

XSUNX INC  
Form 10-K  
December 14, 2016

---

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

---

FORM 10-K

---

ANNUAL REPORT PURSUANT TO  
THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended September 30, 2016

Commission File Number 000-29621

XSUNX, INC.  
(Exact Name of Registrant as Specified in Its Charter)

Colorado                      84-1384159  
(State of Incorporation)      (I.R.S. Employer  
Identification No.)

65 Enterprise, Aliso Viejo, CA 92656  
(Address of Principal Executive Offices) (Zip Code)

(949) 330-8060  
(Registrant's Telephone Number)

Securities registered pursuant to Section 12(b) of the Act: Title of each class: None

Name of Each Exchange on which Registered: N/A

Securities registered pursuant to Section 12(g) of the Act:

Title of each class: Common Stock, no par value per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes o NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes      NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during

the preceding 12 months. Yes      NO

Check if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

(Check one):

Large accelerated filer   Accelerated filer   Non-accelerated filer   Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.)

(Check one): Yes      NO

As of March 31, 2016, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately \$3,124,899 based on the closing price as reported on the OTC Markets.

As of December 14, 2016, there were 889,331,125 shares of the registrant's company common voting stock outstanding.

---

XSUNX, INC.

TABLE OF CONTENTS

	Page
PART I	
Item 1. <u>Business</u>	1
Item 1A. <u>Risk Factors</u>	6
Item 1B. <u>Unresolved Staff Comments</u>	13
Item 2. <u>Properties</u>	13
Item 3. <u>Legal Proceedings</u>	13
Item 4. <u>Mine Safety Disclosures</u>	13
PART II	
Item 5. <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	14
Item 6. <u>Selected Financial Data</u>	15
Item 7. <u>Management’s Discussion and Analysis or Plan of Operations</u>	15
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	18
Item 8. <u>Financial Statements and Supplementary Data</u>	19
Item 9. <u>Changes in and Disagreements on Accounting and Financial Disclosure</u>	19
Item 9A. <u>Controls and Procedures</u>	19
Item 9B. <u>Other Information</u>	20
PART III	
Item 10. <u>Directors, Executive Officers, and Corporate Governance</u>	21
Item 11. <u>Executive Compensation</u>	23
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	25

Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	26
Item 14. <u>Principal Accounting Fees and Services</u>	26
PART IV	
Item 15. <u>Exhibits, Financial Statement Schedules</u>	27
<u>Signatures</u>	28
<u>Financial Statements</u>	F-1

---

## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) and the Securities Act of 1933, as amended (the “Securities Act”) which are subject to risks, uncertainties and assumptions that are difficult to predict. All statements in this Annual Report on Form 10-K, other than statements of historical fact, are forward-looking statements. These forward-looking statements are made pursuant to safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The forward-looking statements include statements, among other things, concerning our business strategy, including anticipated trends and developments in and management plans for, our business and the markets in which we operate; future financial results, operating results, revenues, gross margin, operating expenses, products, projected costs and capital expenditures; research and development programs; sales and marketing initiatives; and competition. In some cases, you can identify these statements by forward-looking words, such as “estimate”, “expect”, “anticipate”, “project”, “plan”, “intend”, “believe”, “forecast”, “foresee”, “likely”, “may”, “should”, “goal”, “target”, “might”, and “continue”, the negative or plural of these words and other comparable terminology.

The forward-looking statements are only predictions based on our current expectations and our projections about future events. All forward-looking statements included in this Annual Report on Form 10-K are based upon information available to us as of the filing date of this Annual Report on Form 10-K. You should not place undue reliance on these forward-looking statements. We undertake no obligation to update any of these forward-looking statements for any reason. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance, or achievements to differ materially from those expressed or implied by these statements. These factors include the matters discussed in the section entitled “Item 1A: Risk Factors” and elsewhere in this Form 10-K. You should carefully consider the risks and uncertainties described under this section.

For further information about these and other risks, uncertainties and factors, please review the disclosure included in this report under Item 1A “Risk Factors.”

---

## PART I

### Item 1. Business.

In this Report, we use the terms “Company,” “XsunX,” “we,” “us,” and “our,” unless otherwise indicated, or the context otherwise requires, to refer to XsunX, Inc.

#### 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 name change to XsunX, Inc.

#### Business Overview/Summary

XsunX specializes in the sale, design, and installation of solar photovoltaic power generation (PV), and energy saving technologies to provide our clients long term savings, predictability, and control of their energy costs. Making solar energy a good investment for our clients is our mission.

We service the commercial and residential PV markets in California providing project assessment and installation services to our customers including technology selection, system engineering, procurement, permitting, construction, grid connection, warranty, system monitoring and maintenance. We offer a wide variety of energy production and management technologies, design our systems in-house to ensure that the performance of the systems we deliver match the financial projections, and our full time project management and licensed assembly crews ensure a seamless process, from start to finish.

The Company operates as licensed contractor in California, and our executive management provides over 30 years of extensive experience in all aspects of construction and project assembly to ensure the accuracy and quality of systems, the continued integrity of the improved building or site, and compliance with all construction codes.

We guide our performance by striving to deliver consistently on the following core objectives:

Commitment – to keeping the customer’s best interests at the forefront at all times; and,

Value – through a focus on performance and follow through that meets or exceeds customer expectations.

#### Recent Developments

In the 2016 period we began to focus our marketing efforts on the sale and delivery of commercial solar carport, truckport, and covered storage canopy systems. While we believe that commercial and residential rooftop solar will continue to offer sales growth opportunities, non-residential solar canopy systems can, in many instances, provide the opportunity to offer customers diverse installation options, larger project sizing, greater electricity savings, and the ability to differentiate XsunX from competitors.

To support a competitive advantage in the solar canopy market we have established in-house capabilities to design, directly source all of the major system components, and deliver solar canopy systems allowing us to eliminate reliance on costly third party specialty subcontractors whom we believe the majority of our competitors rely on. This has allowed us to reduce our solar canopy structure installation costs by approximate 35%, and this savings in turn provides us with an average overall PV system cost reduction of approximately 15% which, we believe, provides us with a distinct pricing advantage for solar canopies within the California markets that we serve.

We plan to continue to focus the majority of our marketing efforts on the advantages offered through our solar canopy products.

#### Market Drivers for Solar Power

We believe that a significant demand for solar power energy solutions is developing as a result of following drivers:

Solar provides the ability to control and predict future energy costs. Our customers invest in the ability to self-generate power to offset and/or eliminate the purchase of third party utility provided electric energy. These investments provide predictability and control of energy costs, and can significantly reduce overall energy costs while insulating clients from rising retail electricity prices.

Maturity and dependability of solar technologies. The results and benefits from investments in solar power systems have produced extensive statistical performance data. This historical performance data allows investment benefits for near and long term future operations to be accurately estimated. This provides customers greater reliance on future results, and the confidence to make investments in solar.

Rapid capital recovery of solar investments. Reports provided by U.S. Energy Department continue to indicate that the installed price reductions for solar PV systems are driving record installation demand. These cost reductions for the major components that make up PV systems allow us to provide per watt pricing that, coupled with tax and operating benefits, can often result in capital investment recovery within 3 to 4 years.

Government Incentives. Helping to further facilitate the market for investments into solar power are Federal, State, and local government tax and investment incentives. Federal, state and local government bodies provide incentives to owners, operators, and end users of solar energy systems to promote solar energy in the form of rebates, tax credits, exclusion of solar energy systems from property tax assessments and, to a diminishing degree, other financial incentives such as system performance payments, payments for renewable energy credits associated with renewable energy generation and. These incentives help to drive customer acceptance of solar energy as an alternative to utility-provided power.

The Federal government currently offers a 30% Investment Tax Credit (“ITC”) under Section 48(a) of the Internal Revenue Code, or the ITC, for the installation of certain solar power facilities until December 31, 2016. By statute, this tax credit was scheduled to decrease to 10% on January 1, 2017, but was extended in December by Congress through 2019, after which it will fall to 26 percent in 2020, 22 percent in 2021 and 10 percent in 2022.

The investment economics for purchasing a solar energy system are also increased through its eligibility for accelerated depreciation, also known as the modified accelerated cost recovery system, or MACRS, depreciation, which allows for the depreciation of equipment according to an accelerated schedule set forth by the Internal Revenue Service. This acceleration of the investment depreciation creates a valuable tax benefit that reduces the overall cost of the solar energy system and improves the return on solar investment.

## Company Operations

### What We Do

XsunX specializes in the sale, design, and installation of solar photovoltaic power generation (PV), and energy saving technologies to provide our clients long term savings, predictability, and control of their energy costs. Making solar energy a good investment for our clients is our mission.

Our customer relationship development begins with a financial analysis providing estimated investment benefits detailing the first twenty five years of a solar power systems life span. Through this process we tailor our system designs to maximize the financial benefits and returns for each customer. Our strategy is to develop and deliver systems that can provide the client with the greatest benefits. We then focus on 100% customer satisfaction through consistently matching customer expectations with our performance, and the delivery of our systems.

The key elements of our approach include:

Lead Generation. We market our services utilizing efforts that include internet marketing, website, search engine optimization, direct mailer campaigns, and customer referrals. Our sales development efforts work with prospective customers from initial interest through tailored proposals and, ultimately, signed contracts.



Detailed Investment Analysis. We use information related to our customer's energy usage, costs, planned operations, and tax basis to determine optimal solar system and investment sizing. We combine this data and provide customers with 25 year investment projections that detail capital recovery expectations, system performance and energy savings, tax and operating benefits, and property re-sale value improvement estimates.

Financing. We have established relationships with lenders and have been approved to offer their finance options to prospective customers. Through our lender association network we offer customers financing options that include commercial equipment loans, lease options, power purchase agreements (PPA's), PACE & HERO financing through property tax assessment, and we offer clients the option to apply tax or local utility incentives towards system purchase buy-downs thereby reducing up front out of pocket expenditures or the amount of capital financed.

Design & Engineering. To ensure accuracy we perform our site surveys directly and do not rely on third party services. We then finalize designs that will match proposed financial results, and work with a highly skilled team of qualified engineers with extensive commercial solar experience to ensure compliance with all codes, and best practices for the solar system operation.

Installation. We make the installation process simple for our customers. Once we complete the design and engineering of a solar energy system, we obtain all necessary building permits. Then, as the general contractor and construction manager, we provide all materials and components and use qualified licensed contractors with commercial and solar experience to provide on-site assembly of solar systems, utility interconnections, and roofing or structural work. We manage and ensure local building department approvals, and arrange for interconnection to the power grid with the utility.

Monitoring, Maintenance, and Service. We provide our customers with real-time facility wide monitoring of solar energy generation, and facility wide energy consumption. In addition to providing clients with a better understanding of their energy usage, and the opportunity to modify their usage to realize savings, these monitoring systems allow us to confirm the continuing proper operation of installed solar energy systems. We also service what we sell and provide customers with a single source for all system maintenance or warranty coordination and service.

### Customers

The majority of our revenue comes from installations of commercial solar systems in California. Approximately 90% of our sales in 2016 were in the commercial market and approximately 10% were generated by residential sales. We anticipate that through our expanding efforts to promote the sale of our solar canopy offerings revenues for commercial sales will continue to outpace residential sales through the 2017 period.

Our commercial system sales service the needs of property owners installing systems typically larger than 20kW. However, system size and installation type can vary significantly in scope from rooftop solar only installations to solar rooftop and carport, truckport, or covered storage combined installations with integrated whole building energy management solutions. The average cycle time for commercial rooftop installs range approximately 6 to 8 weeks with solar canopies such as carports, truck ports, and covered storage requiring as much as twelve to twenty weeks due to additional permitting requirement and reviews. We help to facilitate financing options to fit the specific needs of each customer.

Our residential sales address the needs of property owners typically installing systems smaller than 15kW. The average cycle time for residential rooftop installs is approximately 6 weeks. We help to facilitate financing options to fit the specific needs of each customer.

### Sales, Marketing, and Planned Operations

We have focused our sales efforts and operations on the delivery of commercial solar power systems in the California market. We believe that our focus provides us long term benefits for brand development as a commercial solar power specialist within a market that we believe to be in the early stages of growth, and poised for a broad adoption of solar power generation.

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 operate as a contractor in California, we have extensive experience associated with solar PV technologies and the design requirements associated with the delivery of a commercial solar power system, and there is a market demand available for us to provide these services to. We believe that these efforts will provide us with the fastest path to increasing revenue generation.

In the 2016 period we began to focus our marketing efforts on the sale and delivery of commercial solar carport, truckport, and covered storage canopy systems. We have established in-house capabilities to design, directly source all of the major system components, manage the installation process, and deliver solar carport systems allowing us to

eliminate reliance on costly third party specialty subcontractors whom we believe the majority of our competitors rely on. This elimination of dependency on a “middle man” has allowed us to reduce our solar canopy structure installation costs by approximate 35%. This reduction to structure installation costs can provide us with reductions to the overall PV system cost by approximately 15% which, we believe, provides us with a distinct pricing advantage for solar canopies within the California markets that we serve.

While the commercial and residential rooftop solar will continue to offer sales growth opportunities, we believe that our focus on non-residential solar canopy systems can, in many instances, provide us with opportunities to offer customers diverse installation options, larger project sizing, greater electricity savings, and the ability to differentiate XsunX from competitors.

We plan to continue to focus our marketing efforts in the 2017 period highlighting the advantages of the solar canopy investments through efforts that include web advertising, direct outside sales, targeted direct marketing, commissioned consultants, and the referral of satisfied customers.

## Operations and Supply

We purchase major components such as solar panels, inverters, and solar module mounting hardware directly from manufacturers and supply houses. When possible, we have establish direct factory purchasing relationships. We have selected these suppliers and components based on cost, reliability, warranty coverage, ease of installation, application design and suitability, and technology advantages.

Additionally, to compete favorably we have establish relationships with lenders through which we can introduce financing options for the systems we design and install. These financing options provide an alternative cash management solution for our target customers, and a sales inducement to purchase systems.

For the foreseeable future we anticipate that we will purchase the system components for each project on an as-needed basis from suppliers at the then-prevailing prices pursuant to purchase orders issued. Due to the volatility of component pricing we do not anticipate any supplier arrangements that will contain long-term pricing or volume commitments. Should our sales results, volume, and market conditions warrant we may in the future elect to make purchase commitments to ensure sufficient supply and reduced pricing of the components that we use.

Our operations focus is to provide complete solar power project design, management of engineering, facility preparation, installation of systems, repair or restoration to all affected areas resulting from the installation process, and any ongoing maintenance agreements as may be sold. To accomplish this we use the services of licensed service professionals in each of the representative trades or specialties necessary. Additionally, we provide qualified staff to supervise project operations, inspections, and system start up and energizing. In the 2017 fiscal period we anticipate that the addition of direct delivery of solar carport systems will allow our sales to increase, and we plan to expand our direct project management capabilities through the addition of qualified field supervisory and engineering staff.

## Competition

We compete with companies that offer solar and energy saving technologies. Many of these competitors have greater resources and access to broader national markets than we do. Our primary areas of competition in the California markets we serve are on pricing, the ability to deliver designs and technology integration that match client goals, service, and the ability to arrange financing. However, when competing for solar installation projects our experience has shown that there is no clear preferred competitor in the markets in which we compete. We also compete with traditional utilities who have well-established relationships with our target customers providing the ease of a status quo relationship without upfront investment costs. The advantages we offer over traditional utilities is that we offer customers the opportunity to create their own electricity, detach from the traditional electrical grid dependency, and create profitable long term investments in energy.

## Intellectual Property

The following is an outline of certain patents and technologies we have developed, attempted to develop, have acquired, or licensed:

The Company has previously worked to develop a hybrid manufacturing solution to produce high performance Copper Indium Gallium (di) Selenide (CIGS) thin film solar cells. Our technology, which we call CIGSolar®, focuses on the mass production of individual thin-film CIGS solar cells that match silicon solar cell dimensions and could offered as a non-toxic, high-efficiency and lowest-cost alternative to the use of silicon solar cells.

In April 2012 we filed claims related to our thermal effusion source design. In October 2014 we received a Restriction Requirement from the United States Patent and Trademark Office that reports the results of the initial examination of the patent application. The examination by the USPTO asserts that the application is directed to two distinct

inventions and has issued a restriction requirement. The term “restriction” is applied where the Examiner believes that two (2) or more inventions are separately claimed in the same patent application. Thus, by issuing the restriction requirement, the Examiner is asserting that our application covers more than one invention.

After completing a review of options related to modifying our patent application, and the limited market conditions related to the demand for thin film technologies, we elected to abandon our claims. We do not anticipate any further efforts related to filing or pursuing patent claims related to our prior thin film CIGS efforts.

In September 2003, the Company was assigned the rights to three patents as part of an Asset Purchase Agreement with Xoptix Inc., a California corporation. The patents acquired were No. 6,180,871 for Transparent Solar Cell and Method of Fabrication (Device), granted on January 30, 2001; No. 6,320,117 for Transparent Solar Cell and Method of Fabrication (Method of Fabrication), granted on November 20, 2001; and No. 6,509,204 for Transparent Solar Cell and Method of Fabrication (formed with a Schottky barrier diode and method of its manufacture), granted on January 21, 2003. We do not currently employ nor envision the use of the above named patents in the development or commercialization of our CIGSolar® technology. Because of technological and business developments within the solar industry, we believe that these patents no longer provide business opportunities for the Company to pursue.

On July 10, 2012, the United States Patent and Trademark Office issued a certificate of registration No. 4,172,218 granting the Company a trademark for the use of “CIGSolar”.

We rely on trademark and copyright law, trade secret protection and confidentiality or license agreements with our employees, customers, partners and others to protect our proprietary rights. We have not been subject to any intellectual property claims.

### Company History

XsunX 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”).

Pursuant to the Plan, the Company acquired the following three patents from Xoptix, Inc., a California corporation for Seventy Million (70,000,000) shares of common stock (post reverse split one for twenty): No. 6,180,871 for Transparent Solar Cell and Method of Fabrication (Device), granted on January 30, 2001; No. 6,320,117 for Transparent Solar Cell and Method of Fabrication (Method of Fabrication), granted on November 20, 2001; and No. 6,509,204 for Transparent Solar Cell and Method of Fabrication (formed with a Schottky barrier diode and method of its manufacture), granted on January 21, 2003.

Pursuant to the Plan, the Company authorized the issuance of 110,530,000 (post reverse split) common shares. Prior to the Plan, the Company had no tangible assets and insignificant liabilities. Subsequent to the Plan, the Company completed its name change from Sun River Mining, Inc. to XsunX, Inc. The transaction was completed on September 30, 2003.

### Government Contracts

There are no government contracts as of the fiscal year ended September 30, 2016.

### Compliance with Environmental Laws and Regulations

The operations of the Company are subject to local, state and federal laws and regulations governing environmental quality and pollution control. Compliance with these regulations by the Company has required that, when necessary, we retain the use of engineering and design firms of systems related to equipment operations, and occupancy fire and safety construction standards to deal with compliance of safety standards. We do not anticipate that these costs will have a material effect on the Company’s operations or competitive position as these requirements apply to our competition as well, and the cost of such compliance is typically incorporated into projects costs. The Company is unable to assess or predict at this time what effect additional regulations or legislation could have on its activities.

To operate our systems we obtain interconnection permission from the applicable local primary electric utility. Depending on the size of the solar energy system and local law requirements, interconnection permission is provided

by the local utility. In almost all cases, interconnection permissions are issued on the basis of a standard process that has been pre-approved by the local public utility commission or other regulatory body with jurisdiction over net metering procedures. As such, no additional regulatory approvals are required once interconnection permission is given.

Our operations are subject to federal, state and local laws, including regulations governing the occupational health and safety of our employees and wage regulations. A primary area of compliance are the requirements of the federal Occupational Safety and Health Act, as amended, or OSHA, and comparable state laws that protect and regulate employee health and safety.

#### Employees and Consultants

As of the fiscal year ended September 30, 2016, we had three full-time employees including Mr. Tom Djokovich who is President and CEO. While we do add to, and reduce, the size of our workforce based on current needs this represents no full-time employee change to the same period ended 2015. To compensate our need for additional staff the Company also relies on qualified consultants and licensed professionals to perform specific functions that otherwise would require an employee. As we continue to expand our business developments efforts we may need to add staff to adequately respond to sales inquiries, project management, and general labor as warranted. We consider relations with our employees and consultants to be good.

5

---

## Seasonality

Our operations can experience some seasonality for commercial sales with increased demand early and later in in each year. We believe that this trend may be related to late year project sales stemming from clients interest in accessing same year tax benefits for solar investments, and early year sales related to fiscal budgeting for energy projects that will be installed.

## Available Information

Our website address is [www.xsunx.com](http://www.xsunx.com). Information contained on our website is not incorporated by reference into this 10-K. We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission, referred to herein as the SEC. Our SEC filings, including our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) of the Exchange Act are available to the public free of charge over the Internet at our website or at the SEC's web site at <http://www.sec.gov>. Our SEC filings will be available on our website as soon as reasonably practicable after we have electronically filed or furnished them to the SEC. You may also read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

## Item 1A. Risk Factors

An investment in our common stock involves a high degree of risk. You should carefully consider the following risk factors, as well as the other information in this Annual Report on Form 10-K, in evaluating XsunX and our business. If any of the following risks occur, our business, financial condition and results of operations could be materially and adversely affected. Accordingly, the trading price of our common stock could decline and you may lose all or part of your investment in our common stock. The risks and uncertainties described below are not the only ones we face. Additional risks that we currently do not know about or that we currently believe to be immaterial may also impair our business operations.

### We Have Not Generated Significant Revenues and Our Financial Statements Raise Substantial Doubt About Our Ability to Continue As A Going Concern.

We are in the early stages of executing our plans to grow our business through the sale, design, installation, and servicing of commercial solar power systems and, to date, have not generated any significant revenues. The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate our continuation as a going concern. Net loss for the years ended September 30, 2016 and 2015 was \$(242,866) and \$(1,320,648), respectively. Net cash used for operations was \$(171,972) and \$(207,068) for the years ended September 30, 2016 and 2015, respectively. At September 30, 2016, we had a working capital deficit of \$(725,986). We had an accumulated deficit at September 30, 2016 and 2015 of \$(42,628,436) and \$(42,385,570), respectively.

The items discussed above and herein raise substantial doubt about our ability to continue as a going concern. We cannot assure you that we can achieve or sustain profitability in the future. Our operations are subject to the risks and competition inherent in the establishment of a business enterprise. There can be no assurance that future operations will be profitable. Revenues and profits, if any, will depend upon various factors, including whether our product development can be completed, whether our products will achieve market acceptance and whether we obtain additional financing. We may not achieve our business objectives and the failure to achieve such goals would have a materially adverse impact on us.



We expect that we will need to obtain additional financing to continue to operate our business, including expenditures to expand operations for the sales, design, and installation of solar PV systems. This financing may be unavailable or available only on disadvantageous terms which could cause the use to curtail our business operations and delay the execution of our business plan.

We have in the past experienced substantial losses and negative cash flow from operations and have required financing, including equity and debt financing, in order to pursue the commercialization of products based on our technologies. We expect that we will continue to need significant financing to operate our business. Furthermore, there can be no assurance that additional financing will be available or that the terms of such additional financing, if available, will be acceptable to us. If additional financing is not available or not available on terms acceptable to us, our ability to fund our operations, successfully expand operations to include the sales, design, and installation of solar PV systems, complete the sales or development of marketable technologies, products, or services, develop a sales network, or otherwise respond to competitive pressures may be significantly impaired. We could also be forced to curtail our business operations, reduce our investments, decrease or eliminate capital expenditures and delay the execution of any portion or all of our business plans, including, without limitation, all aspects of our operations, which would have a material adverse effect on our business.

We may be required to raise additional financing by issuing new securities with terms or rights superior to those of our shares of common stock, which could adversely affect the market price of our shares of common stock and our business.

We may require additional financing to fund future operations, including expansion in current markets, development and acquisition, capital costs and the costs of any necessary implementation of technological innovations or alternative technologies. We may not be able to obtain financing on favorable terms, if at all. If we raise additional funds by issuing equity securities, the percentage ownership of our current stockholders will be reduced, and the holders of the new equity securities may have rights superior to those of the holders of shares of common stock, which could adversely affect the market price and the voting power of shares of our common stock. If we raise additional funds by issuing debt securities, which we have relied on during the year ended September 30, 2016, the holders of these debt securities could have some rights senior to those of the holders of shares of common stock, and the terms of these debt securities could impose restrictions on operations and create a significant interest and derivative expenses for us which could have a materially adverse effect on our business.

As we continue to expand our business development efforts within the solar PV system sales, design, and installation market existing electric utility industry regulations, and changes to regulations, may present technical, regulatory and economic barriers to the purchase and use of solar energy systems that may significantly reduce demand for the solar energy systems we design and market.

Federal, state and local government regulations and policies concerning the electric utility industry, and internal policies and regulations promulgated by electric utilities, heavily influence the market for electricity generation products and services. These regulations and policies often relate to electricity pricing and the interconnection of customer-owned electricity generation. In the United States, governments and utilities continuously modify these regulations and policies. Future changes to any of these regulations and policies could deter customers from purchasing renewable energy, including solar energy systems. This could result in a significant reduction in the potential demand for our solar energy systems. For example, in the 2016 year the Public Utility Commission in California approved changes to future Net Energy Metering (NEM) remuneration pricing policies for publicly regulated utilities. These changes have reduced the economic benefits derived by our target customers, and could make investments in solar power generation less desirable, thereby harming our future business, prospects, financial condition and results of operations.

In addition, any other changes to government or internal utility regulations and policies that favor electric utilities could reduce our competitiveness and cause a significant reduction in demand for our products and services.

We rely on net metering and related policies to offer competitive pricing to our target customers in our key market of California.

California has a regulatory policy known as net energy metering, or net metering. Net metering typically allows our target customers to interconnect their on-site solar energy systems to the utility grid and offset their utility electricity purchases by receiving a bill credit at the utility's retail rate for energy generated by their solar energy system in excess of electric load that is exported to the grid. At the end of the billing period, the customer simply pays for the net energy used or receives a credit at the retail rate if more energy is produced than consumed.

In 2016 the California Public Utilities Commission adopted new policies known as NEM 2.0 as a successor net energy feed in regulation to NEM 1.0 which is currently required to provide net metering to their customers until the total generating capacity of net metered systems exceeds 5% of the utilities' "aggregate customer peak demand." NEM 2.0 eliminates caps on solar installations within utility territories through 2019. However, customers applying for NEM interconnection with utilities will now be required to pay one-time interconnection fees between \$75 to \$150 dollars, pay an estimated 2-3¢/kWh "non-bypassable charge" thereby effectively reducing the ability for daytime retail rate

credits to offset 100% of costs incurred when purchasing power from the utility in the evenings, and NEM customers will be required to move to Time Of Use (TOU) rate plans.

Our ability to sell solar energy systems, or the benefits of the electricity they generate, may be adversely impacted by these changes reducing net metering economics for our customers, or the imposition of any new charges that only or disproportionately impact customers that utilize net metering. Our ability to sell solar energy systems or the benefits of the electricity they generate may also be adversely impacted by the unavailability of expedited or simplified interconnection for grid-tied solar energy systems or any limitation on the number of customer interconnections or amount of solar energy that utilities are required to allow in their service territory or some part of the grid.

We anticipate that we will continue to substantially rely on net metering to establish competitive pricing for our solar PV system sales with our prospective customers. The future absence of net metering for customer acquisition, without other product pricing reductions, could greatly limit demand and our ability to effectively market our solar energy system benefits.

As we continue to expand our business development efforts within the solar PV system sales, design, and installation market these business operations will depend on the availability of rebates, tax credits and other financial incentives. The expiration, elimination or reduction of these rebates, credits and incentives would adversely impact our planned business expansion.

U.S. federal, state and local government bodies provide incentives to end users, distributors, system integrators and manufacturers of solar energy systems to promote solar electricity in the form of rebates, tax credits and other financial incentives such as system performance payments and payments for renewable energy credits associated with renewable energy generation. We rely on these governmental rebates, tax credits and other financial incentives to market the low cost operating and investment benefits of solar PV systems to our target customers. However, these incentives may expire on a particular date, end when the allocated funding is exhausted, or be reduced or terminated as solar energy adoption rates increase. Certain reductions or terminations could occur without warning.

The Federal government currently offers a 30% Investment Tax Credit (“ITC”) under Section 48(a) of the Internal Revenue Code, or the ITC, for the installation of certain solar power facilities until December 31, 2016. By statute, this tax credit was scheduled to decrease to 10% on January 1, 2017, but was extended in December by Congress through 2019, after which it will fall to 26 percent in 2020, 22 percent in 2021 and 10 percent in 2022.

A material drop in the retail price of utility-generated electricity or electricity from other sources would harm our business development efforts for the sale of solar PV systems and cause a material adverse effect to our future financial condition and results of operations.

Our target customer’s decision to invest in renewable energy through us will be primarily driven by their desire to pay less for electricity. The customer’s decision may also be affected by the cost of other renewable energy sources. Decreases in the retail prices of electricity from the utilities or from other renewable energy sources would harm our ability to offer competitive alternatives and could harm our business. The price of electricity from utilities could decrease as a result of any number of market conditions including:

- the construction of a significant number of new power generation plants, including nuclear, coal, natural gas or renewable energy technologies, and;
- a reduction in the price of natural gas as a result of new drilling techniques or a relaxation of associated regulatory standards;

A reduction in utility electricity prices would make the investment by our target customers into the solar PV systems less economically attractive. In addition, a shift in the timing of peak rates for utility-generated electricity to a time of day when solar energy generation is less efficient could make our solar energy system offerings less competitive and reduce demand for our products and services. If the retail price of energy available from utilities were to decrease due to any of these reasons, or others, we would be at a competitive disadvantage, we may be unable to attract customers and our growth would be limited.

A material drop in the retail price of utility-generated electricity would particularly adversely impact our ability to attract commercial customers which represent our target customer base.

We anticipate that commercial customers will comprise a significant portion of our business, and the commercial market for energy is particularly sensitive to price changes. Typically, commercial customers pay less for certain aspects of delivered energy from utilities than residential customers. Any future decline in the retail rate of energy for commercial entities could have a significant impact on our ability to attract commercial customers. We may be unable to offer solar energy systems for the commercial market that produce electricity at rates that are competitive with the price of retail electricity on a non-subsidized basis. If this were to occur, we would be at a competitive disadvantage to

other energy providers and may be unable to attract new commercial customers, and our future business operations would be harmed.

Rising interest rates could adversely impact all aspects of current and planned business operations.

Changes in interest rates could have an adverse impact on our business by increasing the cost of capital for our target customers. For example rising interest rates, or tightening credit requirements, may negatively impact our ability to provide financing sources on favorable terms to facilitate our customers' purchase of our solar PV systems.

8

---

As we continue to expand our business development efforts within the solar PV system sales, design, and installation market we will continue to act as the licensed general contractor for our customers and will be subject to risks associated with construction, cost overruns, delays, regulatory compliance and other contingencies, any of which could have a material adverse effect on our business and results of operations.

We intend to, and are required to, operate as a licensed contractor in every region we service, and we will be responsible for every customer installation. For our commercial solar PV system projects, we are the general contractor and construction manager, and we will typically rely on licensed subcontractors representing specialty trades such as electrical, concrete, grading, roofing, and carpentry to install the commercial systems we sell. We may be liable to customers for any damage we cause to their facility, belongings or property during the installation of our systems. In addition, any shortages that may occur of skilled subcontractor labor for our projects could significantly delay a project or otherwise increase our costs. Because our profit on a particular installation will be based in part on assumptions as to the cost of such project, cost overruns, delays or other execution issues may cause us to not achieve our expected margins or cover our costs for that project.

In addition, the installation of solar energy systems and the evaluation and modification of buildings or surrounding land that may be necessary as part of our business is subject to oversight and regulation in accordance with national, state and local laws and ordinances relating to building codes, safety, environmental protection, utility interconnection and metering, and related matters. Any new government regulations or utility policies pertaining to the systems we design and install may result in significant additional expenses to us and our future customers and, as a result, could cause a significant reduction in demand for our systems and services.

Compliance with occupational safety and health requirements and best practices can be costly, and noncompliance with such requirements may result in potentially significant monetary penalties, operational delays and adverse publicity.

The installation of solar energy systems will require our employees and any subcontractors that we engage to work at heights with complicated and potentially dangerous electrical systems. The evaluation and modification of buildings that may be necessary as part of our business may require our employees to work in locations that may contain potentially dangerous levels of asbestos, lead or mold. Our operations are subject to regulation under the U.S. Occupational Safety and Health Act, or OSHA, and equivalent state laws. Changes to OSHA requirements, or stricter interpretation or enforcement of existing laws or regulations, could result in increased costs. If we fail to comply with applicable OSHA regulations, even if no work-related serious injury or death occurs, we may be subject to civil or criminal enforcement and be required to pay substantial penalties, incur significant capital expenditures, or suspend or limit operations.

As we continue to expand our business development efforts within the solar PV system sales, design, and installation market future problems with product quality or performance may cause us to incur warranty expenses, and may damage our market reputation and cause our financial results to decline.

Customers in our target market of California who purchase solar energy systems are covered by a warranty of up to 10 years in duration for material defects and workmanship. In addition, we provide a pass-through warranty of the major components such as module mounting, inverter, and solar panel manufacturers' to our customers, which generally range from 10 to 25 years. We may also make extended warranties available at an additional cost to customers.

As we continue to expand our business development efforts within the solar PV system installation market we may be required to make assumptions and apply judgments regarding a number of factors, including our anticipated rate of warranty claims, and the durability, performance and reliability of the components employed in the assembly of solar energy systems. The Company has a limited history of project installations and will access potential warranty costs, and other allowances, based on our experience in servicing warranty claims as they may arise in the future.

If products and technologies that we market or products based on technologies we are developing cannot be developed for manufacture and sold commercially or our products or the products we market become obsolete or noncompetitive, we may be unable to recover our investments or achieve profitability which will have a materially adverse effect on our business.

There can be no assurance that any of the products that we will market that comprise the solar PV systems we offer will gain or maintain market acceptance, or our limited research and development efforts will be successful or that we will be able to develop commercial applications for our products and technologies. Further, the areas in which we have developed technologies and products are characterized by rapid and significant technological change. Rapid technological development may result in our products becoming obsolete or noncompetitive. If products based on our technologies cannot be developed for manufacture and sold commercially or our products become obsolete or noncompetitive, we may be unable to recover our investments or achieve profitability. In addition, any commercialization schedule may be delayed if we experience delays in meeting development goals, if products based on our technologies exhibit technical defects, or if we are unable to meet cost or performance goals. In this event, potential purchasers of products based on our technologies may choose alternative technologies and any delays could allow potential competitors to gain market advantages.

9

---

There is no assurance that the market will accept the products that we offer which could have an adverse effect on our business.

There can be no assurance that products we market or products based on technologies that we may develop will be perceived as being superior to existing products or new products offered or being developed by competing companies or that such products will otherwise be accepted by consumers. The market prices for our products and services may exceed the prices of competitive products based on existing technologies or new products based on technologies currently under development by competitors. There can be no assurance that the prices of products we offer, or the technologies of others that we market will be perceived by consumers as cost-effective or that the prices of such products will be competitive with existing products or with other new products or technologies. If consumers do not accept products based on our technologies, we may be unable to recover our investments or achieve profitability.

There is no assurance that the market will accept our continued efforts to offer design, engineering, and installation services for solar electric PV systems which could have an adverse effect on our business.

The market for sales and installation of solar electric PV systems is highly competitive with limited barriers to entry by potential competitors. There can be no assurance that the products and services we will offer will be perceived as being superior or a better value to other similar products and services offered by competing companies or that such products will otherwise be accepted by consumers. If consumers do not accept our design, engineering, and installations services at the pricing we offer we may be unable to recover our investments, make sales of any significance, or achieve profitability.

Other companies, many of which have greater resources than we have, may develop or offer competing products or technologies which cause products and services we market to become noncompetitive which could have an adverse effect on our business.

We have and will continue to compete with firms, both domestic and foreign, that perform research and development, as well as firms that sell or install solar products. In addition, we expect additional potential competitors to enter the markets for solar products and installation services in the future. Some of these competitors are large companies with longer operating histories, greater name recognition, access to larger customer bases, well-established business organizations and product lines and significantly greater resources and research and development staff and facilities. There can be no assurance that one or more such companies will not succeed in developing technologies or products that will become available for commercial sale prior to our products, that will have performance superior to products based on our technologies or that would otherwise render our products noncompetitive. If we fail to compete successfully, our business would suffer and we may lose or be unable to gain market share.

The loss of strategic relationships used in provisioning the products that comprise the solar PV systems that we offer could impede our ability to offer competitive solar PV system products or further the development of our products and have a material adverse effect on our business.

We have established a plan of operations under which a significant portion of our operations will rely on strategic relationships with third parties to provide materials and components necessary for the assembly of solar PV systems. A loss of any of our third party relationships for any reason could cause us to experience difficulties in implementing our business strategy. There can be no assurance that we could establish other relationships of adequate expertise in a timely manner or at all.

We may suffer the loss of key personnel or may be unable to attract and retain qualified personnel to maintain and expand our business which could have a material adverse effect on our business.



Our success is highly dependent on the continued services of a limited number of skilled managers, technicians, and access to qualified consultants and licensed subcontractors. The loss of any of these individuals or resources will have a material adverse effect on us. In addition, our success will depend upon, among other factors, the recruitment and retention of additional highly skilled and experienced management and technical personnel. There can be no assurance that we will be able to retain existing employees or to attract and retain additional personnel on acceptable terms given the competition for such personnel in solar PV market.

We may not be successful in protecting our intellectual property and proprietary rights and may be required to expend significant amounts of money and time in attempting to protect these rights. If we are unable to protect our intellectual property and proprietary rights, our competitive position in the market could suffer.

Our current intellectual property consists of trade secrets, and trade dress. Our success depends in part on our ability to create and maintain intellectual property to differentiate our services, how we provision our services, the ability to obtain patents as either business processes or technology development mature, and maintain adequate protection of our other intellectual, property for our technologies and products in the U.S.

Our future commercial success may require us not to infringe on patents and proprietary rights of third parties, or breach any licenses or other agreements that we have entered into with respect to the products that we market, our technologies, products and businesses. The enforceability of patent positions cannot be predicted with certainty. We have in the past applied for patents covering certain aspects of the technology we have developed and we may elect to file additional patents, if any, as we deem appropriate. Patents, if issued, may be challenged, invalidated or circumvented. There can be no assurance that no other relevant patents have been issued that could block our ability to obtain patents or to operate as we would like. Others may develop similar technologies or may duplicate technologies developed by us.

We are not currently a party to any litigation with respect to any of our patent positions or trade secrets. However, if we become involved in litigation or interference proceedings declared by the United States Patent and Trademark Office, or other intellectual property proceedings outside of the U.S., we might have to spend significant amounts of money to defend our intellectual property rights. If any of our competitors file patent applications or obtain patents that claim inventions or other rights also claimed by us, we may have to participate in interference proceedings declared by the relevant patent regulatory agency to determine priority of invention and our right to a patent of these inventions in the U.S. Even if the outcome is favorable, such proceedings might result in substantial costs to us, including, significant legal fees and other expenses, diversion of management time and disruption of our business. Even if successful on priority grounds, an interference proceeding may result in loss of claims based on patentability grounds raised in the interference proceeding. Uncertainties resulting from initiation and continuation of any patent or related litigation also might harm our ability to continue our research or to bring products to market.

An adverse ruling arising out of any intellectual property dispute, including an adverse decision as to the priority of our inventions would undercut or invalidate our intellectual property position. An adverse ruling also could subject us to significant liability for damages, prevent us from using certain processes or products, or require us to enter into royalty or licensing agreements with third parties. Furthermore, necessary licenses may not be available to us on satisfactory terms, or at all.

Confidentiality agreements with employees and others may not adequately prevent disclosure of trade secrets and other proprietary information.

To protect our proprietary business methods, technologies and processes, we rely on trade secret protection and we have also sought formal legal devices such as patents. Although we have taken security measures to protect our trade secrets and other proprietary information, these measures may not provide adequate protection for such information. Our policy is to execute confidentiality and proprietary information agreements with each of our employees and consultants upon the commencement of an employment or consulting arrangement with us. These agreements generally require that all confidential information developed by the individual or made known to the individual by us during the course of the individual's relationship with us be kept confidential and not be disclosed to third parties. These agreements also generally provide that technology conceived by the individual in the course of rendering services to us shall be our exclusive property. Even though these agreements are in place there can be no assurances that that trade secrets and proprietary information will not be disclosed, that others will not independently develop substantially equivalent proprietary information and techniques or otherwise gain access to our trade secrets, or that we can fully protect our trade secrets and proprietary information. Violations by others of our confidentiality agreements and the loss of employees who have specialized knowledge and expertise could harm our competitive position and cause our sales and operating results to decline as a result of increased competition. Costly and time-consuming litigation might be necessary to enforce and determine the scope of our proprietary rights, and failure to obtain or maintain trade secret protection might adversely affect our ability to continue our research or bring products to market.

Downturns in general economic conditions could adversely affect our ability to attract customers and our potential for future profitability.

Downturns in general economic conditions can cause fluctuations in demand for any products we may offer, product prices, volumes and margins. Economic conditions may at any time not be favorable to our industry. A decline in the demand for our products and services or a shift to lower-margin products due to deteriorating economic conditions could adversely affect sales of our intended products and our profitability and could also result in impairments of certain of our assets.

Standards for compliance with section 404 of The Sarbanes-Oxley Act Of 2002 are subject to change, and if we fail to comply in a timely manner, our business could be harmed and our stock price could decline.

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 rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report. The standards that must be met for management to assess the internal control over financial reporting as effective are new and complex, and require significant documentation, testing and possible remediation to meet the detailed standards and will impose significant additional expenses on us. We may encounter problems or delays in completing activities necessary to make an assessment of our internal control over financial reporting. If we cannot assess our internal control over financial reporting as effective, investor confidence and share value may be negatively impacted.

11

---

Our common stock is considered a “Penny Stock” and as a result, related broker-dealer requirements affect its trading and liquidity.

Our common stock is considered to be a “penny stock” since it meets one or more of the definitions in Rules 15g-2 through 15g-6 promulgated under Section 15(g) of the Exchange Act. These include but are not limited to the following: (i) the common stock trades at a price less than \$5.00 per share; (ii) the common stock is not traded on a “recognized” national exchange; (iii) the common stock is not quoted on the NASDAQ Stock Market, or (iv) the common stock is issued by a company with average revenues of less than \$6.0 million for the past three (3) years. The principal result or effect of being designated a “penny stock” is that securities broker-dealers cannot recommend our Common Stock to investors, thus hampering its liquidity.

Section 15(g) and Rule 15g-2 require broker-dealers dealing in penny stocks to provide potential investors with documentation disclosing the risks of penny stocks and to obtain a manually signed and dated written receipt of the documents before effecting any transaction in a penny stock for the investor’s account. Potential investors in our Common Stock are urged to obtain and read such disclosure carefully before purchasing any of our shares.

Moreover, Rule 15g-9 requires broker-dealers in penny stocks to approve the account of any investor for transactions in such stocks before selling any penny stock to that investor. This procedure requires the broker-dealer to (i) obtain from the investor information concerning his or her financial situation, investment experience and investment objectives; (ii) reasonably determine, based on that information, that transactions in penny stocks are suitable for the investor and that the investor has sufficient knowledge and experience as to be reasonably capable of evaluating the risks of penny stock transactions; (iii) provide the investor with a written statement setting forth the basis on which the broker-dealer made the determination in (ii) above; and (iv) receive a signed and dated copy of such statement from the investor, confirming that it accurately reflects the investor’s financial situation, investment experience and investment objectives.

The trading market in our common stock is limited and may cause volatility in the market price.

Our common stock is currently traded on a limited basis on the OTC. The OTC is an inter-dealer, over-the-counter market that provides significantly less liquidity than the NASDAQ Stock Market and the other national markets. Quotes for stocks included on the OTC are not listed in the financial sections of newspapers as are those for the NASDAQ Stock Market. Therefore, prices for securities traded solely on the OTC may be difficult to obtain.

The quotation of our common stock on the OTC does not assure that a meaningful, consistent and liquid trading market currently exists, and in recent years such market has experienced extreme price and volume fluctuations that have particularly affected the market prices of many smaller companies like us. Thus, the market price for our common stock is subject to volatility and holders of common stock may be unable to resell their shares at or near their original purchase price or at any price. In the absence of an active trading market:

- investors may have difficulty buying and selling or obtaining market quotations;

- market visibility for our common stock may be limited; and

- a lack of visibility for our common stock may have a depressive effect on the market for our common stock.

Due to the low price of the securities, many brokerage firms may not be willing to effect transactions in the securities. Even if a purchaser finds a broker willing to effect a transaction in these securities, the combination of brokerage commissions, state transfer taxes, if any, and any other selling costs may exceed the selling price. Further, many lending institutions will not permit the use of such securities as collateral for any loans. Such restrictions could have a materially adverse effect on our business.

We may have difficulty raising necessary capital to fund operations as a result of market price volatility for our shares of common stock.

The market price of our common stock is likely to be highly volatile and could fluctuate widely in price in response to various factors, many of which are beyond our control, including:

• technological innovations or new products and services by us or our competitors;

• additions or departures of key personnel;

• sales of our common stock;

• our ability to integrate operations, technology, products and services;

12

---

our ability to execute our business plan;

operating results below expectations;

loss of any strategic relationship;

industry developments;

economic and other external factors; and

period-to-period fluctuations in our financial results.

Because we have a limited operating history with limited revenues to date, you may consider any one of these factors to be material. Our stock price may fluctuate widely as a result of any of the above listed factors. In recent years, the securities markets in the United States have experienced a high level of price and volume volatility, and the market price of securities of many companies have experienced wide fluctuations that have not necessarily been related to the operations, performances, underlying asset values or prospects of such companies. For these reasons, our shares of common stock can also be expected to be subject to volatility resulting from purely market forces over which we will have no control. If our business development plans are successful, we will require additional financing to continue to develop and exploit existing and new technologies and to expand into new markets. The exploitation of our technologies may, therefore, be dependent upon our ability to obtain financing through debt, equity or other means.

#### Item 1B. Unresolved Staff Comments

As of the date of this Annual Report on Form 10-K, there are no unresolved staff comments regarding our previously filed periodic or current reports under the Securities Exchange Act of 1934, as amended.

#### Item 2. Properties

##### California Corporate Office Lease

As of September 30, 2016 the Company leases corporate facilities located in Aliso Viejo, CA. The lease for the Aliso Viejo location is month to month at a rate of \$200 per month. The Company may expand into larger facilities to support expanding operations in the 2017 fiscal period.

The Company owns no real property.

#### Item 3. Legal Proceedings

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

#### Item 4. Mining and Safety Disclosures

Not applicable



## PART II

## Item 5. Market for Registrant's Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities

## Price Range of Common Stock

The Company's common stock trades on the OTC Market under the symbol "XSUNX". The range of high, low and close quotations for the Company's common stock by fiscal quarter within the last two fiscal years, as reported by the OTC Markets, was as follows:

Year Ended September 30, 2016	High	Low	Close
First Quarter ended December 31, 2015	0.0085	0.0048	0.0060
Second Quarter ended March 31, 2016	0.0075	0.0035	0.0044
Third Quarter ended June 30, 2016	0.0480	0.0021	0.0031
Fourth Quarter ended September 30, 2016	0.0030	0.0002	0.0012
Year Ended September 30, 2015			
First Quarter ended December 31, 2014	0.009	0.0047	0.0051
Second Quarter ended March 31, 2015	0.029	0.0051	0.0125
Third Quarter ended June 30, 2015	0.014	0.0090	0.0109
Fourth Quarter ended September 30, 2015	0.011	0.0061	0.0082

The market price for our common stock, like that of other service companies, is highly volatile and is subject to fluctuations in response to variations in our operating results, announcements related to technological innovation or business development, or other events and factors. Our stock price may also be affected by broader market trends unrelated to our performance.

The above quotations reflect inter-dealer prices, without retail mark-up, mark-down, or commission and may not necessarily represent actual transactions.

## Number of Holders

As of September 30, 2016, there were approximately 298 record holders of the Company's common stock, not counting shares held in "street name" brokerage accounts, which account for an approximate 16,000 additional stock holders. As of September 30, 2016, there were 783,080,479 shares of common stock outstanding on record with the Company's stock transfer agent, Island Stock Transfer. On September 30, 2016 the last reported sales price of our common stock on the OTC Market was approximately \$0.0012 per share.

## Transfer Agent

Our transfer agent is Island Stock Transfer located at 15500 Roosevelt Boulevard, Suite 301, Clearwater, Florida 33760, Office phone: 727-289-0010| Fax: 727-289-0069

## Dividends

The Company has not declared or paid any cash dividends on its common stock and does not anticipate paying dividends for the foreseeable future.

## Stock Option Plan



On May 20, 2014, the Company adopted the 2014 XSUNX, Inc. Stock Option and Award Plan (the “Plan”) to enable the Company to obtain and retain the services of the types of Employees, Consultants and Directors who will contribute to the Company’s long range success and to provide incentives which are linked directly to increases in share value which will inure to the benefit of all stockholders of the Company. Options granted under the Plan may be either Incentive Options or Nonqualified Options and shall be administered by the Company’s Board of Directors (“Board”). Each Option shall be exercisable to the nearest whole share, in installments or otherwise, as the respective Option agreements may provide. Notwithstanding any other provision of the Plan or of any Option agreement, each Option shall expire on the date specified in the Option agreement. A total of 50,000,000 shares of common stock are authorized under the Plan, of which 1,500,000 options were issued and outstanding under the Plan at September 30, 2016.

#### Stock Compensation, Issuance of Stock Purchase Options

During the year ended September 30, 2016 the Company did not grant or issue any stock purchase options.

14

---

#### Recent Sales of Securities (Registered and Unregistered)

During the year ended September 30, 2016, the Company made the following unregistered issuances at fair value in the aggregate amount of 78,161,822 shares of common stock upon the conversion by the holder of a convertible note as follows:

The Company issued 78,161,822 shares of common stock at prices ranging from \$0.00205 to \$0.00075 upon conversion of the aggregate amount of \$114,705 dollars of principal and accrued interest to the holder of a 10% convertible note.

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.

#### Use of Proceeds from the Sale of Securities

The proceeds from the above sales of securities were used primarily to fund efforts by the Company to develop business operations for the sale of commercial solar power systems, and in the day-to-day operations of the Company and to pay the accrued liabilities associated with these operations.

#### 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 specializes in the sale, design, and installation of solar photovoltaic power generation (PV), and energy saving technologies to provide our clients long term savings, predictability, and control of their energy costs. Making solar energy a good investment for our clients is our mission.

We service the commercial and residential PV markets in California providing project assessment and installation services to our customers including technology selection, system engineering, procurement, permitting, construction, grid connection, warranty, system monitoring and maintenance. We offer a wide variety of energy production and management technologies, design our systems in-house to ensure that the performance of the systems we deliver match the financial projections, and our full time project management and licensed assembly crews ensure a seamless process, from start to finish.

The Company operates as licensed contractor in California, and our executive management provides over 30 years of extensive experience in all aspects of construction and project assembly to ensure the accuracy and quality of systems, the continued integrity of the improved building or site, and compliance with all construction codes.

We guide our performance by striving to deliver consistently on the following core objectives:

Commitment – to keeping the customer’s best interests at the forefront at all times; and,

Value – through a focus on performance and follow through that meets or exceeds customer expectations.

#### Plan of Operations

For the fiscal year ending September 30, 2017, the Company has developed a plan of operations focused on the sale, design, and installation of solar power systems as a licensed contractor in California.

Our Plan of Operations, based upon the aforementioned activities, requires approximately \$360,000 to support sales and marketing efforts, \$955,000 for general and administrative activities to support operations, and \$235,000 to support project bid and field management costs. These costs are attributable to the marketing, sales, planning, and supervision costs associated with solar power system installations. However the cash flow requirements associated with these efforts may continue to exceed cash generated from operations in the current and future periods. If we are unable to develop sufficient solar power system installation sales or profitability through solar power system sales 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.

Results of Operations for the Fiscal Year Ended September 30, 2016 Compared to Fiscal Year Ended September 30, 2015.

#### Revenue and Cost of Sales:

The Company generated revenues of \$750,556 and \$1,215,632 in the fiscal years ended September 30, 2016, and 2015. The \$750,656 in revenue, representing a decrease of \$465,076, during the fiscal period ended September 30, 2016 was primarily due to the use of sales resources to further develop our capabilities for the sale of our newly launched solar carport and canopy offerings, and late year projects that, due to prolonged permitting processes for solar canopies, could not be started in the 2016 fiscal period. The costs of goods sold in the fiscal years ended September 30, 2016 and 2015 were \$474,030 and \$912,404, respectively. The Company to date has had minimal revenue and cost of sales. Management expects to continue to generate revenues, and is working to increase sales as it matures the scope of the Company’s capabilities and brand awareness.

#### Selling, General and Administrative Expenses:

Selling, General and Administrative (SG&A) expenses decreased by \$38,021 during the fiscal year ended September 30, 2016 to \$482,779 as compared to \$520,800 for the prior fiscal year ended September 30, 2015. The decrease in SG&A expenses was related primarily due to the Company experiencing a reduction to the administrative costs associated with the delivery of sold projects. Management expects SG&A expenses to increase in future periods as the Company continues to expand its marketing, sales, and service efforts.

Other Income/(Expenses)

Other income/(expenses) decreased by \$1,063,417 to \$(35,009) for the fiscal year ended September 30, 2016, compared to \$(1,098,426) for the prior fiscal year ended September 30, 2015. The decrease was the result of a decrease in interest expense in the amount of \$112,342, which includes amortization of debt discount of \$68,852, a net decrease in loss on conversion and change of fair value of the derivative instruments of \$958,164, a decrease in gain on write-off of accounts payable of \$41,669, an increase in gain on sale of assets in the amount of \$12,249, a decrease in penalties in the amount of \$250, and a decrease to commitment fees in the amount of \$22,081. The decrease in other income/(expenses) was due to the Company using less financing through the issuance of convertible promissory notes.

16

---

#### Net Loss:

For the fiscal year ended September 30, 2016, our net loss was \$(242,866) as compared to a net loss of \$(1,320,648) for the fiscal year ended September 30, 2015. The decrease in net loss of \$(1,077,782) primarily stems from the decrease in other income (expenses) associated with the derivative instruments, and an overall decrease in operating expenses, with a decrease in gross profit due to a decrease in revenue. 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, 2016 of \$(725,986), as compared to a working capital deficit of \$(884,516) as of September 30, 2015. The decrease of \$158,530 in working capital deficit was the result of an increase in contract receivables, accounts payable, accrued expenses, billing in excess of cost, and related party promissory note, with a decrease in cash, prepaid expenses, deferred revenue, derivative liability and convertible notes. The Company had revenue during the current period, and a reduction in derivative liability associated with the convertible notes.

For the fiscal year ended September 30, 2016, our cash flow used by operating activities was \$171,972, as compared to cash flow used by operating activities of \$207,068 for the prior fiscal year ended September 30, 2015. The decrease in cash flow used of \$35,096 by operating activities was primarily due to a net change in net loss associated with the overall decrease in selling and general and administrative expenses.

Cash flow provided by investing activities was \$15,374 and \$0 for the fiscal year ended September 30, 2016 and 2015. The increase of \$15,374 in investing activities was primarily due to proceeds received from the sale of certain assets, with an offset of fixed assets purchased in the current fiscal year.

Cash flow provided by financing activities was \$100,000 for the fiscal year ended September 30, 2016, as compared to cash provided by financing activities of \$235,000 during the fiscal year ended September 30, 2015. The decrease in cash flow provided by financing activities was the result of a decrease in the Company's reliance on cash provided through equity financing. Our capital needs have primarily been met from the revenue and proceeds of private placements, and the sale of convertible notes. There is no assurance that our revenue will exceed our operating cost.

For the fiscal year ending September 30, 2016, the Company has developed a plan of operations focused on the sale, design, and installation of solar power systems as a licensed contractor in California.

Our Plan of Operations, based upon the aforementioned activities, requires approximately \$360,000 to support sales and marketing efforts, \$955,000 for general and administrative activities to support operations, and \$235,000 to support project bid and field management costs. These costs are attributable to the marketing, sales, planning, and supervision with costs associated with solar power system installations. However the cash flow requirements associated with these efforts may continue to exceed cash generated from operations in the current and future periods. If we are unable to develop sufficient solar power system installation sales or profitability through solar power system sales 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

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to impairment of property, equipment, intangible assets, deferred tax assets and fair value computation using the Black Scholes option pricing model. We base our estimates on historical experience and on various other assumptions, such as the trading value of our common stock and estimated future undiscounted cash flows, that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions; however, we believe that our estimates, including those for the items-described herein, are reasonable.

17

---

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, 2016, and 2015, were \$4,650 and \$14,729, respectively.

Revenue Recognition

Revenue and related costs on construction contracts are recognized using the “percentage of completion method” of accounting in accordance with ASC 605-35, Accounting for Performance of Construction-Type and Certain Production Type Contracts (“ASC 605-35”). Under this method, contract revenues and related expenses are recognized over the performance period of the contract in direct proportion to the costs incurred as a percentage of total estimated costs for the entirety of the contract. The Company made a change in estimating recognized revenue during the current year, whereby, the Company no longer requires contracts have 10% completion before revenue is recognized. Revenue is recognized based on the percentage of cost incurred. Costs include all direct materials, subcontractor costs, direct labor and those indirect costs related to contract performance, such as indirect labor, supplies, project planning and preparation, tools and repairs. All un-allocable indirect costs and corporate general and administrative costs are charged to the periods as incurred. However in the event a loss on a contract is foreseen, the Company will recognize the loss as it is determined.

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

The Asset, “Costs in excess of billing” represents revenues recognized in excess of amounts billed on contracts in progress. The Liability, “Billing in excess of costs”, represents billings in excess of revenues recognized on contracts in progress. At September 30, 2016, the cost in excess of billing was \$10,126 and the billing in excess of costs was \$41,454.

Contract receivables are recorded on contracts for amounts currently due based upon progress billings, as well as any retentions, which are collectible upon completion of the contracts. Accounts payable to material suppliers and subcontractors are recorded for amounts currently due based upon work completed or materials received, as are retention due subcontractors, which are payable upon completion of the contract. General and administrative expenses are charged to operations as incurred and are not allocated to contract costs.

Use of Estimates

In accordance with accounting principles generally accepted in the United States, management utilizes estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. These estimates and assumptions relate to recording net revenue, collectability of accounts receivable, useful lives and impairment of tangible and intangible assets, accruals, income taxes, inventory or pre-paid realization, stock-based compensation expense and other factors. Management believes it has exercised reasonable judgment in deriving these estimates. Consequently, a



change in conditions could affect these estimates.

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 in United States dollars. 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.

18

---

## 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 not discovered a material weakness in our closing process for account reconciliations. The Company is working to improve the effectiveness of the closing process, and as we expand operations additional staff will be added to implement separation of duties, and to improve controls as well.

#### 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, 2016 based on the framework set forth in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission 2013 ("COSO") that has been modified to more appropriately reflect the current limited operational scope of the 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 internal control weakness.

During the Company's fiscal year ended September 30, 2016, 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 2013, 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, 2016. 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 August 18, 2016 XsunX, Inc. (the "Company") received an advance of \$35,000 under a 10% unsecured convertible promissory note (the "Note") issued on November 20, 2014 for the principal sum of up to \$400,000 plus accrued interest on any advanced principal funds. On August 3, 2016 the Company issued 24,290,776 shares of common upon conversion of \$16,000 of principal and \$2,218 in accrued interest by the holder of the Note. The securities above were offered and sold pursuant to an exemption from the registration requirements under Section 4(a) 2 of the Securities Act since, among other things, the transactions did not involve a public offering.

## 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, 2015:

Name	Age	Position Held	Tenure
Tom Djokovich	59	CEO, President, Director, Secretary, and acting Principal Accounting Officer	CEO and Director since October 2003, Secretary & PAO since September 2009, President since January 2013
Thomas Anderson	51	Director	Since August 2001
Oz Fundingsland	73	Director	Since November 2007
Michael Russak	69	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 10 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.