

XSUNX INC
Form 10-Q
February 21, 2017

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

FORM 10-Q

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

For The Quarterly Period Ended: December 31, 2016

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

For The Transition Period From _____ to _____

Commission File Number: 000-29621

XSUNX, INC.

(Exact name of registrant as specified in its charter)

Colorado

84-1384159

(State of incorporation) (I.R.S. Employer Identification No.)

65 Enterprise, Aliso Viejo, CA 92656

(Address of principal executive offices) (Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes 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

Edgar Filing: XSUNX INC - Form 10-Q

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 February 21, 2017 was 889,331,125.

TABLE OF CONTENTS

| | PAGE |
|--|------|
| PART I - FINANCIAL INFORMATION | |
| <u>Item 1. Financial Statements (Unaudited)</u> | 3 |
| <u>Condensed Balance Sheets</u> | 3 |
| <u>Condensed Statements of Operations</u> | 4 |
| <u>Condensed Statements of Shareholders Deficit</u> | 5 |
| <u>Condensed Statements of Cash Flows</u> | 6 |
| <u>Notes to Condensed Financial Statements</u> | 7 |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 11 |
| <u>Item 3. Qualitative and Quantitative Disclosures About Market Risk</u> | 14 |
| <u>Item 4. Controls and Procedures</u> | 14 |
| PART II - OTHER INFORMATION | |
| <u>Item 1. Legal Proceedings</u> | 16 |
| <u>Item 1A. Risk Factors</u> | 16 |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | 16 |
| <u>Item 3. Defaults upon Senior Securities</u> | 16 |
| <u>Item 4. Mine Safety Disclosure</u> | 16 |
| <u>Item 5. Other Information</u> | 16 |
| <u>Item 6. Exhibits</u> | 17 |
| <u>Signatures</u> | 18 |

Table of Contents

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

XSUNX, INC.

CONDENSED BALANCE SHEETS

| | December 31, 2016 | September 30, 2016 |
|--|----------------------|-----------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$ 112,179 | \$ 22,172 |
| Accounts receivable | - | 30,800 |
| Cost in excess of billing | 13,725 | 10,126 |
| Prepaid expenses | 19,462 | 2,266 |
| Total Current Assets | 145,366 | 65,364 |
| PROPERTY & EQUIPMENT | | |
| Office & miscellaneous equipment | 29,842 | 29,842 |
| Machinery & equipment | 626 | 626 |
| | 30,468 | 30,468 |
| Less accumulated depreciation | (29,961) | (29,930) |
| Net Property & Equipment | 507 | 538 |
| TOTAL ASSETS | \$ 145,873 | \$ 65,902 |
| LIABILITIES AND SHAREHOLDERS' DEFICIT | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 108,087 | \$ 46,515 |
| Credit card payable | 66,708 | 65,114 |
| Accrued interest on notes payable | 31,912 | 28,849 |
| Billing in excess of cost | 113,003 | 41,454 |
| Derivative liability | 421,886 | 430,532 |
| Promissory note, related party | 35,000 | 35,000 |
| Convertible promissory note, related party | 12,000 | 12,000 |
| Convertible promissory notes, current portion net of \$5,736 and \$11,148 in discounts | 170,309 | 131,886 |
| Total Current Liabilities | 958,905 | 791,350 |
| LONG TERM LIABILITIES | | |
| Convertible promissory notes | 35,000 | 115,000 |
| Total Long Term Liabilities | 35,000 | 115,000 |

| | | |
|--|--------------|--------------|
| TOTAL LIABILITIES | 993,905 | 906,350 |
| SHAREHOLDERS' DEFICIT | | |
| Preferred stock 50,000,000 shares authorized, shares issued and outstanding designated as follows: | | |
| Preferred Stock Series A, \$0.01 par value, 10,000 authorized | | |
| 5,000 and 0 shares issued and outstanding, respectively | 50 | 50 |
| Common stock, no par value; | | |
| 2,000,000,000 authorized common shares | | |
| 889,331,125 and 783,080,479 shares issued and outstanding, respectively | 32,668,767 | 32,640,840 |
| Additional paid in capital | 5,335,398 | 5,335,398 |
| Paid in capital, common stock warrants | 3,811,700 | 3,811,700 |
| Accumulated deficit | (42,663,947) | (42,628,436) |
| TOTAL SHAREHOLDERS' DEFICIT | (848,032) | (840,448) |
| TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT | \$145,873 | \$65,902 |

The accompanying notes are an integral part of these financial statements

3

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

| | Three Months Ended | |
|--|----------------------|----------------------|
| | December 31, 2016 | December 31, 2015 |
| SALES | \$393,702 | \$203,229 |
| COST OF GOODS SOLD | 299,054 | 158,721 |
| GROSS PROFIT | 94,648 | 44,508 |
| OPERATING EXPENSES | | |
| Selling, general and administrative expenses | 126,920 | 124,702 |
| Depreciation and amortization expense | 31 | 805 |
| TOTAL OPERATING EXPENSES | 126,951 | 125,507 |
| INCOME (LOSS) FROM OPERATIONS BEFORE OTHER INCOME/(EXPENSES) | (32,303) | (80,999) |
| OTHER INCOME/(EXPENSES) | | |
| Penalties | (200) | - |
| Gain on sale of asset | - | 1,000 |
| Gain/(Loss) on conversion of debt and change in derivative liability | 8,646 | 79,330 |
| Interest expense | (11,654) | (30,754) |
| TOTAL OTHER INCOME/(EXPENSES) | (3,208) | 49,576 |
| NET LOSS | \$(35,511) | \$(31,423) |
| BASIC AND DILUTED LOSS PER SHARE | \$(0.00) | \$(0.00) |
| WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING | | |
| BASIC AND DILUTED | 843,519,778 | 704,918,657 |

The accompanying notes are an integral part of these financial statements

4

Table of Contents

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

| | Preferred Stock | | Common Stock | | Additional Paid-in Capital | Stock Options/ Warrants Paid-in-Capital | Accumulated Deficit | Total |
|---|--------------------|--------|--------------|--------------|----------------------------------|--|------------------------|-------------|
| | Shares | Amount | Shares | Amount | | | | |
| Balance at September 30, 2016 | 5,000 | \$ 50 | 783,080,479 | \$32,640,840 | \$5,335,398 | \$ 3,811,700 | \$(42,628,436) | \$(840,448) |
| Common stock issued upon conversion of debt and accrued interest | - | - | 106,250,646 | 27,927 | - | - | - | 27,927 |
| Net loss for the three months ended December 31, 2016 | - | - | - | - | - | - | (35,511) | (35,511) |
| Balance at December 31, 2016 (unaudited) | 5,000 | \$ 50 | 889,331,125 | \$32,668,767 | \$5,335,398 | \$ 3,811,700 | \$(42,663,947) | \$(848,032) |

The accompanying notes are an integral part of these financial statements

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

| | Three Months Ended | |
|---|--------------------|------------------|
| | December | December |
| | 31, 2016 | 31, 2015 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$(35,511) | \$(31,423) |
| Adjustment to reconcile net income (loss) to net cash provided (used) in operating activities | | |
| Depreciation & amortization | 31 | 804 |
| Gain on sale of asset | - | (1,000) |
| Gain on conversion of debt and change in derivative liability | (8,646) | (79,330) |
| Amortization of debt discount recorded as interest expense | 5,412 | 21,557 |
| Reduction in convertible note principal | (2,688) | - |
| (Increase) Decrease in Change in Assets: | | |
| Accounts receivable | 30,800 | (973) |
| Cost in excess of billing | (3,599) | (2,143) |
| Prepaid expenses | (17,196) | (15,108) |
| Increase (Decrease) in Change in Liabilities: | | |
| Accounts payable | 63,165 | 27,988 |
| Accrued expenses | 6,690 | 9,988 |
| Billing in excess of cost | 71,549 | 38,227 |
| Deferred revenue | - | (15,000) |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | 110,007 | (46,413) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from sale of assets | - | 1,000 |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | - | 1,000 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from convertible promissory notes | - | 50,000 |
| Payments on convertible promissory notes | (20,000) | (20,000) |
| Proceeds from related party promissory notes | - | 10,000 |
| NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES | (20,000) | 40,000 |
| NET INCREASE/(DECREASE) IN CASH | 90,007 | (5,413) |
| CASH, BEGINNING OF YEAR | 22,172 | 78,770 |
| CASH, END OF YEAR | \$112,179 | \$73,357 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |

Edgar Filing: XSUNX INC - Form 10-Q

| | | |
|---------------|---------|--------|
| Interest paid | \$2,239 | \$ 377 |
| Taxes paid | \$- | \$- |

SUPPLEMENTAL DISCLOSURES OF NON CASH TRANSACTIONS

| | | |
|---|----------|-----|
| Issuance of common stock upon conversion of debt and accrued interest | \$27,927 | \$- |
|---|----------|-----|

The accompanying notes are an integral part of these financial statements

6

Table of Contents

XSUNX, INC.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS – UNAUDITED

DECEMBER 31, 2016

1 Basis of Presentation

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all normal recurring adjustments considered necessary for a fair presentation have been included. Operating results for the three months ended December 31, 2016 are not necessarily indicative of the results that may be expected for the year ended September 30, 2017. For further information refer to the financial statements and footnotes thereto included in the Company's Form 10-K, and Form 10-K/A for the year ended September 30, 2016.

Going Concern

The accompanying financial statements have been prepared on a going concern basis of accounting, which contemplates continuity of operations, realization of assets and liabilities and commitments in the normal course of business. The accompanying financial statements do not reflect any adjustments that might result if the Company is unable to continue as a going concern. The 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 three months ended December 31, 2016. Management believes the existing shareholders and the prospective new investors will provide the additional cash needed to meet the Company's obligations as they become due, and will allow the development of its business development efforts in the solar PV industry.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Use of Estimates

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

Cash and Cash Equivalents

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

Revenue Recognition

Revenue and related costs on construction contracts are recognized using the "percentage of completion method" of accounting in accordance with ASC 605-35, Accounting for Performance of Construction-Type and Certain

Production Type Contracts (“ASC 605-35”). Under this method, contract revenues and related expenses are recognized over the performance period of the contract in direct proportion to the costs incurred as a percentage of total estimated costs for the entirety of the contract. Revenue is recognized based on the percentage of cost incurred. Costs include all direct materials, subcontractor costs, direct labor and those indirect costs related to contract performance, such as indirect labor, supplies, project planning and preparation, tools and repairs. All un-allocable indirect costs and corporate general and administrative costs are charged to the periods as incurred. However, in the event a loss on a contract is foreseen, the Company will recognize the loss as it is determined.

Revisions in cost and profit estimates during the course of the contract are reflected in the accounting period in which the facts, which require the revision, become known. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, estimated profitability, and final contract settlements may result in revisions to costs and income, and are recognized in the period in which the revisions are determined.

The Asset, “Costs in excess of billing” represents revenues recognized in excess of amounts billed on contracts in progress. The Liability, “Billing in excess of costs”, represents billings in excess of revenues recognized on contracts in progress. At December 31, 2016, the cost in excess of billing was \$13,725 and the billing in excess of costs was \$113,003.