UNITED GUARDIAN INC
Form DEF 14A
March 27, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant [X]   Filed by a Party other than the Registrant [ ]

Check the appropriate box:

[ ] Preliminary Proxy Statement
[ ] Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
[X] Definitive Proxy Statement
[ ] Definitive Additional Materials
[ ] Soliciting Material Pursuant to Section 240.14a-12

United-Guardian, Inc.
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

[X] No fee required.

[ ] Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11
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1) Amount Previously Paid: ___________________________________
2) Form, Schedule or Registration Statement No.: __________________
3) Filing Party: ____
4) Dated Filed: ____

UNITED-GUARDIAN, INC.

230 Marcus Boulevard • P. O. Box 18050 • Hauppauge, NY 11788 • (631) 273-0900

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held May 17, 2017

To the Stockholders of **UNITED-GUARDIAN, INC.:**

You are hereby notified that the 2017 annual meeting of stockholders of **UNITED-GUARDIAN, INC**. ("Annual Meeting"), will be held at the offices of Raich Ende Malter & Co. LLP, 175 Broadhollow Road, Suite 250, Melville, NY 11747, on Wednesday, May 17, 2017 at 10:00 A.M. local time, for the following purposes:

1. To elect six (6) directors to serve until the next annual meeting of the stockholders and until their respective successors are elected and qualified;

2. To hold an advisory vote relating to the compensation of the Company's named executive officers;

3. To ratify the appointment by the Company of Raich Ende Malter & Co. LLP as its independent registered public accounting firm for the fiscal year ending December 31, 2017;

4. To transact such other matters as may properly come before the meeting or any adjournment thereof.

Only stockholders of record at the close of business on March 31, 2017 are entitled to notice of and to vote at the meeting.

By order of the Board of Directors
Robert S. Rubinger, Secretary

Dated: April 14, 2017

RETURN OF PROXIES

Whether or not you plan to attend, it is important that your shares be represented and voted at the Annual Meeting. To ensure your representation at the Annual Meeting, a proxy card and business reply envelopes are enclosed for your use. We urge each stockholder to vote promptly by signing and returning his or her proxy card, regardless of the number of shares held. The giving of a proxy will not affect your right to vote in person if you attend the Annual Meeting.

Important notice regarding the availability of proxy materials for the Annual Meeting of Stockholders to be held May 17, 2017: The Proxy Statement and Annual Report to Stockholders are available on the Company's website at http://u-g.com/proxy-materials-view.php?id=12

UNITED-GUARDIAN, INC.

230 Marcus Boulevard • P.O. Box 18050 • Hauppauge, NY 11788 • (631) 273-0900

Proxy Statement

The enclosed proxy is solicited by the Board of Directors (the “Board”) of UNITED-GUARDIAN, INC. (the "Company") for use at the 2017 Annual Meeting of Stockholders (the "Annual Meeting") to be held at 10:00 A.M., local time on Wednesday, May 17, 2017 at the offices of Raich Ende Malter & Co. LLP (“Raich”), 175 Broadhollow Road, Suite 250, Melville, NY 11747, and at any adjournments thereof. A proxy granted hereunder is revocable at any time before it is voted by (a) a duly executed proxy bearing a later date, (b) written notice to the Secretary of the Company received by the Company at any time before such proxy is voted at the Annual Meeting, or (c) attendance at the Annual Meeting and voting in person.

It is anticipated that the mailing of this Proxy Statement and the accompanying Proxy to stockholders will commence on or about April 14, 2017.

SOLICITATION OF PROXIES

The persons named as proxies are Kenneth H. Globus and Robert S. Rubinger.

All shares represented by properly executed, unrevoked proxies received in proper form and in time for use at the Annual Meeting will be voted in accordance with the directions specified thereon and otherwise in accordance with the judgment of the persons designated as proxies. Any proxy on which no direction is specified will be voted in favor of the nominees to the Board listed in this Proxy Statement and for the approval of the proposals to (i) approve the compensation of the Company’s named executive officers; and (ii) ratify the appointment of Raich as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2017, but will not be voted in favor of stockholder proposals (if any) included in this Proxy Statement. If any other matters are properly presented at the Annual Meeting for consideration, the persons named as proxies in a properly delivered proxy card will have the discretion to vote on those matters for the stockholder delivering the proxy card. As of the date we filed this Proxy Statement with the Securities and Exchange Commission ("SEC"), the Board was not aware of any other matters to be raised at the Annual Meeting.

The cost of preparing, assembling and mailing the Notice of Annual Meeting, Proxy Statement, proxy card and any other materials enclosed, will be borne by the Company. In addition to the solicitation of proxies by use of the mails, officers and employees of the Company may solicit proxies by telephone, facsimile, or personal interview. They will not receive additional compensation for their effort. The Company will request brokerage houses and other custodians, nominees and fiduciaries to forward soliciting materials to the beneficial owners of stock held of record by such persons, and will reimburse such persons for their expenses in forwarding soliciting material. The Company does not anticipate paying any compensation to any other party for the solicitation of proxies.

VOTING SECURITIES AND PRINCIPAL STOCKHOLDERS

Outstanding Shares and Voting Rights

Only holders of record of the Company's Common Stock, par value $.10 per share ("Common Stock"), at the close of business on March 31, 2017, will be entitled to notice of and to vote at the Annual Meeting. On March 31, 2017, there were 4,594,319 shares of Common Stock outstanding. Each outstanding share of Common Stock is entitled to one vote on all matters submitted to a vote at the Annual Meeting, which vote may be given in person or by proxy. There are no cumulative voting rights.

Nominees for director are elected if the votes cast for a nominee’s election exceed the votes cast against that nominee’s election.

The affirmative vote of the holders of a majority of shares of Common Stock present, in person or by proxy, and eligible to vote at the Annual Meeting is necessary for the approval of the proposals to (i) approve the compensation of the Company’s named executive officers; and (ii) ratify the appointment by the Company of Raich as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2017.

Any broker holding shares in “street name” on behalf of a stockholder is required to vote those shares in accordance with the stockholder’s instructions. If the stockholder does not give instructions to the broker, the broker will be entitled to vote the shares with respect to “routine” items, but will not be permitted to vote the shares with respect to non-routine items (resulting in a “broker non-vote”). The ratification of the selection of Raich is a “routine” item. The election of directors, the advisory vote relating to the compensation of the Company’s named executive officers, and stockholder proposals, if any, are non-routine items.

Under Delaware law, shares as to which a stockholder abstains or withholds authority to vote and broker non-votes will be treated as present at the Annual Meeting for the purposes of determining a quorum. Proxies marked "Withhold Authority" with respect to the election of one or more directors will not be counted in determining who the six persons are who received the greatest number of votes in the election of directors. Proxies marked "Abstain" with respect to (a) the ratification of the appointment of Raich as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2017; (b) the advisory vote relating to the compensation of the Company’s named executive officers; or (c) stockholder proposals (if any) that are properly presented at the Annual Meeting, will have the effect of a vote against approval or ratification with respect to such proposals.

Security Ownership of Certain Beneficial Owners

The following table sets forth the shares of the Company's Common Stock, par value $.10 per share (the only class of stock issued and outstanding), owned beneficially by each person who, as of March 31, 2017, is known by the Company to have owned beneficially more than 5% of the outstanding Common Stock. Regarding the shares referenced in footnote (1) below, the beneficial owner has both sole voting power and sole investment power, except for those shares held by his spouse as noted.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Kenneth H. Globus c/o United-Guardian, Inc. 230 Marcus Blvd., Hauppauge, NY 11788	1,390,693 (1)	30.3%
Dr. Betsee Parker P.O. Box 2198, Middleburg, VA 20118	368,739 (2)	8.0%
Mario J. Gabelli One Corporate Center, Rye, NY 10580	284,300 (3)	6.2%

(1) Includes 315,347 shares held directly in his own name, and another 1,075,346 shares held beneficially as follows: 760,000 shares as joint Trustee of the Alfred Globus Testamentary Trust, as to which he has sole voting rights and shared investment power, and 315,346 shares held by his wife.

(2) As of March 20, 2017, based upon information provided to the Company.

(3) Based on statements made in filings with the SEC by Mario Gabelli, GGCP, Inc., Teton Advisors, Inc., Gabelli Funds, LLC, GAMCO Asset Management Inc. and GAMCO Investors, Inc. Some of the shares of Common Stock beneficially owned by Mr. Gabelli are also beneficially owned by certain of the entities making the filings. However, none of such entities reported beneficial ownership of shares constituting more than 5% of the outstanding shares of Common Stock of the Company.

Related Party Transactions

The Company has adopted a written policy for the approval of "related party" transactions. Under the policy, related parties are defined to include executive officers and directors of the Company and their immediate family members, a stockholder owning in excess of 5% of the Company, and entities in which any of the foregoing have a substantial ownership interest or control. The policy applies to any transactions that exceed or are expected to exceed $50,000 in a single calendar year.

The policy provides that the Audit Committee will review transactions subject to the policy and decide whether or not to approve or ratify those transactions. In doing so, the Audit Committee will make a determination as to whether the transaction is in the best interests of the Company and its stockholders, taking into account (a) the benefits to the Company and its stockholders; (b) the extent of the related person’s interest in the transaction; (c) whether the transaction is on terms generally available to an unaffiliated third-party under the same or similar circumstances; (d) the impact or potential impact on a director’s independence in the event the related party is a director, an immediate family member of a director, or an entity in which a director is a partner, shareholder or executive officer; and (e) the terms of each transaction.

The policy also provides that Director and officer compensation that is approved by the Board or the Compensation Committee is exempt from this approval process and will be considered to be pre-approved.

The Related Party Transaction Policy can be found on the Company's web site at www.u-g.com

There were no related party transactions during 2016.

Security Ownership of Management

The following information is furnished with respect to ownership of shares of Common Stock as of March 31, 2017, by each named executive officer, each Director (which includes all nominees for Director) and by all Directors and executive officers of the Company as a group (8 persons). Except as otherwise indicated, the beneficial owner has sole voting and investment power.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Kenneth H. Globus	1,390,693 (1)	30.3%
Arthur M. Dresner	12,175	*
Robert S. Rubinger	5,137	*
Lawrence F. Maietta	4,000	*
Andrew A. Boccone	0	*
S. Ari Papoulias	0	*
Joseph Vernice	2,000	
Peter Hultunen	320	
All Officers and Directors as a group (8 persons)	1,414,325	30.8%

(1) Includes 315,347 shares held directly in his own name, and another 1,075,346 shares held beneficially as follows: 760,000 shares as joint Trustee of the Alfred Globus Testamentary Trust, as to which he has sole voting rights and shared investment power, and 315,346 shares held by his wife.

* Less than one percent (1%)

DIRECTORS AND EXECUTIVE OFFICERS

Nominees for Election as Directors

Six directors are to be elected at the Annual Meeting to serve until the next annual meeting of stockholders and until their successors have been elected and qualified. Set forth in the table below are the names of all persons nominated for election as directors (all of whom are currently directors) by a majority of the Company's independent directors, the principal occupation or employment of each nominee for at least the past five years, his present positions with the

Company, his qualifications to serve as a director, other board memberships of public companies, and the year he was first elected a director.

Name and Position with the Company	Age	Principal Occupation, Qualifications, and other Boards	Year First Elected a Director
Robert S. Rubinger Executive Vice President, Secretary, Treasurer, Chief Financial Officer and Director	74	From July 1988 to date, Executive Vice President and Secretary of the Company. Treasurer of the Company from May 2010 to date and previously from May 1994 to May 2004, and Chief Financial Officer of the Company from December 2006 to date. He has leadership experience, business experience, and knowledge of the Company's operations from over 40 years as Vice President and then Executive Vice President of the Company. He holds a bachelor's degree in Economics/Business Management from Hunter College.	1982
Kenneth H. Globus President, General Counsel and Chairman of the Board	65	From July 1988 to date, President and General Counsel of the Company. Chief Financial Officer of the Company from November 1997 to December 2006. Chairman of the Board since September 2009. He has leadership experience, business experience, legal experience, and knowledge of the Company's operations from over 30 years as Vice President, then President, and General Counsel of the Company, and his prior years as an attorney in private practice. He holds a bachelor's degree in Psychology and English from SUNY at Albany, and a Juris Doctor degree from the George Washington University Law School.	1984

Lawrence F. Maietta Director	59	Partner in the accounting firm of Bonamassa, Maietta & Cartelli, LLP, Brooklyn, NY, since October 1991. Controller of the Company from October 1991 to November 1997. He has financial experience, business experience, and an extensive knowledge of the Company's operations. He has been a CPA and consultant preparing financial reports and tax returns for the Company and other clients for more than 30 years. He holds a bachelor's degree in Business Administration from Niagara University, and an MBA from Hofstra University. (2)	1994
Arthur M. Dresner Director	75	Counsel to the law firm of Duane Morris LLP, New York, NY, since August 2007. He has leadership experience, legal experience, business experience, and a scientific education and background. From 1998 to 2007 he was partner and previously "Of Counsel" to the law firm of Reed Smith, LLP, New York, NY. For more than 20 years prior, he was employed by GAF Corporation and its subsidiary, International Specialty Products, Inc., Wayne, NJ, including having been Vice President of corporate development and general management for the last 8 of those years. He holds a bachelor's degree in Engineering from Stevens Institute of Technology, and a Juris Doctor degree from St. John's University School of Law.(1) (2)	1997
Andrew A. Boccone Director	71	Independent business consultant since 2001. He has leadership experience, business experience, and a scientific education and background. For more than 25 years he was employed by Kline & Company, Inc., Parsippany, NJ, an international business consulting and market research firm specializing in the chemicals industry, consumer products, life sciences, and energy, including having been President from 1990 to 2001. He holds a bachelor's degree in Chemistry from Hofstra University, and an MBA from Seton Hall University. (1) (2)	2002
S. Ari Papoulias Director	63	Since 2015, Managing Director of ChemRise LLC, a business advisory firm providing engineering, marketing, and financial advice to firms in the chemicals industry. From 2006 to 2015 Global Marketing Director for Momentive Performance Materials (formerly GE Advanced materials). From 1987 to 2006 initially Business Manager of Advanced Materials, then Business Director of Industrial Markets, and then Global Marketing Director of Performance Chemicals for International Specialty Products, Inc., Wayne, NJ. He has leadership experience, business and financial experience, and a scientific background and education. He holds a B.Sc. in Chemical Engineering from the University of Massachusetts, an M.Sc. in Chemical Engineering from the University of Florida, a Ph.D. in Chemical Engineering from Carnegie Mellon University, and an MBA in Finance from New York University. (1)	2016

(1) Member of Audit Committee

(2) Member of Compensation Committee

There are no family relationships between any Director and/or Officer of the Company.

The Board recommends a vote "FOR" the election of the nominees named for election as directors.

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Executive Officers and Significant Employees

Name and Position with the Company	Age	Principal Occupation During the Past Five Years
Kenneth H. Globus President, General Counsel and Chairman of the Board	65	From July 1988 to date, President and General Counsel of the Company. Chairman of the Board and Principal Executive Officer since September 2009. Chief Financial Officer of the Company from November 1997 to December 2006.
Robert S. Rubinger Executive Vice President, Secretary, Treasurer, Chief Financial Officer and Director	74	From July 1988 to date, Executive Vice President and Secretary of the Company. Treasurer of the Company since May 2010 and previously from May 1994 to May 2004. Chief Financial Officer of the Company from December 2006 to date.
Joseph J. Vernice Vice President	59	From February 1995 to date, Vice President of the Company. Since 1988 Manager of Research & Development of the Company and since 1991 Director of Technical Services of the Company.
Peter A. Hiltunen Vice President	58	From July 2002 to date, Vice President of the Company. Since 1982 Production Manager of the Company.

Board Leadership Structure

The Company is led by Kenneth H. Globus, who has served as President since 1988 and Chairman of the Board since September 2009. The Board is composed of Mr. Kenneth Globus, one other non-independent director, and four independent directors. The Board has two standing committees comprised solely of independent directors, the Audit Committee and the Compensation Committee. The Board also has a Stock Option Committee. Only the Audit Committee has a chairman. The Board does not have a lead director as all of the independent directors have a strong knowledge of Company operations and have held leadership positions in their respective employment, both past and present. The independent directors meet in executive session at least twice per year in accordance with NASDAQ guidelines. The Company has had this same basic leadership structure since it was founded in 1942, except that the committees were not established until the 1990s. The Board believes that this leadership structure has been effective for the Company considering its size and its resources, and similar leadership structures are commonly utilized by other small public companies in the United States.

Affirmative Determinations Regarding Director Independence

The Company's Board has considered the independence of the nominees for election at the Annual Meeting and has affirmatively determined that none of the four non-employee nominees for Director, Lawrence Maietta, Arthur Dresner, Andrew Boccone, and S. Ari Papoulias, has any material business, family or other relationship with the Company other than as a director, and for that reason they all qualify as independent under the corporate governance rules of NASDAQ. Lawrence Maietta does receive compensation as an outside accounting consultant in addition to the fees he receives as a Director, which disqualifies him from serving on the Audit Committee. However, the Board has determined that the additional compensation is not material and falls well below the thresholds established by NASDAQ and the SEC for determining Director independence for purposes other than serving on the Audit Committee. Kenneth Globus and Robert Rubinger are not independent due to their status as President and Executive Vice President, respectively, of the Company, and not due to any other transactions or relationships.

Role of the Board in Risk Oversight

The Board views risk management as a process designed to identify, manage, and control risks that may adversely affect the Company, so that they are appropriate considering the Company's size, operations and business objectives. The Company's risk management policies enable the Company to manage risk within acceptable limits and provide reasonable assurance of optimum corporate performance in the area of risk/return. The Board has ultimate responsibility for oversight of the Company's risk management processes, and discharges this responsibility through regular reports received from, and discussions with, senior management on all areas of material risk exposure to the Company. These reports and discussions include, among other things, operational, financial, legal and regulatory, and strategic risks. The full Board engages with the appropriate members of senior management to enable its members to understand and provide input to, and oversight of, risk identification, risk management and risk mitigation strategies. In addition, the Company's Audit Committee is responsible for evaluating and monitoring financial risks, and meets regularly in executive session without management present to, among other things, discuss the Company's risk management culture and processes. While the Board oversees the Company’s risk management, the Company’s senior management is responsible for day-to-day risk management processes.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 (the "Exchange Act") requires the Company's officers, directors and persons who own more than 10% of a class of the Company's equity securities to file reports of beneficial ownership and changes in beneficial ownership with the SEC. Officers, directors and greater than 10% stockholders are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file. Based on (i) a review of copies of Forms 3, 4, and 5 and any amendments thereto furnished to the Company during and with respect to the fiscal year ended December 31, 2016 and (ii) any written representations signed by reporting persons that no Form 5 is required, the Company believes that all persons subject to the reporting requirements pursuant to Section 16(a) filed the required reports on a timely basis during and with respect to the fiscal year ended December 31, 2016.

Directors Meetings

During the fiscal year ended December 31, 2016, the Board held four meetings. All Directors attended all four meetings.

The Board has a separately-designated standing Audit Committee, established in accordance with Section 3(a)(58)(A) of the Exchange Act, to oversee the accounting and financial reporting processes of the Company and to meet and review with the Company's independent auditors the plan, scope and results of its audits. Members of the Audit Committee in 2016 were Messrs. Arthur M. Dresner, the Chairman, Andrew A. Boccone, and S. Ari Papoulias. All of the Audit Committee members are independent as that term is defined in the listing standards of NASDAQ, the Company’s stock exchange since March 16, 2009. Under NASDAQ rules, the Board is required to make certain findings about the independence and qualifications of the members of the Audit Committee of the Board. In addition to assessing the independence of the members under NASDAQ rules, the Board also considered the requirements of Section 10A(m)(3) and Rule 10a-3 under the Exchange Act. As a result of its review, the Board determined that the Audit Committee does not have a financial expert. However, S. Ari Papoulias is considered “financially sophisticated” as that term is defined by NASDAQ. Lawrence F. Maietta, a Certified Public Accountant and former member of the Audit Committee, acts as an advisor to the Audit Committee. Mr. Maietta would not be deemed independent for purposes of membership on the Audit Committee. The reason for the absence of a financial expert is that the Board determined that the expense involved did not justify recruiting one, considering Mr. Maietta's presence as an advisor, and the “financially sophisticated” status of Mr. Papoulias. There were four meetings of the Audit Committee during the fiscal year ended December 31, 2016. All members attended all four meetings except Mr. Papoulias, who attended three meetings in 2016, since he was appointed to the Audit Committee at the conclusion of the Board meeting held on March 18, 2016, and did not begin his participation as a member of the Audit Committee until the meeting held on May 2016. A copy of the Audit Committee Charter is available on the Company's website at www.u-g.com/corporate.

During the fiscal year ended December 31, 2016, the independent directors of the Company, Messrs. Lawrence F. Maietta, Arthur M. Dresner, Andrew A. Boccone, and S. Ari Papoulias, held two meetings in executive session without the presence of non-independent directors and management in accordance with NASDAQ rules. All of the independent directors were present at both of the meetings.

The Board has a Compensation Committee which was formed in 1999 for the purpose of recommending to the Board the compensation of corporate officers and key employees for the ensuing year. Members of the Compensation Committee are Messrs. Lawrence F. Maietta, Arthur M. Dresner, and Andrew A. Boccone. Kenneth H. Globus acts as advisor to the Committee representing management. The Committee held one meeting in 2016. The Compensation Committee does not have a charter. Neither management nor the Committee has engaged a consultant to provide advice on compensation.

The Compensation Committee meets in June of each year and targets a total dollar amount to be allocated in the form of bonuses to all employees for the year. It also sets the specific bonus to be paid to each officer and key employee. These bonuses are paid as a single sum cash bonus in July of each year. In addition, the Committee recommends the amount of any cost of living increase for all employees based upon U.S. Department of Labor statistics for the prior year.

The Compensation Committee does not set compensation of Directors. Instead, the full Board acts on recommendations made by the independent directors. In its review of compensation of Directors, the Board considers various factors, such as compensation of Directors in other public companies of a similar size, the time spent by Board and Committee members in their service to the Company, and recent changes that may result in an increase or decrease in the responsibilities or time commitment of a Board and Committee member.

The Board does not have a Nominating Committee. The full Board fulfills the role of a nominating committee. Final selections are made by a majority of the independent directors. Kenneth H. Globus and Robert S. Rubinger are not independent as that term is defined by the listing standards of NASDAQ. It is the position of the Board that it is appropriate for the Company not to have a separate nominating committee because the size, composition and collective independence of the Board enables it to adequately fulfill the functions of a standing committee. NASDAQ does not require the Company to have a separate nominating committee but does require that Board nominees be selected by either a nominating committee composed solely of independent directors or by a majority of the independent directors. The Board does not consider diversity in identifying nominees for director positions.

The Board identifies director candidates through a combination of referrals, including by management, existing Board members, and stockholders. Once a candidate has been identified, the Board reviews the individual’s experience and background, and may discuss the proposed nominee with the source of the recommendation. If the independent directors believe it to be appropriate, such directors may meet with the proposed nominee before making a final determination on whether to include the proposed nominee as a member of management's slate of director nominees submitted to the stockholders for election to the Board. The Board will evaluate stockholder-nominated candidates under the same criteria as director-nominated candidates. Stockholders wishing to refer director candidates to the Board should do so in writing and they should be delivered to the Board c/o Corporate Secretary, United-Guardian, Inc., P.O. Box 18050, Hauppauge, NY 11788. The Board has adopted a corporate resolution with regard to the nominating process as discussed above. The Board has no charter for the nominating process.

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In 2016 all six Directors attended the Annual Meeting of Stockholders.

AUDIT COMMITTEE REPORT

The Audit Committee of the Board in 2016 was composed of three directors: Arthur M. Dresner, Andrew A. Boccone, and S. Ari Papoulias. All of the Audit Committee members are independent as that term is defined in the listing standards of NASDAQ.

The Audit Committee assists the Board in fulfilling its oversight responsibilities by reviewing the Company's consolidated financial report, its internal financial and accounting controls, and its auditing, accounting and financial reporting processes generally.

In discharging its oversight responsibilities regarding the audit process, the Audit Committee reviewed and discussed the audited consolidated financial statements of the Company as of and for the year ended December 31, 2016, with Company management and Raich, the independent auditors for such financial statements. The Audit Committee received the written disclosures and the letter from Raich required by applicable requirements of the Public Company Accounting Oversight Board regarding Baker's communications with the Audit Committee concerning independence, and discussed with Raich any relationships which might impair that firm's independence from management and the Company and satisfied itself as to the auditors' independence. The Audit Committee reviewed and discussed with Raich all communications required by generally accepted auditing standards, including Statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1 AU section 380).

Based upon these reviews and discussions, the Audit Committee recommended to the Board that the Company's audited consolidated financial statements for the year ended December 31, 2016, be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016 for filing with the SEC.

/s/ Arthur M. Dresner /s/ Andrew A. Boccone /s/ S. Ari Papoulias

The foregoing Audit Committee Report does not constitute soliciting material and shall not be deemed "filed" with the SEC, incorporated by reference into any other Company filing under the Securities Act of 1933 or the Exchange Act (except to the extent the Company specifically incorporates this Report by reference therein) or subject to the liabilities of Section 18 of the Exchange Act.

ADVISORY VOTE ON THE

COMPENSATION PAID TO THE COMPANY'S

NAMED EXECUTIVE OFFICERS

Section 14A of the Exchange Act requires the Company to periodically include in its proxy statements for meetings of stockholders at which directors are to be elected an advisory vote on named executive officer compensation. Section 14A also requires the Company to include in its proxy statements at least every six years, an advisory vote regarding the frequency with which the advisory vote on named executive officer compensation should be held. The Board currently plans to seek an advisory vote on executive compensation every year. The advisory vote on the frequency of holding a non-binding advisory vote on compensation paid to the Company's named executive officers was held at the annual meeting of stockholders on May 15, 2013, and the stockholders approved holding a vote on such matter every year. We are therefore including a proposal for our stockholders to vote to approve, on a nonbinding, advisory basis, the compensation of the executive officers named in this proxy statement, pursuant to Item 402 of Regulation S-K.

Our executive compensation is designed to reward executive performance that contributes to our success and increases stockholder value, while encouraging behavior that is in our and our stockholders' long term best interests.

We are asking you to vote to approve the adoption of the following resolution:

RESOLVED: That the stockholders of the Company approve, on a nonbinding, advisory basis, the compensation paid to the Company's named executive officers, as disclosed pursuant to Item 402 of Regulation S-K.

The stockholder vote on the proposal to approve the compensation paid to the Company's named executive officers is advisory and nonbinding, and serves only as a recommendation to our Board.

The Board recommends that you vote "FOR" the proposal to approve the compensation paid to the Company's named executive officers.

COMPENSATION OF EXECUTIVE OFFICERS AND DIRECTORS

Summary Compensation Table

Executive Officers

The following table sets forth for the years ended December 31, 2015 and December 31, 2016 certain information concerning the compensation awarded to, earned by or paid to the Company's principal executive officer and the two most highly compensated executive officers other than the principal executive officer:

Name and principal position	Year	Salary ($)	Bonus ($)	Stock awards ($)	Option awards ($)	Non-equity incentive plan compen-sation ($)	Non-qualified deferred compen-sation earnings ($)	All other compen-sation* ($)	Total ($)
Kenneth H. Globus, President (Principal Executive Officer)	2015	261,016	105,000	-	-	-	-	27,341*	393,357
and Chairman of the Board	2016	262,303	95,550	-	-	-	-	29,847*	387,700
Robert S. Rubinger, Executive Vice	2015	174,113	22,200	-	-	-	-	20,946*	217,259
President and Chief Financial Officer	2016	175,003	20,200	-	-	-	-	21,109*	216,312
Joseph J. Vernice,	2015	172,840	28,100	-	-	-	-	21,722*	222,662
Vice President	2016	173,698	25,600	-	-	-	-	21,657*	220,955

* In both 2015 and 2016 under the Company's 401(k) plan for all of its employees, the Company made a contribution of up to 4% of each employee's salary, matching an employee's elective deferral of up to 4% of salary. In addition, in 2009 the Company began making a discretionary contribution to all employees' 401(k) accounts based on a formula that qualifies the 401(k) plan under Internal Revenue Service ("IRS") Safe Harbor provisions. These amounts represent the Company's contribution for each year. There are no other items included in these amounts.

Pension Plans

The Company sponsors a 401(k)-defined contribution plan ("DC Plan") that provides for a dollar-for-dollar employer matching contribution of up to 4% of each employee's pay that is deferred under the DC Plan. Employees become fully vested in employer matching contributions after one year of employment. Company 401(k) matching contributions were approximately $104,000 for the years ended December 31, 2016 and 2015. In 2016 and 2015 employees were able to defer up to $18,000 and $18,000, respectively, of their annual pay as a pre-tax investment in the 401(k) plan (plus an additional $6,000 and $6,000, respectively, for employees over the age of 50), in accordance with limits set by the IRS.

The Company also makes discretionary contributions to each employee's account based on a "pay-to-pay" safe-harbor formula that qualifies the 401(k) plan under current IRS regulations. In November 2016 and November 2015, the Company’s Board authorized discretionary contributions in the amount of $175,000 each year, to be allocated among all eligible employees, for the 2016 and 2015 plan years. The Company contribution for 2016 was paid into the DC Plan in December 2016, and the 2015 contribution was paid in December 2015. The allocated amounts for FY-2016 and FY-2015 were distributed into each employee’s account in February 2017 and January 2016, respectively. Employees become vested in the discretionary contributions as follows: 20% after two years of employment, and 20% for each year of employment thereafter until the employee becomes 100% vested after six years of employment.

All of the persons named in the Summary Compensation Table above participated in the DC Plan and were fully vested as of December 31, 2016.

Outstanding Equity Awards at Fiscal Year-End

As of December 31, 2016, there were no outstanding equity awards held by the persons named in the Summary Compensation Table above. The Company’s previous stock option plan, which had been adopted in March 2004, expired in March 2014.

Director Compensation

Effective January 1, 2017, the annual retainer paid to each non-employee Director was increased to $13,000 from $12,000 (paid quarterly). Effective July 1, 2011, Director fees for meetings of both the full Board and for Audit Committee meetings increased by $250 per director per meeting. Directors who are not employees of the Company each receive a fee of $1,750 for each Board meeting attended. Directors who are employees of the Company receive no separate compensation for their service as directors. Each Audit Committee member and Mr. Lawrence F. Maietta, as an adviser to the Committee, receives a retainer of $750 per quarter. Mr. Arthur M. Dresner, the Committee Chairman, receives an additional $250 per quarter. In addition, each receives a fee of $1,500 for the Annual Audit Committee Meeting and $1,000 for each quarterly meeting. The Audit Committee Chairman, Mr. Arthur M. Dresner, receives an additional $1,250 for the Annual Audit Committee Meeting and an additional $750 for each quarterly meeting. The Committee Secretary, Mr. Andrew A. Boccone, receives an additional $250 for each meeting. Compensation Committee members each receive a fee of $1,000 for each meeting attended. No fees are paid for meetings of the independent directors.

The following table sets forth for the fiscal year ended December 31, 2016 certain information concerning the compensation paid to Directors of the Company who are not “named executive officers” (as such term is defined in Item 402(m)(2) of Regulation S-K):

Name	Fees earned or paid in cash ($)	Stock awards ($)	Option awards ($)	Non-Equity incentive plan compensation ($)	Nonqualified deferred compensation earnings ($)	All other compensation ($)	Total ($)
Lawrence F. Maietta	29,250	-	-	-	-	21,500 (1)	50,750
Arthur M. Dresner	33,750	-	-	-	-	-	33,750
Andrew A. Boccone	28,500	-	-	-	-	-	28,500
S. Ari Papoulias	21,250	-	-	-	-	-	21,250

(1) Consulting fee paid to Bonamassa, Maietta & Cartelli, LLP, a firm in which Mr. Maietta is a partner, for reviewing quarterly and annual financial statements and corporate tax returns.

APPOINTMENT OF ACCOUNTANTS

The firm of Raich Ende Malter & Co. LLP, an independent registered public accounting firm headquartered in Melville, N.Y., has been appointed by the Audit Committee of the Board to be the independent accountants of the Company for the fiscal year ending December 31, 2017. The appointment of such firm is subject to ratification by the stockholders at the Annual Meeting. Management believes that the firm is well qualified and recommends a vote in favor of the ratification.

Representatives of Raich are expected to be present at the Annual Meeting and will have an opportunity to make a statement, if they desire to do so, and will be available to respond to appropriate questions.

The Board recommends that you vote "FOR" the ratification of the appointment of Raich to serve as the Company's independent accountants for the fiscal year ending December 31, 2017.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

On March 25, 2016 Baker Tilley Virchow Kraus, LLP ("Baker") notified the Company that Baker was resigning as the Company's independent registered public accountant, effective immediately. After the completion of Baker's most recent audit of the Company's financial statements for the fiscal year ended December 31, 2015 (the "2015 Audit"), the Company made an offer of employment to a Baker employee who participated in the 2015 Audit. The Baker employee accepted the offer of employment. As a result, Baker determined that this would constitute a conflict of interest and that its independence would be impaired in accordance with SEC independence rules, and notified the Company that it would have to resign.

Baker had audited the Company's financial statements for the fiscal years ended December 31, 2014 and 2015. The audit reports of Baker on the Company's financial statements for those years did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principle. During the Company's two most recent fiscal years and subsequent interim period preceding Baker's resignation as the Company's independent registered public accountant, there have been no disagreements with Baker on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Baker, would have caused it to make reference to the subject matter of the disagreements in connection with its reports. There were no reportable events as defined in Item 304(a)(1)(v) of Regulation S-K.

On March 29, 2016, as directed and approved by the Audit Committee of the Company's Board of Directors, the Company formally retained Raich as the Company's independent accountant, effective immediately. During the two previous fiscal years and through the date of its retention, the Company had not consulted with Raich regarding either the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the financial statements of the Company, as well as any matters or reportable events described in Items 304(a)(2)(i) or (ii) of Regulation S-K.

The Company previously provided a copy of this disclosure to Baker, and requested that Baker furnish the Company with a letter addressed to the SEC stating whether it agreed with the statements made by the Company and, if not, stating the respects in which it did not agree. A copy of Baker's response confirming that Baker agreed with the statements made by the Company was included as Exhibit 16.1 to the Company's Current Report on Form 8-K that was filed with the SEC on March 29, 2016.

Audit Fees

The aggregate fees billed by Raich to the Company for the review and audit of the Company's financial statements for FY-2016 were approximately $68,000. For FY-2015 Baker billed the Company $83,000 ($7,000 for each of the first three fiscal quarters, $61,000 for the year-end audit), and $1,000 for out-of-pocket expenses in each fiscal year. The aggregate fees that are expected to be billed by Raich for the review and audit of the Company's financial statements for FY-2017 and FY-2018 are expected to be approximately $68,000 per year.

Audit-Related Fees

During 2016 and 2015 there were no fees paid to Raich or Baker in connection with the Company's compliance with Section 404 of the Sarbanes-Oxley Act of 2002.

No other fees were billed by Raich or Baker for the last two years that were reasonably related to the performance of the audit or review of the Company's financial statements and not reported under "Audit Fees" above.

Tax Fees

There were no other fees billed by Raich or Baker during the last two fiscal years for professional services rendered for tax compliance, tax advice, or tax planning. Accordingly, none of such services were approved pursuant to pre-approval procedures or permitted waivers thereof.

All Other Fees

There were no non-audit-related fees billed to the Company by Raich or Baker in 2016 or 2015.

Pre-approval Policies for Audit Services

Engagement of accounting services by the Company is not made pursuant to any pre-approval policies or procedures. The Company believes that its accounting firm is independent because all of its engagements by the Company are approved by the Company's Audit Committee prior to any such engagement.

The Audit Committee of the Company's Board meets periodically to review and approve the scope of the services to be provided to the Company by its independent accountant, as well as to review and discuss any issues that may arise during an engagement. The Audit Committee is responsible for the prior approval of every engagement of the Company's independent auditors to perform audit and permissible non-audit services for the Company (such as quarterly reviews, tax matters, consultation on new accounting and disclosure standards and, in future years, reporting on management's internal controls assessment).

Before the auditors are engaged to provide those services, the chief financial officer and the controller will make a recommendation to the Audit Committee regarding each of the services to be performed, including the fees to be charged for such services. At the request of the Audit Committee the independent auditors and/or management shall periodically report to the Audit Committee regarding the extent of services being provided by the independent auditors, and the fees for the services performed to date.

ANNUAL REPORT TO STOCKHOLDERS

The Annual Report to Stockholders for the fiscal year ended December 31, 2016 accompanies this Proxy Statement. The Annual Report contains financial and other information about the Company, but is not incorporated into this Proxy Statement and is not deemed to be a part of the proxy soliciting material.

STOCKHOLDER PROPOSALS

Stockholder proposals for possible consideration at the 2018 Annual Meeting (expected to be held in May 2018) may be included in our proxy statement for an annual meeting so long as they are provided to us on a timely basis and satisfy the other conditions set forth in SEC regulations under Rule 14a-8 regarding the inclusion of stockholder proposals in company-sponsored proxy materials. For a stockholder proposal to be considered for inclusion in our proxy statement for the 2018 Annual Meeting of Stockholders, we must receive the proposal at our principal executive offices, addressed to the Corporate Secretary, no later than December 15, 2017. In addition, a stockholder proposal that is not intended for inclusion in our proxy statement under Rule 14a-8 may be brought before the 2018 Annual Meeting of Stockholders so long as we receive information and notice of the proposal addressed to the Corporate Secretary at our principal executive offices, no later than January 29, 2018.

STOCKHOLDER COMMUNICATIONS WITH THE BOARD

The Board has adopted the following procedure for stockholders to send communications to the Board other than stockholder proposals for consideration at the annual meeting of stockholders which should be submitted to our Corporate Secretary. Stockholders who wish to send communications to directors should refer to the Company's website at: www.u-g.com and direct those communications to Mr. Arthur M. Dresner, Chairman of the Audit Committee, whose email address is posted there. All communications sent to Mr. Dresner, but addressed to other Board members, will be forwarded to that Board member by Mr. Dresner.

OTHER BUSINESS

Management of the Company knows of no business other than that referred to in the foregoing Notice of Annual Meeting and Proxy Statement that may come before the Annual Meeting.

By order of the Board of Directors
Robert S. Rubinger, Secretary

Dated: April 14, 2017

THE COMPANY WILL FURNISH, WITHOUT CHARGE, A COPY OF ITS ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 2016, INCLUDING FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES, BUT EXCLUDING EXHIBITS, TO EACH STOCKHOLDER WHO REQUESTS THE 10-K IN WRITING ADDRESSED TO: ROBERT S. RUBINGER, CORPORATE SECRETARY, UNITED-GUARDIAN, INC., P. O. BOX 18050, HAUPPAUGE, NEW YORK 11788.

YOUR VOTE IS IMPORTANT. PLEASE VOTE TODAY.

UNITED-GUARDIAN, INC. 2017 Annual Meeting of Stockholders

May 17, 2017
10:00 A.M. local time

This Proxy is Solicited on Behalf of the Board of Directors

Please Be Sure To Mark, Sign, Date and Return Your Proxy Card in the Envelope Provided

FOLD HERE • DO NOT SEPARATE • INSERT IN ENVELOPE PROVIDED

PROXY Please mark your votes

like this

THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER DIRECTED HEREIN BY THE UNDERSIGNED STOCKHOLDER. IF NO DIRECTION IS MADE THIS PROXY WILL BE VOTED 'FOR' PROPOSALS 1,2, AND 3, AS RECOMMENDED BY THE BOARD OF DIRECTORS.

1. ELECTION OF DIRECTORS (the Board recommends a vote "FOR" each nominee) **(INSTRUCTION: TO WITHHOLD AUTHORITY TO VOTE FOR ANY INDIVIDUAL NOMINEE, STRIKE A LINE THROUGH THE NOMINEE'S NAME BELOW.)**

1. Robert S. Rubinger	**FOR** all nominees listed to the left (except as marked to the contrary to the left)	**WITHHOLD AUTHORITY** to vote for all nominees listed to the left
2. Kenneth H. Globus		
3. Lawrence F. Maietta		
4. Arthur M. Dresner		
5. Andrew A. Boccone		
6. S. Ari Papoulias		

	FOR	AGAINST	ABSTAIN
2. APPROVAL ON AN ADVISORY BASIS, OF THE COMPENSATION OF THE COMPANY'S NAMED EXECUTIVE OFFICERS. (The Board recommends a vote "FOR" this proposal)			

	FOR	AGAINST	ABS
3. PROPOSAL TO RATIFY THE APPOINTMENT OF RAICH ENDE MALTER & CO. LLP AS THE INDEPENDENT PUBLIC ACCOUNTANTS OF THE COMPANY FOR THE FISCAL YEAR ENDING DECEMBER 31, 2017 (The Board recommends a vote "FOR" this proposal)			

In their discretion, the proxies are authorized to vote upon matters incident to the conduct of the meeting and upon such other business (which the Board of Directors did not know, prior to making this solicitation, would come before th meeting) as may properly come before the meeting or any adjournment thereo

(continued on reverse side)

COMPANY ID:

PROXY NUMBER:

ACCOUNT NUMBER:

Signature Signature Date , 2017.

Note: Please sign exactly as name appears hereon. When shares are held by joint owners, both should sign. When signing as attorney, executor, administrator, trustee, guardian, or corporate officer, please give title as such.

FOLD HERE • DO NOT SEPARATE • INSERT IN ENVELOPE PROVIDED

UNITED-GUARDIAN, INC.

230 Marcus Blvd. • P.O. Box 18050 •

Hauppauge, NY 11788

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned hereby appoints Kenneth H. Globus and Robert S. Rubinger, and each of them, as proxies, each with the power to appoint his substitute, and hereby authorizes them to represent and to vote, as he designated on the reverse side, all the shares of common stock of United-Guardian, Inc. held of record by the undersigned on March 31, 2017, at the annual meeting of stockholders to be held on Wednesday, May 17, 2017, at 10:00 a.m. local time at the offices of Raich Ende Malter & Co. LLP, 175 Broadhollow Road, Suite 250, Melville, NY 11747, or any adjournment thereof.

Please mark, sign, date and return the proxy card promptly, using the enclosed envelope.

(Continued, and to be marked, dated and signed, on the other side)

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e="margin:0px">Exercisable at the end of the period

8,500,000

$

0.043

6,500,000

$

0.270

Weighted average fair value of options granted during the period

$

0.014

$	0.045

The weighted average remaining contractual life of options outstanding issued under the Plan as of September 30, 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	0.50 years
$ 0.014	500,000	500,000	1.62 years
$ 0.100	1,000,000	-	2.05 years
$ 0.014	4,000,000	4,000,000	2.47 years
$ 0.045	1,500,000	1,500,000	3.28 years
	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 year ended September 30, 2013, included compensation expense for the stock-based payment awards granted prior to, but not yet vested, as of September 30, 2013 based on the grant date fair value estimated, and compensation expense for the stock-based payment awards granted subsequent to September 30, 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 years ended September 30, 2013 and 2012 was $46,787 and $129,834, respectively.

Recent Sales of Securities (Unregistered)

During the period of October 1, 2012 through September 30, 2013, the Company made the following unregistered issuances of securities:

In June 2013, the Company authorized the issuance of 5,000 shares of Series A Preferred Stock (the Shares) to the Company s Chief Executive Officer and Director, Tom M. Djokovich.

The Company issued 16,866,460 shares of common stock at prices ranging from $0.0085 to $0.0073 upon conversion of the aggregate amount of $134,448 dollars of principal and accrued interest to the holder of 12% convertible note.

The Company issued 50,869,850 shares of common stock at prices ranging from $0.0162 to $0.0024 upon conversion of the aggregate amount of $307,320 dollars of principal and accrued interest to the holder of 8% convertible notes.

The Company issued 27,706,793 shares of common stock at prices ranging from $0.0048 to $0.0024 upon conversion of the aggregate amount of $91,667 dollars of principal, interest, and original issue discount fees by the holder of a 10% convertible.

The Company issued 4,375,000 shares of common stock at the price of $0.006 to the holder of a 10% convertible note upon conversion by the holder of $26,250 dollars of principal and accrued interest thereunder.

The Company issued 3,908,171 shares of the Company s restricted common stock to a service provider for services at fair value of $26,200.

The Company has issued a total of 43,584,017 Final Adjustment Shares of the Company s common stockto Ironridge Global IV, Ltd. with a fair value of $828,790 in settlement of the *bona fide* accounts payable of the Company, which had been purchased by Ironridge from certain creditors of the Company, in an amount equal to approximately $494,561 in accounts payable and $54,317 for agent and attorney fees associated with the transaction.

Unless noted otherwise, all of the above issuances by the Company of its unregistered securities were made by the Company in reliance upon Section 4(2) of the Securities Act of 1933, as amended (the "1933 Act"). All purchasers were provided access to all material information, which they requested, and all information necessary to verify such information and were afforded access to management of the Company in connection with their purchases. All purchasers of the unregistered securities acquired such securities for investment and not with a view toward distribution, acknowledging such intent to the Company. All certificates or agreements representing such securities that were issued contained restrictive legends, prohibiting further transfer of the certificates or agreements representing such securities, without such securities either being first registered or otherwise exempt from registration in any further resale or disposition.

Item 6. Selected Financial Data

N/A

Item 7. Management s Discussion and Analysis or Plan of Operations

Cautionary and Forward-Looking Statements

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K. In addition to historical consolidated financial information, the following discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions as described under the Cautionary Note Regarding Forward-Looking Statements that appears earlier in this Annual Report on Form 10-K. 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 and elsewhere in this Annual Report on Form 10-K.

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

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.

Our business development efforts have to date centered on the development and marketing of a licensable low cost entry point solution for the manufacture of Copper Indium Gallium Selenide (CIGS) thin film solar cells which we call CIGSolar®.

During the fiscal year ended September 30, 2013, we completed the assembly of a thin film solar cell co-evaporation system central to the design of our CIGSolar® technology, and worked to calibrate the system, make adjustments to its new design as testing results warranted, and marketed the benefits of the technology to potential licensees which, during the period, consisted primarily of companies working to establish vertically integrated solar module manufacturing operations to service emerging demand in developing economies and regions.

In September 2013, in response to what the Company foresees as increasing demand for solar electric PV systems within the commercial real-estate markets in California, we began to diversify our operations to operate as a licensed contractor in California in order to not only sell and design but also manage the installation of solar electric PV systems. At this time we do not plan to manufacture CIGS solar modules for use in the solar PV systems that we market and install. The current configuration of our CIGSolar® evaporation systems have been established for marketing demonstration and development purposes, which is consistent with our licensing sales model for this technology.

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Initially, we plan to complete the preparation for the sale and delivery of solar PV system design and installation services in the first quarter of fiscal 2014, and begin to market to commercial and industrial business and facility owners in the California market.

We see this as a significant business development opportunity as management has the skillset associated with construction management, the licensing qualifications necessary for us to qualify as a licensed contractor in California, we have extensive experience associated with PV technologies and the design requirements associated with the delivery of a solar PV system, and there is a market demand available for us to provide these services to.

We plan to focus a large portion of operations on the rapid development and market acceptance for our solar electric PV systems design and installation services. We believe that these efforts may provide us with the fastest path to revenue generation and the ability to reduce future dependency on the sale of debt or equity to fund operations.

Plan of Operations

During the fiscal year ending September 30, 2014, the Company has developed a plan of operations that diversifies operations to include the sale, design, and installation of solar PV systems for commercial and industrial real-estate applications as a licensed contractor in California. We intend to continue to market our multi-chamber CIGSolar® thermal co-evaporation technology and system to third parties, but we do not anticipate devoting substantial resources towards additional testing, calibration, or enhancements to the system 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. Further, at this time we do not plan to manufacture CIGS solar modules for use in the solar PV systems that we market and install. The current configuration of our CIGSolar® evaporation systems have been established for marketing demonstration and development purposes only which is consistent with our licensing sales model for this technology.

The purpose of our business diversification 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 stems from the significant reductions to the per-watt sales price for silicon solar modules which has resulted in the general overall 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 plan to market to in efforts to make sales.

Under this diversified operating plan we anticipate operating costs associated with the further development of our CIGSolar® technology to reduce while sales and marketing efforts, and the use of third party sub-contractors, will increase as we work to develop a brand recognition for our solar PV design and installations services, and employ licensed technicians to assist with solar PV systems installations.

Our Plan of Operations, based upon the aforementioned activities, requires $465,000 for general and administrative activities, $240,000 to support increased sales and marketing efforts, and $450,000 to support cash flow requirements associated with the planning, installation, and material and labor finance costs associated with solar PV system installations. However the cash flow requirements associated with the completion of these efforts, and the transition to revenue recognition may continue to exceed cash generated from operations in the current and future periods. If we are unable to complete a sale or licensure of our CIGSolar® technology or develop sufficient solar PV systems installation sales or profitability through solar PV systems sales and transition to revenue recognition prior to completion of this plan we will need to obtain additional financing from other sources or adjust the timing of our plans. However, we have been able to raise capital in a series of equity and debt offerings in the past. While there can be no assurances that we will be able to obtain additional financing, on terms acceptable to us and at the times required, or at all, we believe that sufficient capital can be raised in the foreseeable future as necessary.

The Company may change any or all of the budget categories in the execution of its business attempts. None of the items is to be considered fixed or unchangeable.

Management believes the summary data and audit presented herein is a fair presentation of the Company s results of operations for the periods presented. Due to the Company s expansion of primary business focus and new business opportunities associated with the sales and installations of solar PV systems 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.

Other Information

Effective October 30, 2013, as a result of the sale by the property owner of the Irvine, California shop facility, the Company vacated the Irvine, CA shop facilities where it had been conducting assembly, testing, and marketing of its CIGSolar thin film co-evaporation technologies. The Company elected to relocate the system to a facility in La Mirada California where the system could continue to be shown to interested buyers of the system and processing technology.

After approval by the Board of Directors for the expansion of business operation the Company announced the addition of solar PV system sales, design, and installation services to its business development efforts on October 16, 2013. The Company s CEO and President, Mr. Tom Djokovich, as a licensed contract in California since 1979 provided the Company with qualification for a California B-1 contractor s license, effective October 14, 2013, to allow the Company to promote and enter into agreements with customers interested in these new business services.

On November 1, 2013 the Company and Mr. Joseph Grimes, agreed that he would no longer provide services to the Company as executive sales manager, and agreed to retain Mr. Grimes as a business development consultant, under his company, Solar Utility Networks, LLC, (SUN) assisting the Company in its efforts to expand services to include the sales, design, and installation of solar PV systems. The services to be provided include the development of project leads, project financial analysis, conceptual project layouts and project locations, estimates for Government-based incentives, sourcing of system components, and assistance in procuring project financing. The Company has agreed to pay a commission of up to 6% on projects we enter into sales agreements that were the result of leads developed by and introduced to us by SUN. Mr. Grimes is also a Director for the Company and Mr. Grimes has agreed to act in the best interests of the Company under the agreement to provide the Company with the benefit of customer development and introduction by Mr. Grimes for the mutual benefit of both parties.

Change of Control

On June 27, 2013, the Company amended its Articles of Incorporation for the creation of its Series A Preferred Stock designating 10,000 shares of its authorized Preferred Stock as Series A Preferred Stock. The Series A Preferred Shares have a par value of $0.01 per share. The Series A Preferred Shares do not have a dividend rate and are not redeemable. In addition, the Series A Preferred Shares rank senior to the Company s common stock. The Series A Preferred Shares have voting rights equal to that of the common stockholders and may vote on any matter that common shareholders may vote. One or more shares of Series A Preferred Stock has the voting equivalent of not less than 60% of the issued and outstanding common stock (representing a super majority voting power) of the vote required to approve any action, in which the shareholders of the Company s common stock may vote. In the event of any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, the Holders of shares of Series A Preferred Stock shall be entitled to receive, immediately after any distributions to Senior Securities required by the Company's Certificate of Incorporation or any certificate of designation, and prior in preference to any distribution to Junior Securities but in parity with any distribution to Parity Securities, an amount per share equal to $.01 per share. Holders of shares of Series A Preferred Stock shall not be entitled to any dividends, and the Company has no redemption rights for Series A Preferred Stock issued.

On June 27, 2013, the Board of Directors of the Company authorized the issuance of 5,000 shares of Series A Preferred Stock (the Shares) to the Company s Chief Executive Officer and Director, Tom M. Djokovich. The Shares were issued in consideration for the contribution of services by Mr. Djokovich to the Company valued at fifty dollars, which the Board deemed full and fair consideration. As a result of such issuance, Mr. Djokovich has the ability to influence and determine stockholder votes.

On June 27, 2013 our Board of Directors approved an amendment to our Articles of Incorporation (the Amendment) to increase our authorized shares of Common Stock from 500,000,000 shares to 2,000,000,000 shares. Our majority stockholder, Mr. Djokovich submitted a written consent approving such amendment to the Article of Incorporation in lieu of a special meeting to the shareholders on June 28, 2013, to be effective upon the filing of an amendment to our Articles of Incorporation with the Secretary of State of Colorado. The Amendment became effective upon the filing of the amendment to our Articles of Incorporation with the Secretary of State of the State of Colorado on August 15, 2013. As of September 30, 2013, Mr. Djokovich held 14,493,000 shares of the Company's common stock and 5,000 shares of the Company s Series A Preferred stock representing the voting equivalent of 263,223,265 shares of common stock or approximately 61.35% of the Company's voting stock. The remaining outstanding shares of common stock are held by approximately 16,000 other shareholders.

Results of Operations for the Fiscal Year Ended September 30, 2013 Compared to Fiscal Year Ended September 30, 2012.

*Revenue and Cost of Sale*s:

The Company generated no revenues in the fiscal years ended September 30, 2013, and 2012. There were no associated costs of goods sold in any of the fiscal periods represented above. The Company to date has had minimal revenue and cost of sales, and is still in the development stage.

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Selling, General and Administrative Expenses:

Selling, General and Administrative (SG&A) expenses decreased by $112,922 during the fiscal year ended September 30, 2013 to $532,624 as compared to $645,546 for the fiscal year ended September 30, 2012. The decrease in SG&A expenses was related primarily to a general reduction to salaries, consulting, and operating expenses under the Company s re-focused plan of operations in the 2013 period for the assembly, testing, and marketing of the Company s CIGSolar® thin film solar manufacturing technology. We anticipate operating costs associated with the further development of our CIGSolar® technology to be reduced in future periods while sales and marketing efforts, and the use of third party sub-contractors, will increase SG&A expenditures in the future as we work to develop a brand recognition for our solar PV design and installations services, and employ licensed technicians to assist with solar PV systems installations.

Research and Development:

Research and development increased by $302,698 during the fiscal year ended September 30, 2013 to $425,371 as compared to $122,673 for the fiscal year ended September 30, 2012. The increase was primarily due to an increase in research equipment related to the development of our new thin film solar manufacturing technology CIGSolar®. During the fiscal year while reducing direct research development costs we focused resources on the assembly and customization of a specialized multi-chamber processing tool that incorporates out patent pending technology to provide a manufacturing system to produce CIGS solar cells. We do not anticipate devoting substantial resources towards R&D expense associated with additional testing, calibration, or enhancements to the system 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 fiscal year ended September 30, 2013, our net loss was $(2,522,382) as compared to a net loss of $(1,555,194) for the fiscal year ended September 30, 2012.The increase in net loss of $(967,188) primarily stems from a loss on settlement of debt, financing cost, amortization of debt discount, and gain on change in derivative liability in the current period. This debt was primarily attributed to the costs associated with the assembly of our multi-chamber CIGSolar processing system. 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

We had a working capital deficit at September 30, 2013 of $(889,448), as compared to a working capital deficit of $(544,939) as of September 30, 2012. The increase of $(344,509) in working capital deficit was the result of an increase in accounts payable, derivative liability, and convertible notes, with a decrease in cash, prepaid expenses, and accrued expenses. There was no revenue producing activities for the fiscal year ended September 30, 2013.

Cash flow used by operating activities was $441,718 for the fiscal year ended September 30, 2013, as compared to cash flow used by operating activities of $379,240 for the fiscal year ended September 30, 2012. The increase in cash flow used of $62,478 by operating activities was primarily due to a net change in non-cash expenses, accounts payable, accrued expenses and prepaid expenses.

Cash flow used by investing activities was $24,736 for the fiscal year ended September 30, 2013, as compared to cash flow used in investing activities of $3,309 during the fiscal year ended September 30, 2012. The net change in investing activities was primarily due to proceeds received of $8,000 from the sale of certain assets, offset by the purchase of fixed assets of $32,736, compared to the purchase of research equipment in the prior fiscal year in the amount of $3,309.

Cash flow provided by financing activities was $460,500 for the fiscal year ended September 30, 2013, as compared to cash provided by financing activities of $360,500 during the fiscal year ended September 30, 2012. The increase in cash flow provided by financing activities was the result of an increase in cash provided through equity financing. Our capital needs have primarily been met from the proceeds of private placements, and the sale of convertible notes as we are currently in the development stage and had no revenues.

The Company is currently engaged in efforts to diversify operations to include the sale, design, and installation of solar PV systems for commercial and industrial real-estate applications as a licensed contractor in California. We intend to continue to market our multi-chamber CIGSolar® thermal co-evaporation technology and system to third parties, but we do not anticipate devoting substantial resources towards additional enhancements to the system 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.

For the fiscal year ending September 30, 2013, the Company has developed a plan of operations that requires $465,000 for general and administrative activities, $240,000 to support increased sales and marketing efforts, and $450,000 to support cash flow requirements associated with the planning, installation, and material and labor finance costs associated with solar PV system installations. However the cash flow requirements associated with the completion of these efforts, and the transition to revenue recognition may continue to exceed cash generated from operations in the current and future periods. If we are unable to complete a sale or licensure of our CIGSolar® technology or develop sufficient solar PV systems installation sales or profitability through solar PV systems sales and transition to revenue recognition prior to completion of this plan we will need to obtain additional financing from other sources or adjust the timing of our plans. However, we have been able to raise capital in a series of equity and debt offerings in the past. While there can be no assurances that we will be able to obtain additional financing, on terms acceptable to us and at the times required, or at all, we believe that sufficient capital can be raised in the foreseeable future as necessary.

Off-Balance Sheet Arrangements

We do not have any relationships with unconsolidated entities or financial partnerships such as entities often referred to as structured finance or special purpose entities that would have been established for the purpose of facilitating off-balance-sheet arrangements or for other contractually narrow or limited purposes. As such, we are not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

Significant Accounting Policies

Development Stage Activities and Operations

The Company has been in its initial stages of formation and for the year ended September 30, 2013, had no revenues. A development stage activity as one in which all efforts are devoted substantially to establishing a new business and even if planned principal operations have commenced, revenues are insignificant.

Property and Equipment

Property and equipment are stated at cost, and are depreciated using straight line over its estimated useful lives:

Leasehold improvements	Length of the lease
Computer software and equipment	3 Years

Furniture & fixtures	5 Years
Machinery & equipment	5 Years

The Company capitalizes property and equipment over $500. Property and equipment under $500 are expensed in the year purchased. The depreciation expense for the years ended September 30, 2013, and 2012, were $34,937 and $41,706, respectively.

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.

Research and Development

Research and development costs are expensed as incurred. Total research and development costs were $425,371 and $122,673 for the years ended September 30, 2013, and 2012, respectively.

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.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Our products will be quoted for sale and licensure in United States dollars and as our business development efforts progress we anticipate the sale and/or licensure of our products to foreign entities. To the extent that we may be exposed to foreign currency risks related to the rise and/or fall of foreign currencies against the U.S. dollar we will report in United States dollars.

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Item 8. Financial Statements and Supplementary Data

All financial information required by this Item is attached hereto at the end of this report beginning on page F-1 and is hereby incorporated by reference.

Item 9. Changes in and Disagreements on Accounting and Financial Disclosure

None

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

Our Chief Executive Officer has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. The evaluation included certain control areas in which we have made, and are continuing to make, changes to improve and enhance controls. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Based on such evaluation, our Chief Executive Officer has concluded that, as of the end of such period, our disclosure controls and procedures were effective, and we have discovered no material weakness.

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 September 30, 2013 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.

During the Company's fiscal year ended September 30, 2013, management continued to assess the Company's internal and controls procedure documents basing any need for revision upon additional guidance for implementing the model framework created by COSO as is appropriate to our operations and operations of smaller public entities. This framework is entitled Internal Control-Integrated Framework. The COSO Framework, which is the common shortened title, was published in 1992 and has been updated, and we believe will satisfy the SEC requirements of Section 404 of the Sarbanes-Oxley Act of 2002. As the Company expands operations, additional staff will be added to implement separation of duties controls as well.

Based on that evaluation, our Chief Executive Officer concluded that our internal control over financial reporting as of September 30, 2013 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

Except as noted above, 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 our fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Auditors Report on Internal Control over Financial Reporting

This annual report does not include an attestation report of the company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the company to provide only management's report in this annual report.

Item 9B. Other Information

On December 10, 2013, 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 $40,000 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. On December 18, 2013, and January 13, 2014, the Company issued 3,500,000 and 2,500,000 shares of common stock, respectively, to the holder upon conversion of an aggregate principal sum of $32,000 under the terms of the convertible 10% note. The shares were issued in a transaction exempt from registration pursuant to Section 4(2) of the Securities Act.

PART III

Item 10. Directors, Executive Officers, and Corporate Governance

The following table lists the executive offices and directors of the Company during the fiscal year ended September 30, 2013:

Name	Age	Position Held	Tenure
Tom Djokovich (2)	56	CEO, Director, Secretary, and acting Principal Accounting Officer	CEO and Director since October 2003, Secretary & PAO since September 2009
Joseph Grimes (1)	56	Director, President, and COO	Director Since August 2008
Thomas Anderson	48	Director	Since August 2001
Oz Fundingsland	70	Director	Since November 2007
Michael Russak	66	Director	Since November 2007

The above listed directors will serve until the next annual meeting of the stockholders or until their death, resignation, retirement, removal, or disqualification, and until their successors have been duly elected and qualified. Vacancies in the existing Board of Directors are filled by majority vote of the remaining Directors. There are no agreements or understandings for any officer or director to resign at the request of another person and no officer or director is acting on behalf of or will act at the direction of any other person. There is no family relationship between any of our directors.

The directors of the Company will devote such time to the Company s affairs on an as needed basis, but typically less than 20 hours per month. As a result, the actual amount of time which they will devote to the Company s affairs is unknown and is likely to vary substantially from month to month.

(1) Effective January 9, 2013, as part of a continued efforts to maximize the use of capital resources through reductions to operating costs and functions that are redundant, the Company elected to consolidate its executive management operations which eliminated 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. Mr. Grimes continues to serve as a member of the Board of Directors and assumed the position of executive sales manager. 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 56 years old.

(2) Effective January 9, 2013, 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 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.

Biographical Information

Mr. Tom Djokovich, age 56, Chief Executive Officer and a Director as of October 2003, acting Principal Accounting Officer as of September 2009, and President as of January 9, 2013;

Mr. Djokovich was the founder and served from 1995 to 2002 as the Chief Executive Officer of Accesspoint Corporation, a vertically integrated provider of electronic transaction processing and e-business solutions for merchants. Under Mr. Djokovich s guidance, Accesspoint became a member of the Visa/MasterCard association, the national check processing association NACHA, and developed one of the payment industry s most diverse set of network based transaction processing, business management and CRM systems for both Internet and conventional points of sale. Prior to Accesspoint, Mr. Djokovich founded TMD Construction and Development in 1979. TMD provided management for multimillion-dollar projects incorporating at times hundreds of employees, subcontractors and international material acquisitions for commercial, industrial and custom residential construction services as a licensed building and development firm in California. In 1995 Mr. Djokovich developed an early Internet based business-to-business ordering system for the construction industry.

Mr. Joseph Grimes, age 56, Chief Operating Officer as of April 2006 through January 9, 2013, a Director as of August 2008, and President as of March 2009 through January 9, 2013;

Mr. Grimes brings to XsunX more than eight years direct experience in thin-film technology and manufacturing. He was most recently Vice President, Defense Solutions, for Envisage Technology Company, where he directed and managed the defense group business development process, acquisition strategies and vision for next generation applications from October 2005 to March 2006. Previously he was Co-Founder, President and CEO of ISERA Group, where he established the company infrastructure and guided five development teams, finally selling the company to Envisage from 1993 to 2005. His direct experience in thin-film technology came with Applied Magnetics Corporation from 1985 to 1993 as manager for thin-film prototype assembly. Mr. Grimes holds a Bachelor s degree in business economics and environmental studies, and a Master s in computer modeling and operation research applications, both from the University of California at Santa Barbara.

Independent Directors

Mr. Thomas Anderson, age 48, became a director of the Company in August 2001;

Prior to co-founding PE/Q Energy, Tom served through October 2012 as Chief Operating and Development Officer for American Capital Energy, a large-scale commercial and small-scale utility solar PV developer and installer. While at ACE, he guided the development, installation, operation and maintenance of large-scale commercial and small utility rooftop and ground mount projects ranging in size from 200 kW to 6.16 MW; negotiated and secured dozens of MW of Power Purchase Agreements with both commercial and utility clients; and served as project development lead for a fully developed 20 MW utility-PPA project to be constructed in 2014. He has served as Managing Director of the Environmental Science and Engineering Directorate of Qinetiq North America in Los Alamos, New Mexico. He was with Qinetiq North America, formerly Apogen Technologies, from January, 2005, through September, 2008. Mr. Anderson worked for 19 years in the environmental consulting field, providing consulting services in the areas of environmental compliance, characterization and remediation services to Department of Energy, Department of Defense, and industrial clients. He formerly worked as a Senior Environmental Scientist at Concurrent Technologies Corp. from November 2000 to December 2004. He earned his B.S. in Geology from Denison University and his M.S. in Environmental Science and Engineering from Colorado School of Mines.

Mr. Oz Fundingsland as Director, age 70, became a director of the Company in November 2007;

On November 12, 2007, the Company announced the appointment of Mr. Oz Fundingsland as Director, effective November 12, 2007. Mr. Fundingsland brings over forty years of sales, marketing, executive business management, finance, and corporate governance experience to XsunX. His professional and business experience principally originated with his tenure, commencing in 1964, at Applied Magnetics Corp., a disk drive and data storage company.

Prior to his retirement from Applied Magnetics in 1994, Mr. Fundingsland served as an Executive Officer and Vice President of Sales and Marketing for 11 years directing sales growth from $50 million to over $550 million. Commencing in 1993 through 2003 Mr. Fundingsland served as a member of the board of directors for the International Disk Drive Equipment Manufacturers Association IDEMA where he retired emeritus. Mr. Fundingsland has provided consulting services assisting with sales, marketing, and management to a host of companies within the disk drive, optical, software, and LED industries.

Dr. Michael A. Russak as Director, age 66, became a director of the Company in November 2007;

On November 28, 2007, the Company announced the appointment of Dr. Michael A. Russak as a Director, effective November 26, 2007. Dr. Russak is also a member of the Company s Scientific Advisory Board. Dr. Michael A. Russak currently holds the position of Executive Vice President of Business Development with Intevac, Inc. in Santa Clara, CA. He has been working as a consultant in the hard disk drive and photovoltaic industries since Jan 2007. From 2001 to 2006 he was President and Chief Technical Officer of Komag, Inc., a manufacturer of hard magnetic recording disks for hard disk drive applications. From 1993 to 2001 he was Chief Technical Officer of HMT Technology, Inc. also a manufacturer of magnetic recording disks. From 1985 to 1993 he was a research staff member and program manager in the Research Division of the IBM Corporation. Dr. Russak has over thirty five years of industrial experience progressing from a research scientist to senior executive officer of two public companies. He has expertise in thin film materials and devices for magnetic recording, photovoltaic, solar thermal applications, semiconductor devices as well as glass, glass-ceramic and ceramic materials. He also has over twelve years experience at the executive management level of public companies with significant off shore development and manufacturing functions. He received his B.S. in Ceramic Engineering in 1968 and Ph.D. in Materials Science in 1971, both from Rutgers University in New Brunswick, NJ. During his career, he has been a contributing scientist and program manager at the Grumman Aerospace Corporation, a Research Staff Member and technical manager in the areas of thin film materials and processes at the Research Division of the IBM Corporation at the T.J. Watson Research Laboratories. In 1993, he joined HMT Technology, a manufacturer of thin film disks for magnetic storage, as Vice President of Research and Development. His responsibilities included new product design and introduction. Dr. Russak became Chief Technical Officer of HMT and held that position until 2000 when HMT merged with Komag Inc. Dr. Russak was appointed President and Chief Technical Officer of the combined company. He continued to set technical, operational and business direction for Komag until his retirement at the end of 2006. He has published over 90 technical papers, and holds 23 U.S. patents.

Involvement in Certain Legal Proceedings

None of the members of the Board of Directors or other executives has been involved in any bankruptcy proceedings, criminal proceedings, any proceeding involving any possibility of enjoining or suspending members of our Board of Directors or other executives from engaging in any business, securities or banking activities, and have not been found to have violated, nor been accused of having violated, any federal or state securities or commodities laws.

Board Committees; Audit Committee

As of September 30, 2013, the Company s board was comprised of five directors, four of which are considered independent directors and the Company did not have an audit committee. Further, none of the members of the board of directors is qualified as a financial expert. We are a development stage company with limited resources and we are actively seeking a qualified financial expert for addition to the board. The board of directors will appoint committees as necessary, including an audit committee as resources permit. In the meantime, the Board serves as the Company s audit committee utilizing business judgment rules and good faith efforts.

Section 16(A) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires the Company s officers and directors, and certain persons who own more than 10% of a registered class of the Company s equity securities (collectively, Reporting Persons), to file reports of ownership and changes in ownership (Section 16 Reports) with the SEC. Reporting Persons are required by the SEC to furnish the Company with copies of all Section 16 Reports they file. Based on its review of the copies of such forms received by it, or written representations from certain reporting persons, the Company believes that, during the fiscal year ended September 30, 2013, all filing requirements applicable to its officers, directors, and greater than ten-percent beneficial owners were complied with the exception that one report, covering an one transaction was not timely filed by the chief executive officer with the SEC via year-end report on Form 5.

Code of Ethics

The Company s board of directors adopted a Code of Ethics policy on January 7, 2008.

Item 11. Executive Compensation

Overview

We are a development stage Company and we rely on our board of directors to evaluate compensation and incentive offerings made by the Company as it applies to our executive officers, and efforts to attract and maintain qualified staff. To date, our compensation policy has been conducted on a case by case basis with input from our chief executive officer, and focused on the following four primary areas; (a) first the Company s commitment capabilities within the scope of objectives and capital capabilities, (b) salary compensatory with peer group companies and peer position, (c) cash bonuses tied to sales and revenue attainment, and (d) long term equity compensation tied to strategic objectives of establishing marketable solar technologies.

In the year ended September 30, 2013 the Company s named executive offices continued to accept reductions to compensation to that had originated in October 2011 to allow for the re-direction of available capital resources for use in the purchase and assembly of the Company s multi-chamber CIGSolar® thermal co-evaporation system. As a result, initially salaries were reduced effective October 1, 2011 to $120,000 each annually. Then effective January 1, 2012 compensation was further reduced and/or contributed to allow further re-direction of available capital resources towards system assembly efforts. Since January 2012, wages have been paid as capital resources have allowed, and as work efforts have been extended to complete the strategic objectives and business development efforts of the Company.

In this Compensation Discussion and Analysis, the individuals in the Summary Compensation Table set forth below are referred to as the named executive officers . Generally, the types of compensation and benefits provided to the named executive officers may be similar to what we intend to provide to future executive officers.

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Executive Compensation

The following table sets forth information with respect to compensation earned by our chief executive officer, our chief operating officer (collectively, our named executive officers) for the fiscal years ended September 30, 2013, and 2012 respectively.

Summary Compensation Table

Name and Principal Position	Year	Salary ($)	Contributed Services ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)	All Other Compensation ($)	Total ($)
			0				649	124,879
Tom Djokovich, CEO(1)	2013	124,200	37,035	0	0	0	4,303	126,855
	2012	85,215		0	0	0		
			0				3,002	31,787
Joe Grimes, COO(2)	2013	18,000	30,000	0	0	10,785	10,948	83,256
	2012	42,308		0	0	0		

(1) In addition to Mr. Djokovich s compensation the Company provided Mr. Djokovich with payments totaling $649 for health insurance premiums while Mr. Djokovich was part of the Company s health insurance.
(2) In addition to Mr. Grimes compensation the Company provided Mr. Grimes with payments totaling $3,002 for health insurance premiums while Mr. Grimes was part of the Company s health insurance program.

No other compensation not described above was paid or distributed during the listed fiscal years to the executive officers of the Company.

Grants of Plan-Based Awards Table

The following table sets forth summary information regarding all grants of plan-based awards made to our named executive officers during the two years ended September 30, 2013, and 2012 respectively.

Name	**Grant Date**	**All Other Option Awards: Number of Securities Underlying Options (#)**	**Exercise or Base Price of Option Awards ($/Sh)**	**Grant Date Fair Value of Stock and Option Awards ($)**
Tom Djokovich, CEO	2013	0	0	0
	2012	0	0	0
Joe Grimes, President & COO (1)	2013	1,000,000	$0.014	10,785
	2012	0	0	0

(1) Effective January 9, 2013, the Company s Board of Directors accepted the resignation of Joseph Grimes as the Company s President and Chief Operating Officer. Mr. Grimes continues to serve as a member of the Board of Directors.

Outstanding Equity Awards at Fiscal Year End Table

The following table sets forth the outstanding equity awards with respect our named executive officers for the fiscal year ended September 30, 2013

	OPTION AWARDS					STOCK AWARDS			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Unearned Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercisable Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock that Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (#)
Tom Djokovich, CEO									
Joseph Grimes, COO	2,500,000	0	2,500,000	$ 0.16	04/01/2014				
	0	1,000,000	1,000,000	$ 0.10	10/18/2015				
	1,000,000	0	1,000,000	$ 0.014	03/21/2015				

Option Exercises

None

Pension Benefits

None

Nonqualified Defined Contribution and Other Nonqualified Deferred Compensation Plans

None

Employment Agreements and Arrangements

Tom M. Djokovich

Mr. Djokovich serves as our Chief Executive Officer, acting Principal Accounting Officer, President effective January 9, 2013, and a Director. We do not have an employment agreement with Mr. Djokovich. He currently works at the discretion of the board of directors as he has since October 2003. His annual base compensation for the 2013 fiscal period was $124,200 in collected wages. Mr. Djokovich was also provided with approximately $649 for use in the payment of medical benefits. His total compensation is based solely on the annual base cash salary and we do not have any equity based, cash bonus, or special compensation agreements or understanding in place with Mr. Djokovich. Mr. Djokovich is also subject to confidentiality and non-solicitation provisions which provide that Mr. Djokovich will not divulge information or solicit employees for 24 months after termination of his employment.

Joseph Grimes

Mr. Grimes served as our President and COO through January 9, 2013, and is presently a director. We do not have an employment agreement with Mr. Grimes and in the 2013 fiscal period he worked at the discretion of the board of directors. His compensation for the 2013 fiscal period was $18,000 in collected wages and benefits as he assisted the Company in the capacity of executive sales manager, Mr. Grimes was also provided with approximately $3,002 for use in the payment of medical benefits. Mr. Grimes also received a grant of stock options with a fair market value on the date of grant totaling $10,785. Mr. Grimes is also subject to confidentiality and non-solicitation provisions which provide that Mr. Grimes will not divulge information or solicit employees for 24 months after termination of his employment.

Potential Payments Upon Termination or Change-In-Control

None

Long Term Incentive Plans   Awards in Last Fiscal Year

None

Director Compensation

In the fiscal year ended September 30, 2013, Directors received no cash compensation for their service to the Company as directors. Each non-affiliated Director did receive an option grant in the amount of 1,000,000 options exercisable at $0.014 cents each into common shares of the Company s stock. All Directors were reimbursed for any expenses actually incurred in connection with attending meetings of the Board of Directors.

SUMMARY COMPENSATION TABLE OF DIRECTORS

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards ($)	All Other Compensation ($)	Total ($)
Tom Djokovich (1)	0	0	0	0	0
Joseph Grimes (2)	0	0	10,785	0	10,785
Thomas Anderson	0	0	10,785	0	10,785
Oz Fundingsland	0	0	10,785	0	10,785
Dr. Michael Russak	0	0	10,785	0	10,785

(1) Mr. Djokovich received compensation as CEO totaling $124,879 in the year ended September 30, 2013. For additional information please see Executive Compensation Summary Compensation Table above.

(2) Mr. Grimes received an additional $21,002 compensation as President in the year ended September 30, 2013. For additional information please see Executive Compensation Summary Compensation Table above

Compensation Committee Interlocks and Insider Participation

For the fiscal year ended September 30, 2013 adjustments or additions to new or existing employment agreements were reviewed and deliberated by the five members of the Company s Board of Directors.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth, as of September 30, 2013, the number of shares of common stock owned of record and beneficially by executive officers, directors and persons who hold 5.0% or more of the outstanding common stock of the Company. Also included are the shares held by all executive officers and directors as a group. Unless otherwise indicated, the address of each beneficial owner listed below is c/o XsunX, Inc., 65 Enterprise, Aliso Viejo, California 92656.

Shareholders/Beneficial Owners	**Number of Common Shares**	**Number of Series A Preferred Shares**	**Ownership Percentage(1)**
Tom Djokovich (1) (2) (3)			
President & Director	14,493,000	5,000	61.12%
Thomas Anderson			
Director	1,500,000	0	< 1%
Oz Fundingsland			
Director	1,500,000	0	< 1%
Mike Russak			
Director	1,500,000	0	< 1%
Joseph Grimes			
Director	4,500,000	0	< 1%
All Officers & Directors as a Group (5 individuals)	23,493,000	5,000	4.82%

Each principal shareholder has sole investment power and sole voting power over the shares.

(1) Applicable percentage ownership is based on 517,321,256 shares of common stock issued and outstanding as of January 13, 2014. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of common stock that are currently exercisable or exercisable within 60 days of January 13, 2014 are deemed to be beneficially owned by the person holding such securities for the purpose of computing the percentage of ownership of such person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person.

(2) Includes 14,068,000 shares owned by the Djokovich Limited Partnership. Mr. Djokovich shares voting and dispositive power with respect to these shares with Mrs. Djokovich.

(3) The Series A Preferred Shares have the voting equivalent of not less than 60% of the issued and outstanding common stock (representing a super majority voting power) of the vote required to approve any action, in which the shareholders of the Company s common stock may vote. As of January 13, 2014, Mr. Djokovich held 14,493,000 shares of the Company's common stock and 5,000 shares of the Company s Series A Preferred stock representing the combined voting equivalent of 316,189,953 shares of common stock or approximately 61.12% of the Company's voting stock.

Item 13. Certain Relationships and Related Transactions, and Director Independence

No officer, director, or related person of the Company has or proposes to have any direct or indirect material interest in any asset proposed to be acquired by the Company through securities holdings, contracts, options or otherwise or any transaction in which the amount involved exceeds the lesser of $120,000 or one percent of the Company's total assets at year end.

The Company has adopted a policy under which any consulting or finder s fee that may be paid to a third party for consulting services to assist management in evaluating a prospective business opportunity can be paid in stock, stock purchase options or in cash. Any such issuance of stock or stock purchase options would be made on an ad hoc basis. Accordingly, the Company is unable to predict whether or in what amount such a stock issuance might be made.

The following directors are independent: Thomas Anderson, Oz Fundingsland, Joseph Grimes, and. Dr. Michael Russak.

The following directors are not independent: Tom Djokovich.

Change of Control of the Company

On June 27, 2013, the Company amended its Articles of Incorporation for the creation of its Series A Preferred Stock designating 10,000 shares of its authorized Preferred Stock as Series A Preferred Stock. The Series A Preferred Shares have a par value of $0.01 per share. The Series A Preferred Shares do not have a dividend rate and are not redeemable. In addition, the Series A Preferred Shares rank senior to the Company s common stock. The Series A Preferred Shares have voting rights equal to that of the common stockholders and may vote on any matter that common shareholders may vote. One or more shares of Series A Preferred Stock has the voting equivalent of not less than 60% of the issued and outstanding common stock (representing a super majority voting power) of the vote required to approve any action, in which the shareholders of the Company s common stock may vote. In the event of any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, the Holders of shares of Series A Preferred Stock shall be entitled to receive, immediately after any distributions to Senior Securities required by the Company's Certificate of Incorporation or any certificate of designation, and prior in preference to any distribution to Junior Securities but in parity with any distribution to Parity Securities, an amount per share equal to $.01 per share. Holders of shares of Series A Preferred Stock shall not be entitled to any dividends, and the Company has no redemption rights for Series A Preferred Stock issued.

On June 27, 2013, the Board of Directors of the Company authorized the issuance of 5,000 shares of Series A Preferred Stock (the Shares) to the Company s Chief Executive Officer and Director, Tom M. Djokovich. The Shares were issued in consideration for the contribution of services by Mr. Djokovich to the Company valued at fifty dollars, which the Board deemed full and fair consideration. As a result of such issuance, Mr. Djokovich has the ability to influence and determine stockholder votes.

Issuance of Stock Purchase Options

In the year ended September 30, 2013, the Board of Directors authorized the grant of stock option agreements to the named individuals listed below as follows:

	Date Issued	Number Issued		Exercise Price	Expiration Date	Consideration
Thomas Anderson (1)	March 21, 2013	1,000,000	$	0.014	21-Mar-16	Future deliverables within the scope of the Directors influence
Oz Fundingsland (1)	March 21, 2013	1,000,000	$	0.014	21-Mar-16	Future deliverables within the scope of the Directors influence
Dr. Michael Russak (1)	March 21, 2013	1,000,000	$	0.014	21-Mar-16	Future deliverables within the scope of the Directors influence
Joseph Grimes (1)	March 21, 2013	1,000,000	$	0.014	21-Mar-16	Future deliverables within the scope of the Directors influence
Dr. John Tuttle (2)	May 13, 2013	500,000	$	0.014	13-May-15	Consulting services and deliverables within the scope of the consultants influence

(1) The options issued to the named directors vested upon issuance of the grant to each named individual.

(2) Two Hundred Fifty Thousand options vested upon issuance and the balance vest sixty days thereafter.

Issuance of Convertible Promissory Notes

On October 1, 2013, the Company entered into four (4) promissory notes each in the amount of $12,000 in payment for services performed by the Board of Directors. The notes bears zero interest if paid on or before the one (1) year anniversary from the effective date. If the note is not paid on or before the one (1) year anniversary a one-time interest charge of 10% shall be applied to the principal sum. The holder has the right to convert the note at the lesser of $0.005 or the average of the three (3) closing share prices occurring immediately preceding the applicable conversion date.

Item 14. Principal Accounting Fees and Services

2013

For the fiscal year ended September 30, 2013 HJ Associates & Consultants, LLP incurred $31,000 in Audit Fees for the following professional services: review of the interim financial statements included in quarterly reports on Form 10-Q for the periods ended December 30, 2012, March 31, 2013, June 30, 2013 and for audit fees related to the Company s annual report on Form 10-K. No Audit-Related, Tax or other fees were billed by HJ Associates & Consultants, LLP in the fiscal year ended September 30, 2013.

2012

For the fiscal year ended September 30, 2012 HJ Associates & Consultants, LLP incurred $35,400 in Audit Fees for the following professional services: review of the interim financial statements included in quarterly reports on Form 10-Q for the periods ended December 30, 2011, March 31, 2012, June 30, 2012 and for audit fees related to the Company s annual report on Form 10-K. No Audit-Related, Tax or other fees were billed by HJ Associates & Consultants, LLP in the fiscal year ended September 30, 2012.

PART IV

Item 15. Exhibits, Financial Statement Schedules

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	Amendment to Articles of Incorporation for the increase to authorized shares.(5)
10.4	Certificate of Designation for Preferred Shares.(6)
10.5	Form of Exchange Agreement and 10% Note used in connection with the exchange and extension to a promissory note that had become due September 1, 2011. (7)
10.6	Form of Securities Purchase Agreement and Convertible Promissory Note used in connection with the sale of seventeen 8% convertible promissory notes between October 27, 2011, and January 14, 2014. (7)
10.7	Form of Security Purchase and Warrant Agreements used in connection with the sale of equity to an accredited investor on February 16, 2012, and March 19, 2012.(7)
10.8	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. (8)
10.9	Form of Convertible Promissory Note issued on November 7, 2012, used in connection with the sale of a convertible promissory note. (8)
10.1	Form of Convertible Promissory Note issued on December 14, 2012, used in connection with the sale of a 10% convertible promissory note. (8)
10.11	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. (9)
10.12	Form of Convertible Promissory Notes issued to four members of the Board of Directors dated October 1, 2013. (9)
10.13	Form of Option Agreement used in connection with the retention of a scientific advisor and the issuance of stock options for the purchase of common stock on May 13, 2013. (10)
10.14	June 27, 2012 Order for Approval of Stipulation for settlement of claims between the Company and Ironridge Global IV, Ltd. (10)
10.15	Form of Consulting Agreement used in connection with the retention of a scientific advisor and the issuance of 2,000,000 shares of common stock. (11)
10.16	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. (12)
10.17	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. (13)
10.18	Form of Consulting Agreement between Joseph Grimes and the Company dated November 1, 2013. (13)
16.1	Auditor Letter(13)
31.1	Sarbanes-Oxley Certification(13)
32.1	Sarbanes Oxley Section 906 Certification (13)
(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 8-K filed with the Securities and Exchange Commission dated August 19, 2013.

(6) Incorporated by reference to exhibits included with the Company s Report on Form 8-K filed with the Securities and Exchange Commission dated July 2, 2013.

(7) 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.

(8) 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.

(9) 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.

(10) Incorporated by reference to exhibits included with the Company s Report on Form 10-Q filed with the Securities and Exchange Commission dated August 12, 2013.

(11) Incorporated by reference to exhibits included with the Company s Report on Form 10-Q filed with the Securities and Exchange Commission dated October 14, 2012.

(12) 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.

(13) Provided Herewith

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
XsunX, Inc. (A Development Stage Company)

Alisa Viejo, California

We have audited the accompanying balance sheets of XsunX, Inc. (a development stage company) as of September 30, 2013 and 2012 and the related statements of operations, stockholders' deficit, and cash flows for the years then ended and for the period from February 25, 1997 (inception) to September 30, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements for the period from February 25, 1997 (inception) to September 30, 2008 were audited by other auditors and our opinion, insofar as it relates to cumulative amounts included for such prior periods, is based solely on the reports of such other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of XsunX, Inc. (a development stage company) as of September 30, 2013 and 2012, and the results of its operations and its cash flows for the years then ended and for the period from February 25, 1997 (inception) to September 30, 2013, in conformity with U.S. generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company does not generate significant revenue and has negative cash flows from operations which raise substantial doubt about its ability to continue as a going concern. Management s plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ HJ Associates & Consultants, LLP
HJ Associates & Consultants, LLP

Salt Lake City, Utah

January 14, 2014

XSUNX, INC.

(A Development Stage Company)

Balance Sheets

	September 30, 2013	September 30, 2012
ASSETS		
CURRENT ASSETS		
Cash	$ 38,573	$ 44,527
Prepaid expenses	16,117	162,186
Total Current Assets	54,690	206,713
PROPERTY & EQUIPMENT		
Office & Miscellaneous equipment	35,853	35,853
Machinery & equipment	266,366	232,084
Leasehold improvements	17,500	17,500
Total Property & Equipment	319,719	285,437
Less accumulated depreciation	(225,397)	(206,178)
Net Property & Equipment	94,322	79,259
OTHER ASSETS		
Manufacturing equipment in progress	-	309,082
Security deposit	2,500	5,700
Total Other Assets	2,500	314,782
TOTAL ASSETS	$ 151,512	$ 600,754
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LLIABILITIES		
Accounts payable	$ 147,629	$ 143,555
Accrued expenses	1,962	840
Credit card payable	107	2,623
Accrued interest on notes payable	14,358	40,243
Derivative liability	705,118	150,926
Convertible promissory notes, net of $104,035 in discounts	74,964	63,465
Unsecured promissory note	-	350,000
Total Current Liabilities	944,138	751,652

TOTAL LIABILITIES	944,138	751,652
STOCKHOLDERS' DEFICIT		
Preferred Stock Series A, $0.01 par value, 10,000 authorized 5,000 and 0 shares issued and outstanding, respectively.	50	-
Common stock, no par value; 2,000,000,000 authorized common shares 429,043,441 and 281,233,150 shares issued and outstanding, respectively.	29,175,261	27,341,594
Additional paid in capital	5,335,398	5,335,248
Paid in capital, common stock warrants	3,811,700	3,764,913
Deficit accumulated during the development stage	(39,115,035)	(36,592,653)
TOTAL STOCKHOLDERS' DEFICIT	(792,626)	(150,898)
TOTAL LIABILITIES AND STOCKHOLDERS DEFICIT	$ 151,512	$ 600,754

The Accompanying Notes are an Integral Part of These Financial Statements

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XSUNX, INC.

(A Development Stage Company)

Statements of Operations

	Years Ended		From Inception February 25, 1997 through
	September 30, 2013	September 30, 2012	September 30, 2013
	$	$	$
REVENUE	-	-	14,880
OPERATING EXPENSES			
Selling, general and administrative expenses	532,624	645,546	19,054,970
Research and Development	426,371	122,673	3,711,998
Depreciation and amortization expense	34,937	41,706	764,469
TOTAL OPERATING EXPENSES	992,932	809,925	23,531,437
LOSS FROM OPERATIONS BEFORE OTHER INCOME/(EXPENSE)	(992,932)	(809,925)	(23,516,557)
OTHER INCOME/(EXPENSES)			
Interest income	-	-	445,537
Gain on sale of asset	8,000	-	24,423
Impairment of assets	-	-	(7,285,120)
Financing cost	(321,579)	-	(321,579)
Write down of inventory asset	-	-	(1,177,000)
Gain on legal settlement	-	-	1,279,580
Loan and commitment fees	(8,966)	(85,734)	(7,096,690)
Forgiveness of debt	-	-	592,154
Loss on conversion of debt	(1,237,183)	(441,522)	(1,678,705)
Gain on change in derivative liability	(746,956)	39,969	786,925
Other, non-operating	-	-	(5,215)
Penalties	-	(23)	(619)
Interest expense	(716,678)	(257,959)	(1,162,169)
TOTAL OTHER INCOME/(EXPENSE)	(1,529,450)	(745,269)	(15,598,478)
NET LOSS	$	$	$

	(2,522,382)	(1,555,194)	(39,115,035)
	$	$	
BASIC AND DILUTED LOSS PER SHARE	(0.01)	(0.01)	
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING BASIC AND DILUTED	343,568,944	247,855,835	

The Accompanying Notes are an Integral Part of These Financial Statements

XSUNX, INC.

(A Development Stage Company)

Statements of Stockholders' Deficit

From Inception February 25, 1997 to September 30, 2013

	Preferred Stock		Common Stock		Additional Paid-in	Stock Options/ Warrants Paid- in	Deficit Accumulated during the Development Stage	
	Shares	Amount $	Shares	Amount $	Capital $	Capital $	Stage $	Total $
Balance at September 30, 1996	-	-	-	-	-	-	-	-
Issuance of stock for cash	-	-	15,880	217,700	-	-	-	217,700
Issuance of stock to Founders	-	-	14,110	-	-	-	-	-
Issuance of stock for consolidation	-	-	445,000	312,106	-	-	-	312,106
Net Loss for the year ended September 30, 1997	-	-	-	-	-	-	(193,973)	(193,973)
Balance at September 30, 1997	-	-	474,990	529,806	-	-	(193,973)	335,833
Issuance of stock for services	-	-	1,500	30,000	-	-	-	30,000
Issuance of stock for cash	-	-	50,200	204,000	-	-	-	204,000
Consolidation stock cancelled	-	-	(60,000)	(50,000)	-	-	-	(50,000)
Net Loss for the year ended September 30, 1998	-	-	-	-	-	-	(799,451)	(799,451)
Balance at September 30, 1998	-	-	466,690	713,806	-	-	(993,424)	(279,618)
Issuance of stock for cash	-	-	151,458	717,113	-	-	-	717,113
Issuance of stock for services	-	-	135,000	463,500	-	-	-	463,500

Net Loss for the year ended September 30, 1999	-	-	-	-	-	-	(1,482,017)	(1,482,017)
Balance at September 30, 1999	-	-	753,148	1,894,419	-	-	(2,475,441)	(581,022)
Issuance of stock for cash	-	-	15,000	27,000	-	-	-	27,000
Net Loss for the year ended September 30, 2000	-	-	-	-	-	-	(118,369)	(118,369)
Balance at September 30, 2000	-	-	768,148	1,921,419	-	-	(2,593,810)	(672,391)
Extinguishment of debt	-	-	-	337,887	-	-	-	337,887
Net Loss for the year ended September 30, 2001	-	-	-	-	-	-	(32,402)	(32,402)
Balance at September 30, 2001	-	-	768,148	2,259,306	-	-	(2,626,212)	(366,906)
Net Loss for the year ended September 30, 2002	-	-	-	-	-	-	(47,297)	(47,297)
Balance at September 30, 2002	-	-	768,148	2,259,306	-	-	(2,673,509)	(414,203)

Issuance of stock for assets	-	-	70,000,000	3	-	-	-	3
Issuance of stock for cash	-	-	9,000,000	225,450	-	-	-	225,450
Issuance of stock for debt	-	-	115,000	121,828	-	-	-	121,828
Issuance of stock for expenses	-	-	115,000	89,939	-	-	-	89,939
Issuance of stock for services	-	-	31,300,000	125,200	-	-	-	125,200
Net Loss for the year ended September 30, 2003	-	-	-	-	-	-	(145,868)	(145,868)
Balance at September 30, 2003	-	-	111,298,148	2,821,726	-	-	(2,819,377)	2,349
Issuance of stock for cash	-	-	2,737,954	282,670	-	-	-	282,670
Warrant expense	-	-	-	-	-	825,000	375,000	1,200,000
Net Loss for the year ended September 30, 2004	-	-	-	-	-	-	(1,509,068)	(1,509,068)
Balance at September 30, 2004	-	-	114,036,102	3,104,396	-	825,000	(3,953,445)	(24,049)
Issuance of stock for cash	-	-	6,747,037	531,395	-	-	-	531,395
Issuance of stock for services	-	-	3,093,500	360,945	-	-	-	360,945
Warrant expense	-	-	-	-	-	180,000	-	180,000
Beneficial conversion	-	-	-	-	400,000	-	-	400,000
Shares held as collateral for debentures	-	-	26,798,418	-	-	-	-	-
Net Loss for the year ended September 30, 2005	-	-	-	-	-	-	(1,980,838)	(1,980,838)
Balance at September 30, 2005	-	-	150,675,057	3,996,736	400,000	1,005,000	(5,934,283)	(532,547)
Issuance of stock for services	-	-	72,366	31,500	-	-	-	31,500
Warrant expense	-	-	-	-	-	996,250	-	996,250
Beneficial conversion	-	-	-	-	5,685,573	-	-	5,685,573
Debenture conversion	-	-	21,657,895	5,850,000	-	-	-	5,850,000
Issuance of stock for interest expense	-	-	712,956	241,383	-	-	-	241,383

Issuance of stock for warrant conversion	-	-	10,850,000	3,171,250	-	-	-	3,171,250
Net Loss for the year ended September 30, 2006	-	-	-	-	-	-	(9,112,988)	(9,112,988)
Balance at September 30, 2006 (restated)	-	-	183,968,274	13,290,869	6,085,573	2,001,250	(15,047,271)	6,330,421
Cancellation of stock for services returned	-	-	(150,000)	-	-	-	-	-
Release of security collateral	-	-	(26,798,418)	-	-	-	-	-
Issuance of stock for warrants	-	-	900,000	135,000	-	-	-	135,000
Stock option and warrant expense	-	-	-	-	-	772,315	-	772,315
Net Loss for the year ended September 30, 2007	-	-	-	-	-	-	(1,968,846)	(1,968,846)
Balance at September 30, 2007 (restated)	-	-	157,919,856	13,425,869	6,085,573	2,773,565	(17,016,117)	5,268,890

The Accompanying Notes are an Integral Part of These Financial Statements

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XSUNX, INC.

(A Development Stage Company)

Statements of Stockholders' Deficit

From Inception February 25, 1997 to September 30, 2013

	Preferred Stock		Common Stock		Additional Paid-in	Stock Options/ Warrants Paid-in	Deficit Accumulated during the Development Stage	
	Shares	Amount	Shares	Amount	Capital	Capital	Stage	Total
Fusion Equity common stock purchase	-	-	15,347,581	5,200,000	(55,300)	-	-	5,144,700
Commitment fees	-	-	3,500,000	1,190,000	(1,190,000)	-	-	-
Cumorah common stock purchase	-	-	8,650,000	2,500,000	-	-	-	2,500,000
Wharton Settlement	-	-	875,000	297,500	(397,500)	-	-	(100,000)
MVS warrant cancellation	-	-	-	-	805,440	(805,440)	-	-
Stock options and warrant expense	-	-	-	-	-	673,287	-	673,287
Net Loss for the year ended September 30, 2008	-	-	-	-	-	-	(4,058,952)	(4,058,952)
Balance at September 30, 2008	-	-	186,292,437	22,613,369	5,248,213	2,641,412	(21,075,069)	9,427,925
Issuance of common shares in October 2008 for cash (2,000,000 common shares issued at $0.20 per share)	-	-	2,000,000	400,000	-	-	-	400,000
Issuance of common shares in November 2008 for cash (1,000,000 common shares issued at $0.20 per share)	-	-	1,000,000	200,000	-	-	-	200,000
Issuance of common shares in November 2008 for services (50,000 common shares issued at a fair value of $0.22 per share)	-	-	50,000	11,000	-	-	-	11,000

Issuance of common shares in August 2009 for cash (1,129,483 common shares issued at $0.062 per share)	-	-	1,129,483	70,000	-	-	-	70,000
Issuance of common shares in August 2009 for services (900,000 common shares issued at a fair value of $0.12 per share)	-	-	900,000	108,000	-	-	-	108,000
Issuance of common shares in August 2009 for services (76,976 common shares issued at a fair value of $0.1364 per share)	-	-	76,976	10,500	-	-	-	10,500
Issuance of common shares in September 2009 for services (35,714 common shares issued at a fair value of $0.14 per share)	-	-	35,714	5,000	-	-	-	5,000

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Issuance of common shares in September 2009 for cash (5,000,000 common shares issued at $0.07 per share)	-	-	5,000,000	350,000	-	-	-	350,000
Stock compensation expense	-	-	-	-	-	534,518	-	534,518
Net Loss for the year ended September 30, 2009	-	-	-	-	-	-	(10,634,133)	(10,634,133)
Balance at September 30, 2009	-	-	196,484,610	23,767,869	5,248,213	3,175,930	(31,709,202)	482,810
Issuance of common shares in October 2009 for cash (2,556,818 common shares issued at $0.088 per share)	-	-	2,556,818	225,000	-	-	-	225,000
Issuance of common shares in November 2009 for services (53,789 common shares issued at a fair value of $0.1859 per share)	-	-	53,789	10,000	-	-	-	10,000
Issuance of common shares in December 2009 for subscription receivable (1,000,000 common shares issued at $0.088 per share)	-	-	1,000,000	88,000	-	-	-	88,000
Issuance of common shares in March 2010 for cash (2,000,000 common shares issued at $0.075 per share)	-	-	2,000,000	150,000	-	-	-	150,000
Issuance of common shares in March 2010 for services (139,424 common shares issued at $0.16137 per share)	-	-	139,424	22,500	-	-	-	22,500
Issuance of common shares in March 2010 for cash (6,250,000 common shares issued at $0.10 per share)	-	-	6,250,000	500,000	-	-	-	500,000

Issuance of common shares in September 2010 for cash (279,661 common shares issued at $0.09167 per share)	-	-	279,661	25,000	-	-	-	25,000
Issuance of common shares in September 2010 for cash (291,035 common shares issued at $0.088 per share)	-	-	291,035	25,000	-	-	-	25,000
Stock compensation expense	-	-	-	-	-	273,133	-	273,133
Stock issuance costs	-	-	-	-	(10,000)	-	-	(10,000)
Net Loss for the year ended September 30, 2010	-	-	-	-	-	-	(2,210,603)	(2,210,603)
Balance at September 30, 2010	-	-	209,055,337	24,813,369	5,238,213	3,449,063	(33,919,805)	(419,160)

The Accompanying Notes are an Integral Part of These Financial Statements

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XSUNX, INC.

(A Development Stage Company)

Statements of Stockholders' Deficit

From Inception February 25, 1997 to September 30, 2013

	Preferred Stock		Common Stock		Additional Paid-in	Stock Options/ Warrants Paid- in	Deficit Accumulated during the Development Stage	
	Shares	Amount	Shares	Amount	Capital	Capital	Stage	Total
Issuance of common shares for cash	-	-	13,263,096	825,000	-	-	-	825,000
Issuance of common shares for a cashless exercise of warrants	-	-	2,680,204	-	-	-	-	-
Stock compensation costs	-	-	-	-	-	186,016	-	186,016
Net Loss for the year ended September 30, 2011	-	-	-	-	-	-	(1,117,654)	(1,117,654)
Balance at September 30, 2011	-	-	224,998,637	25,638,369	5,238,213	3,635,079	(35,037,459)	(525,798)
Issuance of common shares for cash (prices between $0.015 and $0.0165 per share)	-	-	3,181,819	50,000	-	-	-	50,000
Shares issued for conversion of debt at fair value	-	-	7,000,000	420,000	-	-	-	420,000
Issuance of common stock for conversion of notes and interest	-	-	8,741,825	148,120	-	-	-	148,120
Write down of fair value of notes converted	-	-	-	119,605	-	-	-	119,605
	-	-	3,450,078	115,500	-	-	-	115,500

Issuance of common stock for services at fair value								
Issuance of common stock for accounts payable	-	-	26,000,000	780,000	-	-	-	780,000
Issuance of common stock for commitment fees	-	-	1,500,000	45,000	-	-	-	45,000
Issuance of common stock for prepaid rent	-	-	500,000	25,000	-	-	-	25,000
Issuance of common stock through a cashless exercise	-	-	5,860,791	-	-	-	-	-
Stock compensation expense	-	-	-	-	-	129,834	-	129,834
Contributed capital	-	-	-	-	37,035	-	-	37,035
Contributed services	-	-	-	-	60,000	-	-	60,000
Net Loss for the year ended September 30, 2012	-	-	-	-	-	-	(1,555,194)	(1,555,194)
Balance at September 30, 2012	-	-	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	-	-	99,818,103	968,677	-	-	-	968,677
Issuance of Series A preferred stock	5,000	50	-	-	150	-	-	200
Issuance of common stock for services at fair value	-	-	3,908,171	26,200	-	-	-	26,200
Issuance of common stock for debt	-	-	43,584,017	828,790	-	-	-	828,790
Issuance of common stock for commitment fees	-	-	500,000	10,000	-	-	-	10,000
Stock compensation expense	-	-	-	-	-	46,787	-	46,787
Net Loss for the year ended September 30, 2013	-	-	-	-	-	-	(2,522,382)	(2,522,382)
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)

The Accompanying Notes are an Integral Part of These Financial Statements

XSUNX, INC.

(A Development Stage Company)

Statements of Cash Flows

For the Years Ended

	September 30, 2013	September 30, 2012	February 25, 1997 through September 30, 2013
CASH FLOWS FROM OPERATING ACTIVITIES:	$	$	$
Net loss	(2,522,382)	(1,555,194)	(39,115,035)
Adjustment to reconcile net loss to net cash used in operating activities			
Depreciation & amortization	34,937	41,706	764,469
Common stock issued for services and other expenses	426,057	182,468	2,605,159
Stock option and warrant expense	46,787	129,834	4,085,890
Commitment fees	8,966	85,734	5,780,273
Asset impairment	-	-	7,285,120
Write down of inventory asset	-	-	1,177,000
(Gain)/loss on conversion and settlement of debt	1,237,183	441,522	1,211,744
(Gain)/Loss on sale of asset	(8,000)	-	(24,423)
Contributed capital and services	-	97,035	97,035
Settlement of lease	-	-	59,784
Financing costs associated with issuance of convertible notes	321,579	-	321,579
Change in derivative liability	(746,956)	(39,969)	(786,925)
Amortization of debt discount recorded as interest expense	639,159	206,465	845,624
Change in Assets and Liabilities:			
(Increase)/Decrease in:			
Prepaid expenses	70,412	(2,130)	59,078
Inventory held for sale	-	-	(1,417,000)
Other receivable	-	-	-
Other assets	3,200	(2,500)	(2,500)
Increase (Decrease) in:			
Accounts payable	3,414	443	2,373,958
Accrued expenses	43,926	35,346	194,382
NET CASH USED IN OPERATING ACTIVITIES	(441,718)	(379,240)	(14,484,788)
CASH FLOWS FROM INVESTING ACTIVITIES:			
	-	(3,309)	(5,909,913)

Purchase/Refund of manufacturing equipment and facilities in process			
Payments on note receivable	-	-	(1,500,000)
Proceeds from sale of assets	8,000	-	269,100
Receipts on note receivable	-	-	1,500,000
Purchase of marketable prototype	-	-	(1,780,396)
Purchase of fixed assets	(32,736)	(52,124)	(630,708)
NET CASH USED BY INVESTING ACTIVITIES	(24,736)	(3,309)	(8,051,917)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from warrant conversion	-	-	3,306,250
Proceeds from convertible promissory notes	460,500	310,500	6,621,000
Proceeds for issuance of common stock, net	-	50,000	12,648,028
NET CASH PROVIDED BY FINANCING ACTIVITIES	460,500	360,500	22,575,278
NET INCREASE (DECREASE) IN CASH	(5,954)	(22,049)	38,573
CASH, BEGINNING OF PERIOD	44,527	66,576	-
CASH, END OF PERIOD	$ 38,573	$ 44,527	$ 38,573
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Interest paid	$ 613	$ 603	$ 121,347
Taxes paid	$ -	$ -	$ -
SUPPLEMENTAL DISCLOSURES OF NON CASH TRANSACTIONS			

During the years ended September 30, 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. The note was partially converted in the amount of $125,000 leaving a remaining balance of $260,863. The remaining balance of $260,863, plus accrued interest of $32,633 was exchanged for a convertible promissory note in the amount of $293,496 on September 30, 2013. Also, during the period ended September 30, 2013, the Company completed its manufacturing equipment, which was classified to research and development cost for $367,476, and $50,000 to R&D asset. During the year ended September 30, 2012, in exchange for the notes 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. Also, during the year ended September 30, 2012, the Company issued 5,860,791 shares of common stock through a cashless exercise of stock purchase warrants; issued 27,500,000 shares for accounts payable in the amount of $509,179 plus $85,734 in commitment fees with a conversion loss of $230,087; issued 400,000 shares of common stock for accounts payable of $17,000 with a fair value of $14,000 and recognized a gain of $3,000; issued 500,000 shares of common stock for prepaid rent with a fair value of $25,000.

The Accompanying Notes are an Integral Part of These Financial Statements

XSUNX, INC.

(A Development Stage Company)

Notes to Financial Statements

September 30, 2013 and 2012

1.

ORGANIZATION AND LINE OF BUSINESS

Organization

XsunX, Inc. (XsunX, the Company or the issuer) is a Colorado corporation formerly known as Sun River Mining Inc Sun River). The Company was originally incorporated in Colorado on February 25, 1997. Effective September 24, 2003, the Company completed a Plan of Reorganization and Asset Purchase Agreement (the Plan).

Line of Business

In the year ended September 30, 2013, XsunX Our business development efforts for the majority of the year ended September 30, 2013, centered on the development and marketing of a licensable low cost entry point solution for the manufacture of Copper Indium Gallium Selenide (CIGS) thin film solar cells which we call CIGSolar®. During the period we completed the assembly of a thin film solar cell co-evaporation system central to the design of our CIGSolar® technology, and worked to calibrate the system, make adjustments to its new design as testing results warranted, and marketed the benefits of the technology to potential licensees which, during the period, consisted primarily of companies working to establish vertically integrated solar module manufacturing operations to service emerging demand in developing economies and regions.

In September 2013, in response to what the Company foresees as increasing demand within the commercial real-estate markets in California for the installation of solar electric PV systems, we began to prepare our operations to diversify and include services for the sale, design, and installation of solar electric PV systems as a licensed contractor in California. We plan to complete the preparation for the sale and delivery of our solar PV system design and installation services in the first quarter of fiscal 2014, and begin to market to commercial and industrial business and facility owners initially in the California market. We see this as a significant market and business development opportunity and we plan to focus a significant portion of operations on the rapid development and market acceptance for our solar electric PV systems design and installation services.

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 year ended September 30, 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 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.

<u>Development Stage Activities and Operations</u>

The Company has been in its initial stages of formation and for the year ended September 30, 2013, had no revenues. A development stage activity as one in which all efforts are devoted substantially to establishing a new business and even if planned principal operations have commenced, revenues are insignificant.

<u>Use of Estimates</u>

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.

<u>Cash and Cash Equivalents</u>

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.

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Property and Equipment

Property and equipment are stated at cost, and are depreciated using straight line over its estimated useful lives:

Leasehold improvements	Length of the lease
Computer software and equipment	3 Years
Furniture & fixtures	5 Years
Machinery & equipment	5 Years

The Company capitalizes property and equipment over $500. Property and equipment under $500 are expensed in the year purchased. The depreciation expense for the years ended September 30, 2013, and 2012, were $34,937 and $41,706, respectively.

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 September 30, 2013, the balances reported for cash, prepaid expenses, accounts payable, accrued expenses, derivative liability, and notes payable 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:

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Level 1, defined as observable inputs such as quoted prices for identical instruments in active markets;

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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

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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 September 30, 2013:

Fair Value of Financial Instruments

	Total	(Level 1)	(Level 2)	(Level 3)
	$	$	$	$
Assets	-	-	-	-
	$	$	$	$
Total assets measured at fair value	-	-	-	-
Liabilities				
	$	$	$	$
Derivative Liability	705,118	-	-	705,118
Convertible Promissory Notes, net of discount	74,964	-	-	74,964
	$	$	$	$
Total liabilities measured at fair value	780,082	-	-	780,082

Loss per Share Calculations

Loss per Share is the calculation of basic earnings per share and diluted earnings per share. Basic earnings per share is 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 years ended September 30, 2013 and 2012 as the inclusion of any potential shares would have had an anti-dilutive effect due to the Company generating a loss.

	For the year ended September 30, 2013	2012
(Loss) to common shareholders (Numerator)	$ (2,522,382)	$ (1,555,194)
Basic and diluted weighted average number of common shares outstanding (Denominator)	343,568,944	247,855,835

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.

Research and Development

Research and development costs are expensed as incurred. Total research and development costs were $425,371 and $122,673 for the years ended September 30, 2013, and 2012, respectively.

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.

Income Taxes

Deferred income taxes are provided using the liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carry-forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of the changes in tax laws and rates of the date of enactment.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than fifty percent 50% likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

Recent Accounting Pronouncements

Management reviewed accounting pronouncements issued during the year ended September 30, 2013, and the following pronouncements were adopted during the period.

In January 2013, the FASB issued ASU 2013-01, Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. This ASU clarifies which instruments and transactions are subject to the offsetting disclosure requirements established by ASU 2011-11. This guidance is effective for annual and interim reporting periods beginning January 1, 2013. We do not believe the adoption of this update will have a material effect on our financial position and results of operations.

In July 2013, the FASB issued ASU No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Loss, or a Tax Credit Carryforward Exists. Topic 740, Income Taxes, does not include explicit guidance on the financial statement presented of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. There is diversity in practice in the presentation of unrecognized tax benefits in those instances and the amendments in this update are intended to eliminate that diversity in practice. The amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Early adoption is permitted. We do not believe the adoption of this update will have a material effect on our financial position and results of operations.

The Company adopted ASC 815 "Accounting for Derivative Instruments and Hedging Activities". This pronouncement addresses the accounting for derivative instruments including certain derivative instruments embedded in other contracts, and hedging activities. Derivative instruments that meet the definition of assets and liabilities should be reported in the financial statements at fair value, and any gain or loss should be recognized in current earnings. The adoption of this pronouncement did not have a material effect on the financial statements of the Company.

3.

CAPITAL STOCK

At September 30, 2013, 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.

On June 27, 2013, the Company amended its Articles of Incorporation for the creation of its Series A Preferred Stock designating 10,000 shares of its authorized Preferred Stock as Series A Preferred Stock. The Series A Preferred Shares have a par value of $0.01 per share. The Series A Preferred Shares do not have a dividend rate and are not redeemable. In addition, the Series A Preferred Shares rank senior to the Company s common stock. The Series A Preferred Shares have voting rights equal to that of the common stockholders and may vote on any matter that common shareholders may vote. One or more shares of Series A Preferred Stock has the voting equivalent of not less than 60% of the issued and outstanding common stock (representing a super majority voting power) of the vote required to approve any action, in which the shareholders of the Company s common stock may vote. In the event of any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, the Holders of shares of Series A Preferred Stock shall be entitled to receive, immediately after any distributions to Senior Securities required by the Company's Certificate of Incorporation or any certificate of designation, and prior in preference to any distribution to Junior Securities but in parity with any distribution to Parity Securities, an amount per share equal to $.01 per share. Holders of shares of Series A Preferred Stock shall not be entitled to any dividends, and the Company has no redemption rights for Series A Preferred Stock issued.

On June 27, 2013, the Board of Directors of the Company authorized the issuance of 5,000 shares of Series A Preferred Stock (the Shares) to the Company s Chief Executive Officer and Director, Tom M. Djokovich. The Shares were issued in consideration for the contribution of services by Mr. Djokovich to the Company valued at fifty dollars, which the Board deemed full and fair consideration. As a result of such issuance, Mr. Djokovich has the ability to influence and determine stockholder votes.

On June 27, 2013, our Board of Directors approved an amendment to our Articles of Incorporation (the Amendment) to increase our authorized shares of Common Stock from 500,000,000 shares to 2,000,000,000 shares.

During the year ended September 30, 2013, the Company issued 99,818,103 shares of common stock upon conversion of convertible notes in the aggregate fair value of $968,677 at prices ranging between $0.0024 and $0.0162; issued 3,908,171 shares of common stock for services at fair value of $26,200; issued 500,000 shares of common stock for commitment fees at fair value of $10,000. These shares were issued in a transactions exempt from registration pursuant to Section 4(2) of the Securities Act.

During the year ended September 30, 2013, in accordance with a Stipulation for Settlement of Claims, 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. BX484549, the Company has issued a total of 43,584,017 Final Adjustment Shares of the Company s common stock, no par value (Common Stock) to Ironridge with a fair value of $828,790 in settlement of the *bona fide* accounts payable of the Company, which had been purchased by Ironridge from certain creditors of the Company, in an amount equal to approximately $494,561 in 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. 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.

During the year ended September 30, 2012, the Company issued 7,900,000 restricted shares of common stock as payment for the reduction of $247,565 in accounts payable; issued 3,181,819 restricted shares of common stock under stock purchase agreements at prices ranging between $0.015 and $0.0165 for $50,000 in proceeds; issued 5,860,791 restricted shares of common stock under cashless exercise of warrants; issued 3,050,078 shares of restricted common stock for services with a fair market value of $101,500; and issued 8,741,825 shares of common stock upon conversion of convertible notes in the aggregate fair value of $148,120 at prices ranging between $0.0227 and $0.015. The above shares were issued in a transactions exempt from registration pursuant to Section 4(2) of the Securities Act

Additionally, during the year ended September 30, 2012, in accordance with a Stipulation for Settlement of Claims, 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. BX484549, the Company issued an aggregate of 27,500,000 shares of the Company s common stock, no par value per share, to Ironridge Global IV, Ltd., of which 26,000,000 shares were for settlement of accounts payable of $549,913 with a fair value of $780,000, and the Company recognized a loss of $230,087. Also, 1,500,000 shares of common stock with a fair value of $45,000 were retained by 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.

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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. Notwithstanding any other provision of the Plan or of any Option agreement, each Option shall expire on the date specified in the Option agreement.

During the year ended September 30, 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 expires on March 21, 2016. The Company also granted 500,000 stock options to a consultant as incentive for services and performance to the Company. Two Hundred Fifty Thousand options vested upon issuance and the balance vest sixty days thereafter. The grant provides for an exercise price of $0.014 per share, and expires on May 13, 2015.

Risk free interest rate	0.29% - 0.38%
Stock volatility factor	138.33% - 169.56%
Weighted average expected option life	2 - 3 years
Expected dividend yield	None

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

	9/30/2013		9/30/2012	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
		$		
Outstanding, beginning of period	8,000,000	0.210	21,180,000	0.210
Granted	4,500,000	0.014	1,500,000	0.045
Exercised	-	-	-	-
Expired	(3,000,000)	0.360	(14,680,000)	0.014
		$		$
Outstanding, end of the period	9,500,000	0.066	8,000,000	0.210

Exercisable at the end of the period	8,500,000	$ 0.043	6,500,000	$ 0.270
Weighted average fair value of options granted during the period		$ 0.014		$ 0.045

The weighted average remaining contractual life of options outstanding issued under the plan as of September 30, 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	0.50 years
$ 0.014	500,000	500,000	1.62 years
$ 0.100	1,000,000	-	2.05 years
$ 0.014	4,000,000	4,000,000	2.47 years
$ 0.045	1,500,000	1,500,000	3.28 years
	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 year ended September 30, 2013, included compensation expense for the stock-based payment awards granted prior to, but not yet vested, as of September 30, 2013, based on the grant date fair value estimated, and compensation expense for the stock-based payment awards granted subsequent to September 30, 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 years ended September 30, 2013 and 2012 was $46,787 and $129,834, respectively.

Warrants

A summary of the Company s warrants activity and related information follows:

	9/30/2013		9/30/2012	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
		$		
Outstanding, beginning of period	3,333,332	0.63	8,583,332	0.32
Granted	-	-	6,363,637	0.02
Exercised	-	-	(11,363,637)	0.02
Expired	(3,333,332)	0.63	(250,000)	0.20
		$		$
Outstanding, end of the period	-	-	3,333,332	0.63
		$		$
Exercisable at the end of the period	-	-	3,333,332	0.63
		$		$
Weighted average fair value of options granted during the period		-		0.02

5.

INCOME TAXES

The Company files income tax returns in the U.S. Federal jurisdiction, and the state of California. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2010.

Included in the balance at September 30, 2013, are no tax positions for which the ultimate deductibility is highly certain, but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred tax accounting, other than interest and penalties, the

disallowance of the shorter deductibility period would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period.

The Company's policy is to recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. During the period ended September 30, 2013, the Company did not recognize interest and penalties.

6.

DEFERRED TAX BENEFIT

At September 30, 2013, the Company had net operating loss carry-forwards of approximately $20,563,000 that may be offset against future taxable income from the year 2013 through 2030. No tax benefit has been reported in the September 30, 2013 financial statements since the potential tax benefit is offset by a valuation allowance of the same amount.

The income tax provision differs from the amount of income tax determined by applying the U.S. federal and state income tax rate of 40% to pretax income from continuing operations for the years ended September 30, 2013 and 2012 due to the following:

	9/30/2013	9/30/2012
	$	$
Book Income	(1,008,950)	(622,078)
Nondeductible Stock Compensation	18,720	51,934
Contributed capital	-	38,814
Nondeductible other expenses	262,010	113,505
Nondeductible Penalties	-	10
Loss on settlement of debt	494,870	176,609
Meals & Entertainment	230	231
Depreciation	8,550	(2,516)
Loss on disposal of assets	-	-
Valuation Allowance	224,570	243,491
	$	$
Income Tax Expense	-	-

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carry-forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

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Net deferred tax assets consist of the following components as of September 30, 2013 and 2012:

	9/30/2013	9/30/2012
Deferred Tax Assets:		
	$	$
NOL Carryforward	8,225,100	7,996,118
Capital loss Carryforward	2,913,800	2,917,009
Contribution Carryforward	40	40
Section179 Expense Carryforward	82,700	73,406
R&D Carryforward	45,420	44,217
Deferred Tax Liabilities:		
Depreciation	(9,250)	(17,796)
Valuation Allowance	(11,257,810)	(11,012,994)
	$	$
Net Deferred Tax Asset	-	-

7.

CONVERTIBLE PROMISSORY NOTES

In exchange for a 10% promissory note (the 10% Note) of $350,000 plus accrued interest of $35,863 that had become due at September 30, 2012, the Company issued a new unsecured convertible promissory note (the Exchange Note) for $385,863 in November 2012. The Holder and the Company exchanged the Note solely for (i) a 12% 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 was 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. During the year ended September 30, 2013 the lender converted $125,000 of the exchanged noted, plus interest of $9,448, leaving a remaining principal balance of $260,863, plus accrued interest of $32,633 for an aggregate total of $290,863. During the year ended, the Company recognized interest expense of $42,081 on the note, which matured on September 30, 2013.

On September 30, 2013, the Exchange Note was extended to September 30, 2014, and the conversion rate was amended to 60% of the lowest VWAP occurring during the twenty (20) consecutive trading days immediately preceding the conversion date. In accordance with ASC 470-60, Debt Troubled Debt Restructurings by Debtors , the Company determined that the creditor did not grant a concession, as the only modification to the debt was the decrease in the conversion price. The modification was then analyzed under ASC 470-50, Debt Modification and

Extinguishments . The change in fair value of the conversion feature was greater than 10% of the carrying value of the debt, and as a result, in accordance with ASC 470-50, the Company deemed the terms of the amendment to be substantially different and treated the September 30, 2012 convertible note extinguished and exchanged for a new convertible note in the amount of $290,863, which included $32,863 of accrued interest. The Company recorded a loss on extinguishment of debt of $20,431. During the year ended September 30, 2013, the Company recognized interest expense of $98 on the new Exchange Note.

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. Under the promissory Note the lender has advanced two tranches of $25,000 each 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 May 8, 2013, the lender converted $25,000 of the convertible note, plus $1,250 in interest leaving a remaining principal balance of $25,000. During the year ended September 30, 2013, the Company recognized interest expense of $2,202 for this 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. Under the Promissory Note the Lender has advanced six tranches totaling $175,000 to the Company. The Lender may only advance additional consideration to the Company subject to consent by the Company. The Company shall be required to repay only the consideration funded by the lender, and shall not have any interest or other rights extend to any unfunded portion of the Promissory Note. The Promissory Note matures one year from its issuance or from the date any principal funds are advanced under the Promissory Note. 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 period ended September 30, 2013, the lender converted $75,000 of the convertible note, plus original issued discount and interest of $16,667 leaving a remaining principal balance of $100,000, plus original issue discount and accrued interest of $22,222 for a total sum of $122,222. During the year ended September 30, 2013, the Company recognized interest expense of $19,444 for this Promissory Note.

During the year ended September 30, 2013, the Company had entered into six Securities Purchase Agreements (the "Securities Purchase Agreements") each providing for the sale by the Company of 8% unsecured Convertible Notes (the Notes) in the principal amounts as follows;

- $37,500 Securities Purchase Agreement entered into on November 8, 2012
- $37,500 Securities Purchase Agreement entered into on January 18, 2013
- $53,000 Securities Purchase Agreement entered into on February 21, 2013
- $37,500 Securities Purchase Agreement entered into on April 23, 2013
- $37,500 Securities Purchase Agreement entered into on July 17, 2013
- $32,500 Securities Purchase Agreement entered into on August 28, 2013

During the year ended September 30, 2013, the lender had a principal balance of $403,000 in convertible notes, of which the lender converted $295,500 of the notes, plus $12,420 in accrued interest, leaving a remaining aggregate principal balance of $107,500. Upon conversion the Company issued an aggregate of 50,869,850 shares of voting common stock to the lender. The remaining Notes mature on January 16, 2014, April 11, 2014 and May 22, 2014. The Company has the right to redeem a portion or all amounts outstanding under the any Note prior to one hundred and eighty one days from issuance of the Note under a variable redemption rate premium. After one hundred and eighty days the holder may convert into shares of common stock at a variable conversion price of 60% multiplied by the market price of the average lowest three (3) trading prices for the common stock during the ten (10) trading days prior to the conversion date.

8. 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 related to the private placement described in Notes 7 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, 2012, the outstanding fair value of the convertible notes accounted as derivative liabilities amounted to $150,926.

During the period ended September 30, 2013, 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 $893,900, 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 $893,900 exceeded the aggregate value of the notes, the excess of the liability over the total combined note value of $203,490 was considered as a cost of the private placement and reported in the accompanying Statement of Operation as financing cost.

During the period ended September 30, 2013, approximately $520,500 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 $747,093 due to the extinguishment of the corresponding derivative liability. Furthermore, during the period ended September 30, 2013, the Company recognized a loss of $1,237,183 to account for the change in fair value of the derivative liabilities. At September 30, 2013, the fair value of the derivative liability was $293,395.

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 0.09% and 0.018%
Stock volatility factor	Between 106.82% and 157.79%
Months to Maturity	9 months to 1 year
Expected dividend yield	None

9.

COMMITMENTS AND CONTINGENCIES

At September 30, 2013 the Company leased corporate facilities located in Aliso Viejo and Irvine, CA. The lease for the Aliso Viejo location is month to month at a rate of $200 per month. The Company s $3,000 per month 12 month lease for its Irvine shop location expired July 30, 2013 and the Company continued to rent month to month at the rate of $2,500 per month. In September 2013 the property owner advised the Company that they had sold the property and requested that we vacate the Irvine shop location by the end of October 2013.

10.

SUBSEQUENT EVENTS

Management has evaluated subsequent events as of the financial statement date according to the requirements of ASC TOPIC 855 and has reported the following:

On October 1, 2013, the Company entered into four (4) promissory notes each in the amount of $12,000 in payment for services performed by the Board of Directors. The notes bears zero interest if paid on or before the one (1) year anniversary from the effective date. If the note is not paid on or before the one (1) year anniversary a one-time interest charge of 10% shall be applied to the principal sum. The holder has the right to convert the note at the lesser of $0.005 or the average of the three (3) closing share prices occurring immediately preceding the applicable conversion date.

On October 15, 2013, October 23, 2013, December 18, 2013, and January 13, 2014, the Company issued 7,500,000, 7,050,267, 3,500,000, and 2,500,000 shares of common stock, respectively, upon conversion of an aggregate principal sum of $57,400, plus accrued interest and original issue discount of $5,556. The shares were issued in a transactions exempt from registration pursuant to Section 4(2) of the Securities Act.

On October 16, 2013, November 13, 2013, and January 14, 2014, the Company entered into securities purchase agreements providing for the sales of 8% convertible promissory notes in the amount of $37,500, $32,500 and $32,500 respectively, which, after one hundred and eighty days, can be converted into shares of common stock at a conversion price of 60% of the average lowest five (3) trading 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 mature on July 18, 2014, August 15, 2014, and October 14, 2014.

On October 17, 2013, and November 5, 2013, the Company issued 13,712,578 and 27,586,550 shares of common stock, respectively, upon conversion of an aggregate principal sum of $90,000, plus accrued interest of $858. The shares were issued in a transactions exempt from registration pursuant to Section 4(2) of the Securities Act.

On October 24, 2013, and October 28, 2013, the Company issued 8,695,652 and 5,277,778 shares of common stock, respectively, upon conversion of an aggregate principal sum of $37,500, plus accrued interest of $1,500. The shares were issued in a transactions exempt from registration pursuant to Section 4(2) of the Securities Act.

On November 1, 2013, the Company issued 14,954,990 shares of common stock upon conversion of the principal sum of $25,000, plus accrued interest of $1,171. The shares were issued in a transactions exempt from registration pursuant to Section 4(2) of the Securities Act.

Effective October 30, 2013, as a result of the sale of the facility by the property owner, the Company vacated the Irvine, CA shop facilities where it had been conducting assembly, testing, and marketing of its CIGSolar thin film co-evaporation technologies. The Company elected to relocate the system to a facility in La Mirada California where the system could continue to be shown to interested buyers of the system and processing technology.

After approval by the Board of Directors for the expansion of business operation the Company announced the addition of solar PV system sales, design, and installation services to its business development efforts on October 16, 2013. The Company s CEO and President, Mr. Tom Djokovich, as a licensed contractor in California since 1979 provided the Company with qualification for a California B-1 contractor s license, effective October 14, 2013, to allow the Company to promote and enter into agreements with customers interested in these new services.

On November 1, 2013 the Company and Mr. Joseph Grimes, agreed that he would no longer provide services to the Company as executive sales manager, and agreed to retain Mr. Grimes as a business development consultant, under his company, Solar Utility Networks, LLC, (SUN) assisting the Company in its efforts to expand services to include the sales, design, and installation of solar PV systems. The services to be provided include the development of project leads, project financial analysis, conceptual project layouts and project locations, estimates for Government-based incentives, sourcing of system components, and assistance in procuring project financing. The Company has agreed to pay a commission of up to 6% on projects we enter into sales agreements that were the result of leads developed by and introduced to us by SUN. Mr. Grimes is also a Director for the Company and Mr. Grimes has agreed to act in the best interests of the Company under the agreement to provide the Company with the benefit of customer development and introduction by Mr. Grimes for the mutual benefit of both parties.

On December 10, 2013 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 $40,000 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.

SIGNATURES

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

Date: January 14, 2014	**XSUNX, INC.**	
	By:	/s/ Tom Djokovich
	Name:	Tom Djokovich
	Title:	CEO and Principal Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Tom Djokovich *Tom Djokovich, Chief Executive Officer,* *Principal Executive Officer, Principal* *Financial and Accounting Officer, and Director*	January 14, 2014
/s/ Joseph Grimes *Joseph Grimes, Director*	January 14, 2014
/s/ Thomas Anderson *Thomas Anderson, Director*	January 14, 2014
/s/ Oz Fundingsland *Oz Fundingsland, Director*	January 14, 2014
/s/ Michael Russak *Michael Russak, Director*	January 14, 2014

EXHIBIT 31.1

OFFICER S CERTIFICATE

PURSUANT TO SECTION 302

OF THE SARBANES-OXLEY ACT OF 2002

I, Tom Djokovich, certify that:

1. I have reviewed this Form 10-K for the fiscal year ended September 30, 2013 of XsunX, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant s internal control over financial reporting that occurred during the registrant s most recent fiscal quarter (the registrant s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant s internal control over financial reporting; and

5. The registrant s other certifying officer (s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant s auditors and the audit committee of the registrant s board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal control over financial reporting.

Date: January 14, 2014

/s/ Tom Djokovich
Name: Tom Djokovich
Titles: President, Chief Executive Officer, Principal Financial and

Accounting Officer, and Director

EXHIBIT 32.1

CERTIFICATION PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of XsunX, Inc. (the Company) on Form 10-K for the fiscal year ended September 30, 2013 as filed with the U.S. Securities and Exchange Commission on the date himself (the Report), the undersigned hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Date: January 14, 2014

/s/ Tom Djokovich
Name: Tom Djokovich
Title: President, Chief Executive Officer, and Principal Financial and

Accounting Officer, and Director

A signed original of this written statement required by Section 906, or other document authentications, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the U.S. Securities and Exchange Commission or its staff upon request.

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