

General and Administrative Expenses:

General and administrative expenses for the six-month period ending March 31, 2013 were \$289,805 as compared to \$371,927 during the same period in 2012. The decrease of \$(82,122) was related primarily to a general reduction to salaries, staffing, and operating expenses under the Company's re-focused plan of operations that began in January 2012 and which focuses on the development of its new CIGSolar® thin film solar manufacturing technology. We anticipate that expenditures associated with the commercial development and sales of our thin-film solar manufacturing technologies will increase SG&A expenditures in the future. However, we plan to offer our technology as a licensable process to existing solar product manufacturers which we anticipate will mitigate future expenditures that would normally be associated with our need to establish direct large scale manufacturing capabilities and the associated facility infrastructure.

Research and Development:

Research and development for the six-month period ended March 31, 2013 were \$30,676 as compared to \$59,970 during the same period in 2012. The decrease of \$(29,294) was primarily due to a reduction in research related efforts used in the period on the development of our new thin film solar manufacturing technology CIGSolar®. During the period research related efforts were minimized and the majority of resources were focused on our efforts to complete the testing, adjustment, and calibration of a full sized multi-chamber CIGSolar® evaporation processing system for use in marketing efforts of the system and our CIGSolar® technology. We anticipate that future R&D expense will again increase as we complete this process.

Net Loss:

The net loss for the six-months ended March 31, 2013 was \$(1,528,557) as compared to a net loss of \$(737,138) for the same period 2012. The increase in net loss of \$(791,419) primarily includes the reduction to operating expenses of \$(105,420), which includes the decrease in non cash stock compensation of \$(86,694), and contributed services of \$(27,692) with a net increase of \$10,544 in G&A expenses, and an increase in other expenses related to financing costs of \$896,839, which consisted primarily of an increase in loss on loan and conversion of debt for \$457,915, an increase in amortization of debt discount and interest expense of \$224,736, and the increase in loss on change in derivative of \$205,244, and commitment fees of \$8,966. The Company anticipates the trend of losses to continue in future periods until the Company can recognize sales of significance of which there is no assurance.

## **LIQUIDITY AND CAPITAL RESOURCES**

As of March 31, 2013, we had a working capital deficit of \$(924,729) as compared to \$(544,939) at September 30, 2012. This increase in working capital deficit of \$(381,692) was due primarily to an increase in accounts payable, convertible promissory notes, and derivative liability related to financing costs.

During the six-months ended March 31, 2013, the Company used \$(231,183) of cash for operating activities, as compared to cash used of \$(181,827) for the same period 2012. The increase in cash used of \$49,356 for operating activities was primarily due to an increase in accounts payable, accrued expenses, and non cash commitment fees, loss on conversion of settlement of debt, change in derivative, amortization of debt discount, and interest payable with common stock, with a decrease in prepaid expenses, and a general reduction to salaries, staffing, and operating expenses under the Company's re-focused plan of operations that began in January 2012 and which focuses on the development of its new CIGSolar® thin film solar manufacturing technology.

Cash used by investing activities for the six-months ended March 31, 2013 was \$(32,736), as compared to cash used of \$(21,830) for the same period 2012. The net increase of cash used in investing activities was primarily due to an increase in the cost to produce machinery.

Cash provided by financing activities for the six-months ended March 31, 2013 was \$258,000, as compared to \$215,500 for the same period 2012. Our capital needs have primarily been met from the proceeds of private placements and the sale of convertible debt, as we are currently in the development stage and had no revenues.

Our financial statements as of March 31, 2013 have been prepared under the assumption that we will continue as a going concern from inception (February 25, 1997) through March 31, 2013. Our independent registered public accounting firm has issued their report dated April 13, 2013, 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, 2013, 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 \$258,000.

## **DEVELOPMENT STAGE COMPANY**

The Company is currently engaged in efforts to develop a cross-industry thin film solar manufacturing concept that we believe provides an opportunity for XsunX to establish a competitive advantage within the solar industry, and as of the period ended March 31, 2013, did not have any significant revenues. The transition to revenue recognition may exceed cash generated from operations in the current and future periods. We have in the past experienced substantial losses and negative cash flow from operations and have required financing, including equity and debt financing, in

order to pursue the commercialization of products based on our technologies. We expect that we will continue to need significant financing to operate our business. If additional financing is not available or not available on terms acceptable to us, our ability to fund our operations, maintain our research and development efforts necessary to complete the development of marketable products 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, results 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 carried out an evaluation, under the supervision and with the participation of our principal executive officer, principal financial officer, and principal operating officer, 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 financial officer, and 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.

##### **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 six-months ended March 31, 2013 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**

There are no material changes from the risk factors previously disclosed in the Registrant's Form 10-K filed on January 11, 2013.

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

During the six months ended March 31, 2013, the Company issued 19,086,303 shares of common stock in response to the conversion by the holder of five Securities Purchase Agreements (the "Purchase Agreements") each providing for the sale by the Company of an 8% unsecured Convertible Note ("the Notes"). In the aggregate the Notes totaled at the time of conversion \$174,800 in principal and accrued interest. Also, during the six months ended March 31, 2013, the Company issued 500,000 shares of common stock at a price of \$0.02 per share as an extension fee for a promissory note that had become due at September 30, 2012, and issued another 9,351,407 shares of common stock to the holder upon conversion by the holder of \$79,738 of principal and accrued interest. The above shares were issued in transactions exempt from registration pursuant to Section 4(2) of the Securities Act.

In accordance with a Stipulation for Settlement of Claims ("Stipulation"), dated June 27, 2012, by and between Ironridge Global IV, Ltd ("Ironridge") and the Company as documented in Los Angeles County Superior Court Case No. BC484549, the Company delivered 27,500,000 shares ("Initial Shares") of the Company's common stock, no par value ("Common Stock") to Ironridge in settlement of approximately \$494,561 in accounts payable of the Company (the "Accounts Payable") and \$54,317 for agent and attorney fees associated with the transaction. The transaction thereby substantially reduced the Company's liabilities, including its outstanding accounts payable balance associated with the assembly of the Company's CIGSolar™ thermal evaporation technology.

The Stipulation provided for an adjustment in the total number of shares, which may be issuable to Ironridge based on a calculation period and formula for the transaction (“Adjustment Shares”). The calculation formula is defined as that number of consecutive trading days following the date on which the Initial Shares were issued (the “Issuance Date”) required for the aggregate trading volume of the Common Stock, as reported by Bloomberg LP, to exceed \$2.5 million (the “Calculation Period”). Pursuant to the Stipulation, Ironridge would retain 1,500,000 shares of the Company’s Common Stock, plus that number of shares (the “Final Amount”) through the end of the Calculation Period with an aggregate value equal to (a) the sum of the Accounts Payable plus 8% agent fee and reasonable attorney fees through the end of the Calculation Period, (b) divided by 80% of the following: the volume weighted average price (“VWAP”) of the Common Stock over the length of the Calculation Period, as reported by Bloomberg, not to exceed the arithmetic average of the individual daily VWAPs of any five trading days during the Calculation Period. Subject to the above Stipulation and formula during the six months ended March 31, 2013, subject to request by Ironridge, the Company has issued 38,271,791 Adjustment Shares to Ironridge Global IV, Ltd. The issuance is exempt from the registration requirements of the Securities Act of 1933, as amended, pursuant to Section 3(a)(10) thereof, as an issuance of securities in exchange for bona fide outstanding claims, where the terms and conditions of such issuance are approved by a court after a hearing upon the fairness of such terms and conditions.

In exchange for a promissory note (the “Note”) of \$350,000 plus accrued interest of \$35,863 that had become due at September 30, 2012, the Company issued a new unsecured promissory exchange note (the “Exchange Note”) for \$385,863 in November 2012. The Holder and the Company exchanged the Note solely for (i) a 12% promissory Exchange Note, (ii) and 500,000 shares of common stock. Interest on the Exchange note accrued interest at the rate of 18% per annum commencing on September 30, 2012 through October 31, 2012 and thereafter at the rate of 12%. The Exchange Note is convertible into securities of the Company by the Holder at the lesser of \$0.025 or 70% of the lowest volume weighted average (VWAP) occurring during the ten consecutive trading days immediately preceding the date on which the Holder may elect to convert portions of the note. The Exchange Note matures on September 30, 2013 and the Company can prepay any then remaining principal and accrued interest balance upon first providing the holder with a ten day prepayment notice.

During the six months ended March 31, 2013, the Company entered into Securities Purchase Agreements (the "Purchase Agreements") on November 7, 2012, January 18, 2013, and February 12, 2013. Each Purchase Agreement provided for the sale by the Company of 8% unsecured Convertible Notes ("the Notes") in the principal amounts of \$37,500, \$37,500, and \$53,000 respectively for an aggregate total of \$128,500. After one hundred and eighty days from the date of issuance each Note 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. The Notes each mature nine months after issuance. The Company has the right to redeem a portion or all amounts outstanding under the Note prior to one hundred and eighty one days from issuance of the Note under a variable redemption rate premium.

On November 7, 2012, the Company issued a 10% unsecured convertible promissory note (the "Promissory Note") for the principal sum of up to \$78,000 plus accrued interest on any advanced principal funds. Upon issuance of the Promissory Note the lender immediately advanced the sum of \$25,000 to the Company, and may elect to pay additional consideration to the Company in such amounts and at such times as the lender may choose in its sole discretion. The Promissory Note matures one year from its issuance. The Promissory 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 Promissory Note.

On December 13, 2012, the Company issued a 10% unsecured convertible promissory note (the "Promissory 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. Upon issuance of the Promissory Note the lender immediately advanced the sum of \$50,000 to the Company. The lender subsequently advanced an additional \$25,000 each on February 27, 2013 and March 27, 2013, and may elect to pay additional consideration to the Company in such amounts and at such times as the Lender may choose in its sole discretion up to \$150,000 and thereafter only with consent by the Company. The principal sum due the Lender shall be prorated based on the actual total consideration paid to the Company by the Lender such that the Company will only be required to repay the amount funded by the lender, nor shall any interest or other rights extend to any unfunded portion of the Promissory Note. The Promissory Note matures one year from its issuance. The Promissory 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 Promissory Note.

### **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 develop marketable technologies for the manufacture of thin film solar technologies, 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. (Removed and Reserved)**

**Item 5. Other information**

Effective January 9, 2013, as part of a continued effort that began in January 2012 to maximize the use of capital resources necessary to complete the assembly and marketing of the Company's CIGSolar technology through reductions to operating costs and functions that are redundant, the Company elected to consolidate its executive management operations eliminating the need to have multiple officers performing similar functions. In furtherance of these efforts the Company's Board of Directors accepted the resignation of Joseph Grimes as the Company's President and Chief Operating Officer, effective immediately, and approved by unanimous consent the reorganization and appointment of executive management as follows:

In connection with the resignation of Mr. Grimes, the Board appointed Mr. Tom Djokovich to the position of President. Mr. Djokovich will continue to also serve as the Company's Chief Executive Officer (CEO), a Director, and Secretary duties which he has performed since October 2003. Mr. Djokovich will focus on the strategic oversight of the day-to-day operations and securities compliance. Mr. Djokovich did not enter into, or receive, any grant or award under any material plan, contract or arrangement in connection with his assumption of duties as the Company's President. Mr. Djokovich is 56 years old.

Mr. Grimes will continue to serve as a member of the Board of Directors and will assume the position of Executive Sales Manager. As Executive Sales Manager, Mr. Grimes will manage the marketing efforts associated with the Company's commercialization efforts of its CIGSolar thin film manufacturing technology. Mr. Grimes previously held the position of President and Chief Operating Officer. Mr. Grimes did not enter into, or receive, any grant or award under any material plan, contract or arrangement in connection with his assumption of duties as the Company's executive sales manager. Mr. Grimes is 55 years old.

On March 21, 2013, the Company granted 1,000,000 stock options to each of the four non-affiliated members of the Board of Directors for a total of 4,000,000 options for continued services and performance to the Company. Each option vested upon issuance and provides for a purchase price of \$0.014 per share (104% of the market price on the date of grant) and can be exercised at any time over a three-year period.

On April 12, 2013, the Company issued a securities purchase agreement providing for the sales of an 8% convertible promissory note (the "Note") in the amount of \$37,500. After one hundred and eighty days the Note 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. The Note matures nine months after issuance. The Company has the right to redeem a portion or all amounts outstanding under the Note prior to one hundred and eighty one days from issuance of the Note under a variable redemption rate premium.

On May 8, 2013, a holder of 10% unsecured convertible promissory note (the "Promissory Note") for the principal sum of up to \$78,000 under which the lender had advanced the sum of \$25,000 at the time of issuance converted the total principal and accrued interest totaling \$26,250. Upon conversion, the Company issued an aggregate of 4,375,000 shares respectively of common voting stock to the holder.

Between May 8 and 10, 2013, a holder of a Securities Purchase Agreement (the "Purchase Agreement") providing for the sale by the Company of an 8% unsecured Convertible Note ("the Note") in the principal amount of \$37,500 converted \$27,000 of principal. Upon conversion, the Company issued an aggregate of 3,544,699 shares of common voting stock to the holder.



**Item 6. Exhibits**

**Exhibit Description**

- 3.1 Articles of Incorporation(1)
- 3.2 Bylaws(2)
- 10.1 XsunX Plan of Reorganization and Asset Purchase Agreement, dated September 23, 2003.(3)
- 10.2 XsunX 2007 Stock Option Plan, dated January 5, 2007.(4)
- 10.3 Form of Securities Purchase Agreements and Convertible Promissory Notes (“Notes”) used in connection with the conversion by the holder of five Notes totaling \$174,800 in principal and accrued interest resulting in the issuance of 19,086,303 shares of common stock by the Company. (5)
- 10.4 Form of Exchange Agreement and Exchange Note used in connection with the exchange and 12 month extension to a promissory note that had become due September 1, 2012. The issuance of 500,000 shares as an extension fee thereunder, and the conversion by the holder of \$79,738 of principal and accrued interest resulting the issuance of 9,351,407 shares of common stock by the Company. (6)
- 10.5 June 27, 2012 Order for Approval of Stipulation for settlement of claims between the Company and Ironridge used to settle approximately \$548,878 in account payables, the issuance of 27,500,000 initial shares, and 38,271,791 adjustment shares in the 6 month period ended March 31, 2013. (6)
- 10.6 Form of Securities Purchase Agreement and Convertible Promissory Note used in connection with the sale in November 7, 2012, January 18, 2013, and April 12, 2013 of convertible promissory notes each in the amount of \$37,500, and on February 12, 2013 in the amount of \$53,000. (5)
- 10.7 Form of Convertible Promissory Note used in connection with the sale on November 7, 2012 of a convertible promissory note in the amount of up to \$78,000, and issuance of 4,375,000 shares by the Company for conversion on May 8, 2013 by the holder of the total outstanding \$26,250 of accrued principal and interest thereunder. (6)
- 10.8 Form of Convertible Promissory Note used in connection with the sale of a convertible promissory note on December 13, 2012 in the amount of up to \$250,000. (6)
- 10.9 Form of Stock Option Grant issued to four members of the Company Board of Directors on March 21, 2013 each granting 1,000,000 options exercisable at \$.014 per share. (7)
- 10.10 Form of Securities Purchase Agreements and Convertible Promissory Note (“Note”) for the principal sum of \$37,500 used in connection with the conversion by the holder of \$27,000 resulting in the issuance of 3,544,699 shares of common stock by the Company. (5)
- 31.1 Sarbanes-Oxley Certification(8)
- 32.1 Sarbanes-Oxley Certification(8)
- (1) Incorporated by reference to Registration Statement Form 10SB12G #000-29621 dated February 18, 2000 and by reference to exhibits included with the Company’s prior Report on Form 8-K/A filed with the Securities and Exchange Commission dated October 29, 2003.
- (2) Incorporated by reference to Registration Statement Form 10SB12G #000-29621 filed with the Securities and Exchange Commission dated February 18, 2000.
- (3) Incorporated by reference to exhibits included with the Company’s Report on Form 8-K/A filed with the Securities and Exchange Commission dated October 29, 2003.
- (4) Incorporated by reference to exhibits included with the Company’s Report on Form 8-K filed with the Securities and Exchange Commission dated January 5, 2007.
- (5) 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.
- (6)

Edgar Filing: XSUNX INC - Form 10-Q

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.

(7) 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.

(8) Provided Herewith

21

**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 13, 2013 By: /s/ Tom M. Djokovich  
Tom M. Djokovich,*

*Principal Executive and Financial Officer*



