XSUNX INC
Form 10-K
December 29, 2011

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, 2011

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 x

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 o NO x

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Date File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months. Yes o NOo

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. o

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 S 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 o NO x

As of March 31, 2011, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately $16,378,994 million based on the closing price as reported on the OTCBB.

As of December 29, 2011, there were 231,998,637 shares of the registrant's company stock outstanding.

XSUNX, INC.

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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”, “will”, “could”, “predict” and “ 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

XsunX, Inc. is developing and has begun to market a hybrid manufacturing solution to produce high performance Copper Indium Gallium (di) Selenide (CIGS) thin film solar cells. Our patent pending processing technology, which we call CIGSolar™, focuses on the mass production of individual thin-film CIGS solar cells that match silicon solar cell dimensions and can be offered as a non-toxic, high-efficiency and lowest-cost alternative to the use of silicon solar cells. We intend to offer licenses for the use of the CIGSolar™ process technology thereby generating revenue streams through licensing fees and manufacturing royalties for the use of the technology.

Technology Overview

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

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

There are five (5) core process tools that when combined will produce 156mm format (about 6” square) solar cells. We believe that it will be the ability of our system to minimize processing defects while maintaining exceptional per hour production rates that will provide superior commercial opportunities. CIGSolar™ cells will be manufactured on stainless steel squares sized to match silicon solar cells currently used in nearly 75% of all solar modules manufactured today.

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

CIGS Thin Film Solar Devices

Copper Indium Gallium (di) Selenide (CIGS) exceeds all other thin film solar cell performance to date delivering nearly 20% conversions in laboratory environments. It is this high efficiency low cost potential for CIGS, and its wide array of potential uses and applications, that we believe provides the basis to drive the cost of energy production for alternative sources to unprecedented new lows. For this reason many major research institutes and agencies worldwide view CIGS as a significant solar technology and support continuous development and research efforts related to CIGS thin films.

We believe that through the successful combination of small area co-evaporation processing techniques with the high rate sputter processing techniques, overall factory yields (total watts of production per day) can be increased thereby resulting in lower production costs while still delivering the full energy and low cost potential that CIGS based devices can offer.

CIGS Experience

Our staff experience includes nearly 17years of thin film and CIGS experience in successful technology development, equipment design, and production of several million square feet CIGS products in a commercial production setting. Our Chief Technology Officer has worked side by side with leading researchers at NREL and in fact shares an R&D 100 award with NREL staff for efforts related to CIGS technology development.

In June 2011 the National Renewable Energy Laboratory (NREL) certified the peak efficiency conversion of 16.36% achieved by XsunX for Copper-Indium-Gallium-(di)selenide (CIGS) photovoltaic devices. Overall efficiency of tested samples ranged from 15.3% to 16.36% producing an average efficiency of 15.91%. The samples provided to NREL was part of a 125mm substrates which after deposition were sub-divided into quadrants to produce NREL device test structures and analytical equipment test structures. The purpose was to provide a statistically significant body of data in support of XsunX's continuous process improvement efforts.

Sales and Marketing

We have developed and have begun to implement a plan to offer CIGSolar™ technology to existing manufacturers of solar products in the renewable energy industry. Although XsunX focuses on the development of solar technology and products, we are not a systems or a machine manufacturer. We have and intend to continue to develop relationships with equipment manufacturers that can build systems to our specifications thereby allowing us to offer turn-key manufacturing solutions to enable our licensees to manufacturer CIGS cells quickly and inexpensively.

We anticipate that at the conclusion of the initial development of our CIGS technology, that we will generate revenue from an array of services and license fees from manufacturers that utilize our technologies. These revenue fees may include inception license fees and royalty streams based upon the efficiencies our unique CIGS technology, guidance for the conversion of new or existing facilities, production line equipment and systems design and markups, training and implementation, as well as R&D support, and product reliability expertise.

Intellectual Property

We plan to market license opportunities for our technology and not directly manufacture the solar technologies and related products that may employ the use of our thin film technologies. This business model requires that we develop and maintain intellectual property that includes both patented and proprietary technologies. We have licensed certain patented and patent pending technologies, and we are developing with the intent to file for patent protection certain other thin film manufacturing technologies. The following is an outline of certain patents and technologies we are developing, have acquired,or licensed:

The Company is developing a hybrid manufacturing solution to produce high performance Copper Indium Gallium (di) Selenide (CIGS) thin film solar cells. Our system and processing technology, which we call CIGSolar™, focuses on the mass production of individual thin-film CIGS solar cells that match silicon solar cell dimensions and can be offered as a non-toxic, high-efficiency and lowest-cost alternative to the use of silicon solar cells. We have designed a proprietary system for a process known as co-evaporation used in the manufacture of the solar absorbing material CIGS. Certain key features related to this system we believe may qualify for patent protection. In November 2010 we filed provisional patent application with the United States Patent and Trademark Office identifying five (5) claims that through continued system and process design revisions we have subsequently modified and for which we have elected to forego the filing of utility patent applications at this time, and in July 2011 we filed three (3) additional claims related to our thermal effusion source design. As we continue to refine our designs and process technologies we may elect to abandon, modify, or file additional applications and we may

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we have elected to forego the filing of utility patent applications at this time, and in July 2011 we filed three (3) additional claims related to our thermal effusion source design. As we continue to refine our designs and process technologies we may elect to abandon, modify, or file additional applications and we may seek to enforce our claims through filing of utility patents.

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 the use of the above named patents in the development or commercialization of our CIGSolar™ technology.

As we continue to develop these new technologies, we may actively seek patent protection for certain aspects related to methods and apparatus we develop. We can give no assurance that any such patent(s) will be granted for any process and manufacturing technology that we may develop individually or in conjunction with third parties.

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, 2011.

Competitive Conditions

A number of thin film solar cell technologies have and are being developed by other companies. Such technologies include amorphous silicon, cadmium telluride, copper-indium-gallium-selenide (CIGS), and copper indium selenide as well as advanced concepts in thin film crystalline silicon, and the use of organic materials. Given the benefit of time, investment, and advances in manufacturing technologies any of these competing technologies may be offered in formats delivering power similar or greater to technologies developed that may be developed by us, and they may also achieve manufacturing costs per watt lower than cost per watt to manufacture technologies developed by us.

In accessing the principal competitive factors in the market for solar electric power products, we use price per watt, stability and reliability, conversion efficiency, diversity in use applications, and other performance metrics such as scalability of manufacturing processes and the ability to adapt new technologies into cell designs and the manufacturing process without antiquation of existing infrastructure. If we do not compete successfully with respect to these or other factors, it could materially and adversely affect our business, results of operations, and financial condition.

A number of large companies are actively engaged in the development, manufacturing and marketing of solar electric power products. Several of the larger TFPV cell suppliers are Q-Cells, Shell Solar, Sharp Corporation, BP Solar, Kyocera Corporation, First Solar, and Energy Conversion Devices, which together supply the significant portion of the current TFPV market. All of these companies have greater resources to devote to research, development, manufacturing and marketing than we do.

Other competitive factors lie in the current use of other clean, renewable energy technologies such as wind, ocean thermal, ocean tidal, and geo-thermal power sources and conventional fossil fuel based technologies for the production of electricity. We expect our primary competition will be within the solar cell marketplace itself. Barriers to entering the solar cell manufacturing industry include the technical know-how required to produce solar cells that maintain acceptable efficiency rates, the design of efficient and scalable manufacturing processes, and access to necessary manufacturing infrastructure.

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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 we retain the use of consulting firms to assist in the engineering and design of systems related to equipment operations, management of industrial gas storage and delivery systems, and occupancy fire and safety construction standards to deal with emergency conditions. We do not anticipate that these costs will have a material effect on the Company's operations or competitive position, and the cost of such compliance has not been material. The Company is unable to assess or predict at this time what effect additional regulations or legislation could have on its activities.

Employees and Consultants

As of the fiscal year ended September 30, 2011 we had 4 salaried employees. This represents a decrease of 2 employees over the same period ended 2010. The Company also engages consultants when needed to perform specific functions that otherwise would require an employee. We have not experienced any work stoppages and we consider relations with our employees to be good.

Available Information

Our website address is www.xsunx.com. We make available on our website access to our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports that we have filed with the U.S. Securities and Exchange Commission ("SEC"). The information found on our website is not part of this or any other report we file with, or furnish to, the SEC.

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 Any Significant Revenues and Our Financial Statements Raise Substantial Doubt About Our Ability to Continue As A Going Concern.

We are a development stage company 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, 2011 and 2010 was $(1,117,654) and $(2,210,603), respectively. Net cash used for operations was $(1,117,818) and $(1,347,395) for the years ended September 30, 2011 and 2010, respectively. At September 30, 2011, we had a working capital deficit of $(654,041). From inception through September 30, 2011, we had an accumulated deficit of $(35,037,459) at September 30, 2011.

The items discussed above 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 capital expenditures to complete the development of marketable thin film manufacturing technologies, and financing may be unavailable or available only on disadvantageous terms which could cause the Company to curtail its business operations and delay the execution of its 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. Although the Company entered into a financing arrangement with Lincoln Park Capital Fund, LLC pursuant to which the Company has the right over a 25-month period to receive $50,000 every two business days under such financing arrangement unless our stock price equals or exceeds $0.20, in which case we can sell greater amounts to Lincoln Park as the price of our common stock increases, Lincoln Park shall not have the right or the obligation to purchase any shares of our common stock on any business day that the market price of our common stock is less than $0.08. The registration statement is currently not available for use for sales to Lincoln Park. 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, complete the development of marketable technologies, develop a sales network, maintain our research and development efforts or otherwise respond to competitive pressures may be significantly impaired. We could also be forced to curtail our business operations, reduce our investments, decrease or eliminate capital expenditures and delay the execution of our business plan, 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 will require additional financing to fund future operations, including expansion in current and new 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, the holders of these debt securities would similarly 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 expense for us which could have a materially adverse effect on our business.

If future products based on technologies we are developing 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 which will have a materially adverse effect on our business.

There can be no assurance that such 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 are developing technologies and products are characterized by rapid and significant technological change. Rapid technological development may result in our products becoming obsolete or noncompetitive. If future 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, the 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.

There is no assurance that the market will accept our products once development has been completed which could have an adverse effect on our business.

There can be no assurance that products based on our technologies will be perceived as being superior to existing products or new products being developed by competing companies or that such products will otherwise be accepted by consumers. The market prices for products based on our technologies 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 based on our technologies 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.

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

We will be competing with firms, both domestic and foreign, that perform research and development, as well as firms that manufacture and sell solar products. In addition, we expect additional potential competitors to enter the markets for solar products in the future. Some of these current and potential competitors are among the largest industrial companies in the world 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 the development of our thin film manufacturing technologies and products could impede our ability to complete the development of our products and have a material adverse effect on our business.

We have established a plan of operations under which a portion of our operations rely on strategic relationships with third parties, to provide systems design, assembly and support. 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.

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Our success is highly dependent on the continued services of a limited number of skilled managers, scientists and technicians. The loss of any of these individuals could 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 industrial, academic and nonprofit research sectors.

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 intellectual property consists of patents, trade secrets, and trade dress. Our success depends in part on our ability to obtain patents and maintain adequate protection of our other intellectual property for our technologies and products in the U.S. and in other countries. The laws of some foreign countries do not protect proprietary rights to the same extent as do the laws of the U.S., and many companies have encountered significant problems in protecting their proprietary rights in these foreign countries. These problems may be caused by, among other factors, a lack of rules and methods for defending intellectual property rights.

Our future commercial success requires 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 our technologies, products and businesses. The enforceability of patent positions cannot be predicted with certainty. We intend to apply for patents covering both our technologies and our products, 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 technologies and processes, we rely on trade secret protection as well as on 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 profitability.

Downturns in general economic conditions can cause fluctuations in demand for our products, product prices, volumes and

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margins. Future economic conditions may not be favorable to our industry. A decline in the demand for our products 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 uncertain, 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.

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 OTCBB. The OTCBB 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 OTCBB 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 OTCBB may be difficult to obtain.

The quotation of our common stock on the OTCBB 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;
- 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 may 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 and 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

The Company leases facilities in Aliso Viejo, CA. At the lease rate of approximately $1,000 per month. The Company plans to continue to lease these facilities for the foreseeable future.

Proposed California Facilities Lease

The Company has located and negotiated a month to month proposed sub-lease for facilities located in Irvine California to be used for the final assembly, calibration, and marketing of the Company’s multi-chamber CIGSolar thermal coevaporation system which is currently under construction. The Company intends to commence the lease at the time that system major components are ready for delivery by vendors engaged in its production for final assembly by XsunX. We intend to operate in this facility for up to one year prior to locating to larger and permanent facilities.

The Company owns no real property.

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Item 3. Legal Proceedings

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

None

Item 4. (Removed and Reserved)

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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 Bulletin Board under the symbol "XSNX". 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 Bulletin Board, was as follows:

Year Ended September 30, 2011	High	Low	Close
First Quarter ended December 31, 2010	0.12	0.07	0.07
Second Quarter ended March 31, 2011	0.11	0.07	0.08
Third Quarter ended June 30, 2011	0.10	0.06	0.07
Fourth Quarter ended September 30, 2011	0.09	0.05	0.06
Year Ended September 30, 2010			
First Quarter ended December 31, 2009	0.26	0.13	0.16
Second Quarter ended March 31, 2010	0.21	0.11	0.13
Third Quarter ended June 30, 2010	0.15	0.10	0.11
Fourth Quarter ended September 30, 2010	0.12	0.07	0.10

The market price for our common stock, like that of other technology 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, 2011, there were approximately 280 record holders of the Company's common stock, not counting shares held in "street name" in brokerage accounts which is unknown. As of September 30, 2011, there were 224,998,637 shares of common stock outstanding on record with the Company's stock transfer agent, Mountain Share Transfer. On September 30, 2011 the last reported sales price of our common stock on the OTCBB was approximately $0.06 per share.

Transfer Agent

Our transfer agent is Mountain Share Transfer, Inc. located at 1625 Abilene Drive, Broomfield, CO 80020, 303-460-1149 Telephone, 303-438-9243 Fax.

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

Stock Compensation, Issuance of Stock Purchase Options

During the fiscal year ended September 30, 2011 eleven million options were granted.

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Table of Equity Compensation

The following table sets forth summary information, as of September 30, 2011, concerning securities authorized for issuance under all equity compensation plans and agreements for the fiscal years ended September 30, 2011, and 2010 is as follows:

Risk free interest rate	1.67% to 2.77%
Stock volatility factor	90.56% to 104.73%
Weighted average expected option life	5 years
Expected dividend yield	None

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

	9/30/2011		9/30/2010	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Outstanding, beginning of year	10,180,000	$ 0.27	10,180,000	$ 0.27
Granted	11,000,000	$ 0.10	—	$ —
Exercised	—	$ —	—	$ —
Expired	—	$ —	—	$ —
Outstanding, end of year	21,180,000	$ 0.18	10,180,000	$ 0.27
Exercisable at the end of year	8,544,159	$ 0.27	6,858,328	$ 0.29
Weighted average fair value of options granted during the year		$ 0.10		$ —

The weighted average remaining contractual life of options outstanding issued under the plan as of September 30, 2011 was as follows:

Exercisable Prices	Stock Options Outstanding	Stock Options Exercisable	Weighted Average Remaining Contractual Life (years)
$0.46	1,150,000	950,000	0.32 years

$0.53	100,000	100,000	0.40 years
$0.45	100,000	100,000	0.56 years
$0.41	100,000	100,000	0.91 years
$0.36	2,500,000	1,500,000	1.07 years
$0.36	500,000	500,000	1.12 years
$0.36	500,000	500,000	1.16 years
$0.36	115,000	115,000	2.03 years
$0.16	5,115,000	4,679,159	1.50 years
$0.10	11,000,000	—	4.05 years
	21,180,000	8,544,159	

Stock-based compensation expense recognized during the period is based on the value of the portion of stock-based payment awards that is ultimately expected to vest. Stock-based compensation expense recognized in the financial statements of operations during the year ended September 30, 2011, included compensation expense for the stock-based payment awards granted prior to, but not yet vested, as of September 30, 2011 based on the grant date fair value estimated, and compensation expense for the stock-based payment awards granted subsequent to September 30, 2011, based on the grant date fair value estimated. We account for forfeitures as they occur. The stock-based compensation expense recognized in the statement of operations during the years ended September 30, 2011 and 2010 was $186,016 and $273,133, respectively.

Warrants

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

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	9/30/2011		9/30/2010	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Outstanding, beginning of year	4,195,332	$ 0.61	4,195,332	$ 0.61
Granted	10,000,000	$ 0.04	—	$ —
Exercised	(5,000,000)	$ (0.04)	—	$ —
Expired	(612,000)	$ (0.73)	—	$ —
Outstanding, end of year	8,583,332	$ 0.32	4,195,332	$ 0.61
Exercisable at the end of year	8,583,332	$ 0.32	4,047,332	$ 0.64
Weighted average fair value of warrants granted during the year		$ 0.04		$ —

At September 30, 2011, the weighted average remaining contractual life of warrants outstanding:

Exercisable Prices	Warrants Outstanding	Warrants Exercisable	Weighted Average Remaining Contractual Life (years)
$0.20	250,000	250,000	0.25 years
$0.50	1,666,666	1,666,666	1.09 years
$0.75	1,666,666	1,666,666	1.09 years
$0.04	2,500,000	2,500,000	4.30 years
$0.04	2,500,000	2,500,000	4.46 years
	8,583,332	8,583,332	

Recent Sales of Securities (Registered and Unregistered)

The authorized Common stock of the Company was established at 500,000,000 shares with no par value.The Company is also authorized to issue 50,000,000 shares of preferred stock with a par value of $0.01 per share. The rights, preferences and privileges of the holders of the preferred stock will be determined by the Board of Directors prior to issuance of such shares.The following represents a detailed analysis of the fiscal year ended September 30, 2011 Common stock transactions.

During the year ended September 30, 2011, pursuant to an S-1 Registration Statement declared effective by the SEC on June 30, 2010, and a Post-Effective Amendment No. 1 registration declared effective by the Securities and

Exchange Commission on April 4, 2011 the Company sold to Lincoln Park Capital Group, LLC (LPC) a total of approximately 6,853,376 shares for a total investment of $575,000. These shares were sold at various pricing between $0.08 and $0.0888 per share. An additional 159,720 of the remaining pool of 1,236,112 commitment shares were issued on a pro rata basis to LPC as LPC has purchased additional shares pursuant to the effective S-1 Registration Statement. The registration statement is currently not available for use for sales to Lincoln Park.

During the year ended September 30, 2011, the Company also issued 5,000,000 units composed of one share of restricted common stock and a five year warrant exercisable to purchase two shares of Common Stock at $0.04 per share for cash of $200,000; 1,250,000 shares of restricted common stock at a price of $0.04 per share for cash of $50,000; a holder of warrants exercised all available 5,000,000 warrants utilizing a cashless exercise provision resulting in the net issuance of 2,680,204 shares of the Company's restricted common stock. The above shares were issued in a transactions exempt from registration pursuant to Section 4(2) of the Securities Act.

Lincoln Park Capital Fund, LLC Transaction

On March 30, 2010, XsunX signed a $5 million stock purchase agreement with Lincoln Park Capital Fund, LLC ("LPC"), an Illinois limited liability company. Upon signing the agreement, XsunX received $500,000 from LPC as an initial purchase under the $5 million dollar commitment in exchange for 5,000,000 shares of our common stock. We also entered into a registration rights agreement with LPC whereby we agreed to file a registration statement related to the transaction with the U.S. Securities & Exchange Commission ("SEC") covering the shares that have been issued or may be issued to LPC under the purchase agreement. On April 30, 2010, XsunX, Inc. filed a Form S-1 with the Securities and Exchange Commission seeking to register 27,500,000 shares related to our financing agreements with LPC. The registration was declared effective by the Securities and Exchange Commission on June 30, 2010. On March 29, 2011 we filed a Post-Effective Amendment No. 1 Form S-1 with the Securities and Exchange Commission seeking to maintain the registration for the 27,500,000 shares related to our financing agreements with LPC. The Post-Effective Amendment No. 1 registration was declared effective by the Securities and Exchange Commission on April 4, 2011. Subject to the effective registration statement related to the transaction, we have the right over a 25-month period to sell our shares of common stock to LPC in amounts up to $500,000 per sale, depending on certain conditions as set forth in the purchase agreement, up to the aggregate commitment of $5 million.

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There are no upper limits to the price LPC may pay to purchase our common stock, and the purchase price of the shares related to the $4.5 million of future funding will be based on the prevailing market prices of the Company's shares at the time of sales without any fixed discount. The Company will control the timing and amount of any sales of shares to LPC. LPC shall not have the right or the obligation to purchase any shares of our common stock on any business day that the price of our common stock is below $0.08.

In consideration for entering into the $5 million agreement which provides for an additional $4.5 million of future funding, we issued to LPC 1,250,000 shares of our common stock as a financing inception commitment and shall issue an equivalent amount of shares pro rata as LPC purchases the additional $4.5 million. The common stock purchase agreement may be terminated by us at any time at our discretion without any cost to us. Except for a limitation on variable priced financings, there are no negative covenants, restrictions on future funding's, penalties or liquidated damages in the agreement. The proceeds received by the Company under the common stock purchase agreement are expected to be used in the development of thin film manufacturing equipment and technologies, general and administrative costs, and general working capital.

Pursuant to the stock purchase agreement with LPC and the S-1 Registration Statement declared effective by the SEC on June 30, 2010, the Company has sold to Lincoln Park Capital Fund, LLC through September 30, 2011, approximately 12,410,184 shares for a total investment of $1,125,000 including the initial $500,000 and 5,000,000 shares. These shares were sold at various pricing between $0.08 and $0.10 per share. Including 1,250,000 shares provided to LPC as financing inception commitment shares, and an additional 173,608 commitment shares issued pro rata as LPC has purchased additional shares, as of September 30, 2011 13,666,208 registered shares remain available for future sales pursuant to the effective S-1 Registration Statement. The registration statement is currently not available for use for sales to Lincoln Park.

Issuance of Shares for Services

None

Use of Proceeds from the Sale of Securities

The proceeds from the above sales of securities were and are being used primarily to fund efforts by the Company to develop marketable technologies for the manufacture of thin film solar technologies, and in the day-to-day operations of the Company and to pay the accrued liabilities associated with these operations.

Item 6. Selected Financial Data

N/A

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

Cautionary and Forward-Looking Statements

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K. In addition to historical consolidated financial information, the following discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions as described under the "Cautionary Note Regarding Forward-Looking Statements" that appears earlier in this Annual Report on Form 10-K. Our actual results could differ materially from those anticipated by these forward-looking statements as a result of many factors, including those discussed under "Item 1A: Risk Factors" and elsewhere in this Annual Report on Form 10-K.

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

Business Overview

XsunX, Inc. is developing and has begun to market a hybrid manufacturing solution to produce high performance Copper Indium Gallium (di) Selenide (CIGS) thin film solar cells. Our patent pending processing technology, which we call CIGSolar™, focuses on the mass production of individual thin-film CIGS solar cells that match silicon solar cell dimensions and can be offered as a non-toxic, high-efficiency and lowest-cost alternative to the use of silicon solar cells. We intend to offer licenses for the use of the CIGSolar™ process technology thereby generating revenue streams through licensing fees and manufacturing royalties for the use of the technology.

Our efforts have been focused on the development and customization of a series of specialized processing tools that when

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combined provide a turn-key high-through put manufacturing system to produce CIGS solar cells.

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

There are five (5) core process tools that when combined will produce 156mm format (about 6" square) solar cells. We believe that it will be the ability of our system to minimize processing defects while maintaining exceptional per hour production rates that will provide superior commercial opportunities. CIGSolar™ cells will be manufactured on stainless steel squares sized to match silicon solar cells currently used in nearly 75% of all solar modules manufactured today.

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

Plan of Operations

For the fiscal year ending September 30, 2012, the Company has developed a plan of operations focused on the assembly of a multi-chamber CIGSolar™ thermal co-evaporation system to provide hands-on access to interested customers of a production-sized multi-chamber CIGSolar™ system. We plan to add support systems necessary to establish limited scale pilot CIGS solar cell production capabilities to enhance marketing and sales efforts, continued CIGSolar™ process improvement, and to support general business development efforts related to the commercialization of our CIGS solar cell manufacturing technology.

Our Plan of Operations, based upon the aforementioned activities, requires $1.03 million for general and administrative activities, $239 thousand to support increased sales and marketing efforts, and $1.48 million to establish a limited scale production system for use in marketing and sales efforts through the use of the system to demonstrate the CIGSolar™ technologies, continued process development and improvement under our technology license model, and for support purposes of the systems that may be placed in the field as we work to commercialize our CIGSolar™ manufacturing technology.

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 change in primary business focus and new business opportunities these historical results may not necessarily be indicative of results to be expected for any future period. As such, future results of the Company may differ significantly from previous periods.

Results of Operations for the Fiscal Year Ended September 30, 2011Compared to Fiscal Year Ended September 30, 2010.

*Revenue and Cost of Sale*s:

The Company generated no revenues in the fiscal years ended September 30, 2011, and 2010. There were no associated costs of goods sold in any of the fiscal periods represented above. The Company to date has had minimal revenue and cost of sales, and is still in the development stage.

Selling, General and Administrative Expenses:

Selling, General and Administrative (SG&A) expenses decreased by $(524,272) during the fiscal year ended September 30, 2011 to $946,459 as compared to $1,470,731 for the fiscal year ended September 30, 2010. The decrease in SG&A expenses was related primarily to a general reduction to salaries, staffing, and operating expenses under the Company's re-focused plan of operations for the development of a new CIGSolar™ thin film solar manufacturing technology. We anticipate that expenditures associated with the commercial development and sales of our thin-film solar manufacturing technologies will increase SG&A expenditures in the future. However, we plan to offer our technology as a licensable process to existing solar product manufacturers which we anticipate will mitigate future expenditures that would normally be associated with our need to establish direct large scale manufacturing capabilities and the associated facility infrastructure.

Research and Development:

Research and development decrease slightly by $(10,507) during the fiscal year ended September 30, 2011 to $282,492 as compared to $292,999 for the fiscal year ended September 30, 2010. The decrease was primarily due to a reduction in research related employees used in the period on the development of our new cross-industry thin film solar manufacturing technology CIGSolar™.

During portions of the fiscal year research and development efforts included the use of third party equipment vendors whose equipment we may use as part of our integrated CIGSolar™ manufacturing system. These vendors assist with access to equipment and technologies that we are working to customize for use in our manufacturing processes. During the fiscal year while reducing direct research and development costs we prepared plans and began efforts to establish each of the various system capabilities necessary for our technology within our own facilities for use in continued process improvement, marketing efforts, and future systems sales support. We anticipate that future R&D expense will again increase as we complete this process establishing each of the various system capabilities within our own facilities.

Net Loss:

For the fiscal year ended September 30, 2011, our net loss was $(1,117,654) as compared to a net loss of $(2,210,603) for the fiscal year ended September 30, 2010. This decrease in Net Loss of $(1,092,949) compared to the fiscal year ended September 30, 2010was primarily due to a decrease in write down of assets, which resulted in an expense of $313,671. Also, the decrease in net loss was due to the Company's overall decrease in operating expenses. 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, 2011 of $(654,041), as compared to a working capital deficit of $(727,848) as of September 30, 2010. The increase of $73,807 in working capital was the result of a decrease in accounts payable, with a similar decrease in cash. There was no revenue producing activities for the fiscal year ended September 30, 2011.

Cash flow used by operating activities was $(1,117,818) for the fiscal year ended September 30, 2011, as compared to cash flow used by operating activities of ($1,347,395) for the fiscal year ended September 30, 2010. The decrease in cash flow used of $(229,577) by operating activities was primarily due to a decrease in stock option expense and accounts payable, and an increase in other assets and accrued expenses.

Cash flow provided by investing activities was $158,972 for the fiscal year ended September 30, 2011, as compared to cash flow provided in investing activities of $14,100 during the fiscal year ended September 30, 2010. The net increase in investing activities was primarily due to proceeds received of $17,000 from the sale of certain assets, and a deposit refunded due to cancellation of a purchase order in the amount of $230,000, offset by a payment made on a purchase order of $81,975, compared to the prior fiscal year.

Cash flow provided by financing activities was $825,000 for the fiscal year ended September 30, 2011, as compared to cash provided by financing activities of $1,003,000 during the fiscal year ended September 30, 2010. The decrease in cash flow provided by financing activities was the result of a reduction to cash provided through equity financing. Our capital needs have primarily been met from the proceeds of private placements, as we are currently in the development stage and had no revenues.

The Company is currently engaged in efforts to develop a cross-industry thin film solar manufacturing technology that we believe provides an opportunity for XsunX to establish a competitive advantage within the solar industry. However the cash flow requirements associated with the completion of these development efforts, and the transition to revenue recognition will exceed cash generated from operations in the current and future periods. We will need to seek to obtain additional financing from equity and/or debt placements. 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 such 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.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

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.

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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

Effective as of July 17, 2009, the board of directors of the Company approved the engagement of HJ Associates& Consultants, LLP ("HJ") as its principal independent registered public accounting firm to audit the Company's financial statements. During the Company's two (2) most recent fiscal years, as well as the subsequent interim period through the Effective Date, there were no disagreements between the Company and HJ on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreements if not resolved to their satisfaction would have caused them to make reference to the subject matter of the disagreement in connection with HJ's report. During the Company's most recent two (2) fiscal years, as well as the subsequent interim period through the Effective Date, HJ did not advise the Company of any of the matters identified in Item 304(a)(v)(A) - (D) of Regulation S-K.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Operating Officer, have 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 and Chief Operating Officer have concluded that, as of the end of such period, our disclosure controls and procedures were effective, and we have discovered no material weakness.

Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control structure and procedures over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f)) under the Exchange Act. The SEC rule making for the Sarbanes-Oxley Act of 2002 Section 404 requires that a company's internal controls over financial reporting be based upon a recognized internal control framework. Our management conducted an assessment of the effectiveness of our internal control over financial reporting as of September 30, 2011 based on the framework set forth in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") that has been modified to more appropriately reflect the current limited operational scope of the Company as a Development Stage company. The Company used the COSO guide - The Internal Control over Financial Reporting - Guidance for Smaller Public Companies to implement the Company's internal control framework. Additionally, the limited scope of operations of the Company means that traditional separation of duties controls are not used by the Company as a result of the limited staffing within the Company. The Company relies on alternative procedures to overcome this non-material control weakness.

During the Company's fiscal year ended September 30, 2011, management continued to assess the Company's internal and controls procedure documents basing any need for revision upon additional guidance for implementing the model framework created by COSO as is appropriate to our operations and operations of smaller public entities. This framework is entitled Internal Control-Integrated Framework. The COSO Framework, which is the common shortened title, was published in 1992 and has been updated, and we believe will satisfy the SEC requirements of Section 404 of the Sarbanes-Oxley Act of 2002. As the Company expands operations, additional staff will be added to implement separation of duties controls as well.

Based on that evaluation, our Chief Executive Officer and our Chief Operating Officer concluded that our internal control over financial reporting as of September 30, 2011 was effective. Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Changes in Internal Control over Financial Reporting

Except as noted above, there have not been any changes in our internal control over financial reporting (as such term is defined in

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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

As part of the Company's operating plans, and efforts to maximize the use of its capital resources towards the assembly of its initial baseline multi-chamber CIGSolar™ thermal co-evaporation system, the Company's CEO, COO, and CTO agreed effective October 2011 to salary reductions under which each executive would receive an annualized salary of $120,000.

On October 24, 2011, in exchange for a promissory note (the "Note") of $456,921 plus accrued interest of $98,645 that had become due at September 1, 2011, the Company issued 7,000,000 restricted shares of common stock as payment for the reduction of $205,565 of principal and accrued interest balance under the Note, and exchanged the Note for and issued a new unsecured promissory exchange note (the "Exchange Note") in the amount of $350,000. The note bears interest at 10% per annum and matures on September 30, 2012.

On October 27, 2011, and again on December 7, 2011 XsunX, Inc. (the "Company") consummated a Securities Purchase Agreement (the "Purchase Agreements") providing for the sale by the Company of 8% unsecured Convertible Notes in the aggregate principal amount of $53,000 and $42,500 respectively (the "Note") which amounts were advanced immediately at the time of each sale. The October 27, 2011 Note matures on July 31, 2012, and the December 7, 2011 Note matures on September 12, 2012. The Company has the right to redeem a portion or all amounts outstanding under the either Note prior to one hundred and eighty one days from issuance of the Note under a variable redemption rate premium. After one hundred and eighty days the holder may convert into shares of common stock at a conversion price of sixty percent of the average lowest five closing bid prices for the common stock, during the ten trading day period ending on the latest complete trading day prior to the conversion date. The holder has certain rights of first refusal related to financings of less than seventy five thousand dollars by the Company, and in the event of certain default conditions the Company may be subject a default premium of fifty percent.

Issuance of Stock Purchase Options

In October 2010, the Board of Directors authorized the grant of stock option agreements to the named employees listed below as follows:

	Date Issued	Number Issued	Exercise Price	Expiration Date	Consideration
Joseph Grimes	October 18, 2010	1,000,000	$ 0.10	18-Oct-15	Future key deliverables within the scope of the employees influence
Robert G. Wendt	October 18, 2010	10,000,000	$ 0.10	18-Oct-15	Future key deliverables within the scope of the employees influence

The vesting schedule for Mr. Grimes is as follows:

The option shall become exercisable in the following amounts upon the delivery and/or achievement by the optionee(s) of the following performance milestones:

(a) The Option shall become exercisable in the amount of 1,000,000 shares upon Optionee’s management of the assembly and operation of initial baseline CIGSolar process equipment contemplated under the Company’s CIGS solar cell equipment and technology plan, and the subsequent production of 1,000 full size solar cells (dimension of 125 or 156 mm square) that achieve a minimum of >10% conversion efficiency over a five (5) day operating period in which the system operates at the designed through-put speed range delivering a cell yield of >80%. Cells measured at AM1.5 using a light source and tester calibrated to NIST standards.

(b) In the event of a sale or merger of all or substantially all of the Company’s assets to an acquiring party following which the Company would not be a surviving operating entity, the Company will provide Optionee a fifteen (15) day prior notice of such proposed event providing for immediate vesting of all remaining unvested Options under this Agreement.

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The vesting schedule for Mr. Wendt is as follows:

The option shall become exercisable in the following amounts upon the delivery and/or achievement by the optionee(s) of the following performance milestones:

(a) The Option shall become exercisable in the amount of 1,000,000 shares upon the award to the Company of atleast one patent issued by the United States Patent and Trademark Office protecting a key element to the Company's CIGSolar manufacturing approach in which Optionee had an instrumental involvement in either the design, development, prosecution, or inception of the intellectual property.

(b) The Option shall become exercisable in the amount of 4,000,000 shares upon Optionee's assembly and/or management of the assembly and operation of initial baseline CIGSolar process equipment contemplated under the Company's CIGS solar cell equipment and technology plan, and the subsequent production of 1,000 full size solar cells (dimension of 125 or 156 mm square) that achieve a minimum of >10% conversion efficiency over a five (5) day operating period in which the system operates at the designed through-put speed range delivering a cell yield of >80%. Cells measured at AM1.5 using a light source and tester calibrated to NIST standards.

(c) The Option shall become exercisable in the amount of 5,000,000 shares upon Optionee's assembly and/or management of the assembly and operation of commercial CIGSolar production equipment prepared for use by the Company, or for delivery to a third party by the Company for use in a commercial setting, and the subsequent production of 2,000 full size solar cells (dimension of 125 or 156 mm square) that achieve a minimum of > 12% conversion efficiency while operating over a five (5) day operating period in which the system operates at the designed through-put speed range delivering a cell yield of >85%. Cells measured at AM1.5 using a light source and tester calibrated to NIST standards.

(d) Achievement of each milestone to be reviewed and determined by the Company's Board of Directors prior to the Company acknowledgment of any vesting rights by Optionee. Determination by the Board of Directors will be provided within ten (10) business days from notice to the Company by Optionee of milestone achievement. Notice by Optionee shall contain all relevant information necessary for the Board of Directors to review and make a determination.

Additionally, in October 2010, the Board of Directors authorized amendments to prior option grants issued to the named employee listed below as follows:

Grant Number	Optionee Name	**Amended Terms**
07-016		

	Robert Wendt	Section 3(i) (b) Exercise of Option was amended as follows; This Option shall become exercisable in the amount of 100,000 shares upon production by Optionee of a >10% NREL CIGS device produced on glass substrate. Device measured at AM1.5 using a light source and tester calibrated to NIST standards
07-023	Robert Wendt	Section 3(i) (a,b,c) Vesting Schedule was amended as follows; (a) This Option shall become exercisable in the amount of 250,000 shares upon production by Optionee of a >10% NREL CIGS device produced on stainless steel substrate. Device measured at AM1.5 using a light source and tester calibrated to NIST standards.” “(b) This Option shall become exercisable in the amount of 250,000 shares upon production by Optionee of one >10% full size 125 mm pseudo square cell on stainless steel (SS). Device measured at AM1.5 using a light source and tester calibrated to NIST standards.” “(c) Intentionally Omitted”
34-2009	Robert Wendt	Section 3(i) (a) Exercise of Option was amended as follows; All remaining unvested Options under this Agreement shall vest and become exercisable upon production by Optionee, and third party validation, of functioning >10% full size 125 mm pseudo square cells on stainless steel (SS) – minimum 20 cells. Cells measured at AM1.5 using a light source and tester calibrated to NIST standards.”

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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, 2011:

Name	Age	Position Held	Tenure
Tom Djokovich	54	CEO, Director, Secretary, and acting Principal Accounting Officer	CEO and Director since October 2003, Secretary and PAO since September 2009
Joseph Grimes	54	President, COO, Director	President since March 2009, COO since April 2006, and as a director Since August 2008
Robert Wendt	49	CTO	Since March 2009
Thomas Anderson	46	Director	Since August 2001
Oz Fundingsland	68	Director	Since November 2007
Michael Russak	64	Director	Since November 2007

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

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

Biographical Information

Mr. Tom Djokovich, age 54, Chief Executive Officer and a Director as of October 2003,acting Principal Accounting Officer as of September 2009;

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

Mr. Joseph Grimes, age 54, Chief Operating Officer as of April 2006, a Director as of August 2008, and President as of March 2009;

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

Mr. Robert Wendt, age 49, Chief Technology Officer as of March 2009;

Mr. Wendt holds a B.S. and M.S. in Metallurgical Engineering and Material Science from the Colorado School of Mines. His responsibility encompasses technical specification of the facilities, equipment, and manufacturing processes for XsunX. Prior to joining XsunX in 2007, Mr. Wendt served at various times as Vice President of Sales, Product Development, and Engineering at Global Solar Energy from May 1996 to 2005. At Global Solar, Mr. Wendt has led and directed several areas including copper indium gallium di-selenide (CIGS) technology development, equipment design and integration, facilities design and construction, engineering, production, and operations

Prior to Global Solar, Mr. Wendt was at ITN with responsibility for the development of thin-film deposition technologies, thin-film PV, and development of charge controller/battery systems for portable solar cell powered systems. Prior to joining ITN, Mr. Wendt spent eight years with Lockheed Marietta Astronautics, Denver Division. While in this position, Mr. Wendt was program manager/principal investigator on over 20 material-based programs. During 1994/1995, Mr. Wendt was the technical lead for thin-film PV research at the Denver Division.

Independent Directors

Mr. Thomas Anderson, age 46, became a director of the Company in August 2001;

Mr. Anderson presently works as the Director of Southwest Business Operations for American Capital Energy, a commercial and utility scale solar integrator. He has been with American Capital Energy since October, 2008. He recently served as Managing Director of the Environmental Science and Engineering Directorate of Qinetiq North America in Los Alamos, New Mexico. He was with Qinetiq North America, formerly Apogen Technologies, from January, 2005, through September, 2008. Mr. Anderson worked for 19 years in the environmental consulting field, providing consulting services in the areas of environmental compliance, characterization and remediation services to Department of Energy, Department of Defense, and industrial clients. He formerly worked as a Senior Environmental Scientist at Concurrent Technologies Corp. from November 2000 to December 2004. He earned his B.S. in Geology from Denison University and his M.S. in Environmental Science and Engineering from Colorado School of Mines.

Mr. Oz Fundingsland as Director, age 68, became a director of the Company in November 2007;

On November 12, 2007, the Company announced the appointment of Mr. Oz Fundingsland as Director, effective November 12, 2007. Mr. Fundingsland brings over forty years of sales, marketing, executive business management, finance, and corporate governance experience to XsunX. His professional and business experience principally originated with his tenure, commencing in 1964, at Applied Magnetics Corp., a disk drive and data storage company. Prior to his retirement from Applied Magnetics in 1994, Mr. Fundingsland served as an Executive Officer and Vice President of Sales and Marketing for 11 years directing sales growth from $50 million to over $550 million. Commencing in 1993 through 2003 Mr. Fundingsland served as a member of the board of directors for the International Disk Drive Equipment Manufacturers Association “IDEMA” where he retired emeritus, and continues to serve as an advisor to the board. For the last 13 years, Mr. Fundingsland has provided consulting services assisting with sales, marketing, and management to a host of companies within the disk drive, optical, software, and LED industries.

Dr. Michael A. Russak as Director, age 64, became a director of the Company in November 2007;

On November 28, 2007, the Company announced the appointment of Dr. Michael A. Russak as a Director, effective November 26, 2007. Dr. Russak is also a member of the Company's Scientific Advisory Board. Dr. Michael A. Russak currently holds the position of Executive Vice President of Business Development with Intevac, Inc. in Santa Clara, CA. He has been working as a consultant in the hard disk drive and photovoltaic industries since Jan 2007. He is also currently the Executive Director of IDEMA-U.S. (the hard disk drive industry trade association) and a member of the Board of Directors and Scientific Advisory Board of XsunX, Inc. From 2001 to 2006 he was President and Chief Technical Officer of Komag, Inc., a manufacturer of hard magnetic recording disks for hard disk drive applications. From 1993 to 2001 he was Chief Technical Officer of HMT Technology, Inc. also a manufacturer of magnetic recording disks. From 1985 to 1993 he was a research staff member and program manager in the Research Division of the IBM Corporation. Dr. Russak has over thirty five years of industrial experience progressing from a research scientist to senior executive officer of two public companies. He has expertise in thin film materials and devices for magnetic recording, photovoltaic, solar thermal applications, semiconductor devices as well as glass, glass-ceramic and ceramic materials. He also has over twelve years' experience at the executive management level of public companies with significant off shore development and manufacturing functions. He received his B.S. in Ceramic Engineering in 1968 and Ph.D. in Materials Science in 1971, both from Rutgers University in New Brunswick, NJ. During his career, he has been a contributing scientist and program manager at the Grumman Aerospace Corporation, a Research Staff Member and technical manager in the areas of thin film materials and processes at the Research Division of the IBM Corporation at the T.J. Watson Research Laboratories. In 1993, he joined HMT Technology, a manufacturer of thin film disks for magnetic storage, as Vice President of Research and Development. His responsibilities included new product design and introduction. Dr. Russak became Chief Technical Officer of HMT and held that position until 2000 when HMT merged with Komag Inc. Dr. Russak was appointed President and Chief Technical Officer of the combined company. He continued to set technical, operational and business direction for Komag until his retirement at the end of 2006. He has published over 90 technical papers, and holds 23 U.S. patents.

Involvement in Certain Legal Proceedings

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

Board Committees; Audit Committee

As of September 30, 2011, the Company's board was comprised of five directors, three of which are considered independent directors and the Company did not have an audit committee. Further, none of the members of the board of directors is qualified as a financial expert. We are a development stage company with limited resources and we are actively seeking a qualified financial expert for addition to the board. The board of directors will appoint committees as necessary, including an audit committee as resources permit. In the meantime, the Board serves as the Company's audit committee utilizing business judgment rules and good faith efforts.

Section 16(A) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires the Company's officers and directors, and certain persons who own more than 10% of a registered class of the Company's equity securities (collectively, "Reporting Persons"), to file reports of ownership and changes in ownership ("Section 16 Reports") with the SEC. Reporting Persons are required by the SEC to furnish the Company with copies of all Section 16 Reports they file. Based on its review of the copies of such forms received by it, or written representations from certain reporting persons, the Company believes that, during the fiscal year ended September 30, 2011, all filing requirements applicable to its officers, directors, and greater than ten-percent beneficial owners were complied with the exception that one report, covering an aggregate of two transactions were not timely filed by the chief executive officer with the SEC via Form 4 or via year-end report on Form 5.

Code of Ethics

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

Item 11. Executive Compensation

Overview

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

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

Executive Compensation

The following table sets forth information with respect to compensation earned by our chief executive officer, our chief operating officer, and our chief technical officer (collectively, our "named executive officers") for the fiscal years ended September 30, 2011, and 2010 respectively.

Summary Compensation Table

Name and Principal Position	Year	**Salary ($)**	**Bonus ($)**	**Stock Awards ($)**	**Option Awards ($)**	**All Other Compensation ($)**	**Total ($)**
	2011	165,000	0	0	0	4,800	169,800
Tom Djokovich, CEO(1)	2010	165,000	0	0	0	4,800	169,800
	2011	157,500	0	0	0	4,800	162,300
Joe Grimes, COO(2)	2010	157,500	0	0	0	4,800	162,300
	2011	165,000	0	0	0	4,800	169,800
Robert Wendt, CTO(3)	2010	160,384	0	0	0	4,800	165,184

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(1) In addition to Mr. Djokovich's base compensation the Company also provides Mr. Djokovich with a $400 monthly health insurance allowance.

(2) In addition to Mr. Grimes base compensation the Company also provides Mr. Grimes with a $400 monthly health insurance allowance.

(3) In addition to Mr. Wendt's base compensation the Company also agreed to provide Mr. Wendt with a $400 monthly health insurance allowance.

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

Grants of Plan-Based Awards Table

The following table sets forth summary information regarding all grants of plan-based awards made to our named executive officers during the two years ended September 30, 2011, and 2010 respectively.

Name	Grant Date	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Stock and Option Awards ($)
Tom Djokovich, CEO	2011	0	0	0
	2010	0	0	0
Joe Grimes, COO	2011	1,000,000	0.10	80,000
	2010	0	0	0

Robert Wendt, CTO	2011	10,000,000	0.10	800,000
	2010	0	0	0

Outstanding Equity Awards at Fiscal Year End Table

The following table sets forth the outstanding equity awards with respect our named executive officers for the fiscal year ended September 30, 2011

OPTION AWARDS						STOCK AWARDS			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Unearned Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercisable Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Unites of Stock That Have Not Vested (#)	Market Value of Shares or Unites of Stock that Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (#)
Tom Dhikovich, CEO	—	—	—	—		—	—	—	—
Joseph Grimes, COO	400,000	100,000	500,000	$ 0.46	1/26/2012	—	—	—	—
	0	500,000	500,000	$ 0.36	10/23/2012	—	—	—	—
	2,500,000	0	2,500,000	$ 0.16	4/1/2014	—	—	—	—
	0	10,000,000	10,000,000	$ 0.10	10/18/2015	—			
Robert Wendt, CTO	400,000	100,000	500,000	$ 0.46	1/26/2012	—	—	—	—
	0	500,000	500,000	$ 0.36	10/23/2012	—	—	—	—
	2,500,000	0	2,500,000	$ 0.16	4/1/2014	—	—	—	—
	0	10,000,000	10,000,000	$ 0.10	10/18/2015	—	—	—	—

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Option Exercises

None

Pension Benefits

None

Nonqualified Defined Contribution and Other Nonqualified Deferred Compensation Plans

None

Employment Agreements and Arrangements

Tom M. Djokovich

Mr. Djokovich serves as our chief executive officer, acting principal accounting officer, and a director. We do not have an employment agreement with Mr. Djokovich. He currently works at the discretion of the board of directors as he has since October 2003. His annual base salary compensation for the 2011 fiscal period was $165,000, and he was provided a $400 per month allowance for use in the payment of medical benefits. His total compensation is based solely on the annual base cash salary and we do not have any equity based, cash bonus, or special compensation agreements or understanding in place with Mr. Djokovich. Mr. Djokovich is also subject to confidentiality and non-solicitation provisions which provide that Mr. Djokovich will not divulge information or solicit employees for 24 months after termination of his employment.

Joseph Grimes

Mr. Grimes serves as our chief operating officer, president, and a director. As of January 2011 the employment agreement between the Company and Mr. Grimes had expired and he currently works at the discretion of the board of directors. His annual base salary compensation for the 2011 fiscal period was $157,500, and he was provided a $400 per month allowance for use in the payment of medical benefits. Mr. Grimes is also subject to confidentiality and non-solicitation provisions which provide that Mr. Grimes will not divulge information or solicit employees for 24 months after termination of his employment.

Robert Wendt

Mr. Wendt serves as our chief technology officer. As of January 2011 the employment agreement between the Company and Mr. Wendt had expired and he currently works at the discretion of the board of directors. His annual base salary compensation for the 2011 period was $165,000, and he was provided a $400 per month allowance for use in the payment of medical benefits. Mr. Wendt is also subject to confidentiality and non-solicitation provisions which provide that Mr. Wendt will not divulge information or solicit employees for 24 months after termination of his employment.

Potential Payments Upon Termination or Change-In-Control

Terms of a two year Key Employee Retention Agreement dated September 1, 2009, with Mr. Robert Wendt, our chief technical officer, provided that in the event that Mr. Wendt's employment was terminated by the Company without good cause, Mr. Wendt may have receive twelve months salary at the then salary rate at time of termination, twelve months Company paid costs for actual costs incurred by Mr. Wendt for medical benefits related to COBRA coverage, and a relocation payment up to $2,500. The agreement expired in September 2011 and the Company did not incur any costs associated with the agreement prior to its expiration.

Long Term Incentive Plans — Awards in Last Fiscal Year

The following table and notes set forth the incentive awards provided to named officers of the Company in 2011 fiscal period.

	Date Issued	**Number Issued**	**Exercise Price**	**Expiration Date**	Consideration
Joseph Grimes	October 18, 2010	1,000,000	$ 0.10	18-Oct-15	Future key deliverables within the scope of the employees influence
Robert G. Wendt	October 18, 2010	10,000,000	$ 0.10	18-Oct-15	Future key deliverables within the scope of the employees influence

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The vesting schedule for Mr. Grimes is as follows:

(a) The Option shall become exercisable in the amount of 1,000,000 shares upon Optionee's management of the assembly and operation of initial baseline CIGSolar process equipment contemplated under the Company's CIGS solar cell equipment and technology plan, and the subsequent production of 1,000 full size solar cells (dimension of 125 or 156 mm square) that achieve a minimum of >10% conversion efficiency over a five (5) day operating period in which the system operates at the designed through-put speed range delivering a cell yield of >80%. Cells measured at AM1.5 using a light source and tester calibrated to NIST standards.

(b) In the event of a sale or merger of all or substantially all of the Company's assets to an acquiring party following which the Company would not be a surviving operating entity, the Company will provide Optionee a fifteen (15) day prior notice of such proposed event providing for immediate vesting of all remaining unvested Options under this Agreement.

The vesting schedule for Mr. Wendt is as follows:

The option shall become exercisable in the following amounts upon the delivery and/or achievement by the optionee(s) of the following performance milestones:

(a) The Option shall become exercisable in the amount of 1,000,000 shares upon the award to the Company of a least one patent issued by the United States Patent and Trademark Office protecting a key element to the Company's CIGSolar manufacturing approach in which Optionee had an instrumental involvement in either the design, development, prosecution, or inception of the intellectual property.

(b) The Option shall become exercisable in the amount of 4,000,000 shares upon Optionee's assembly and/or management of the assembly and operation of initial baseline CIGSolar process equipment contemplated under the Company's CIGS solar cell equipment and technology plan, and the subsequent production of 1,000 full size solar cells (dimension of 125 or 156 mm square) that achieve a minimum of >10% conversion efficiency over a five (5) day operating period in which the system operates at the designed through-put speed range delivering a cell yield of >80%. Cells measured at AM1.5 using a light source and tester calibrated to NIST standards.

(c) The Option shall become exercisable in the amount of 5,000,000 shares upon Optionee's assembly and/or management of the assembly and operation of commercial CIGSolar production equipment prepared for use by the Company, or for delivery to a third party by the Company for use in a commercial setting, and the subsequent production of 2,000 full size solar cells (dimension of 125 or 156 mm square) that achieve a minimum of > 12% conversion efficiency while operating over a five (5) day operating period in which the system operates at the designed through-put speed range delivering a cell yield of >85%. Cells measured at AM1.5 using a light source and tester calibrated to NIST standards.

(d) Achievement of each milestone to be reviewed and determined by the Company's Board of Directors prior to the Company acknowledgment of any vesting rights by Optionee. Determination by the Board of Directors will be provided within ten (10) business days from notice to the Company by Optionee of milestone achievement. Notice by Optionee shall contain all relevant information necessary for the Board of Directors to review and make a determination.

Additionally, in October 2010, the Board of Directors authorized amendments to prior option grants issued to the named employee listed below as follows:

Grant Number	Optionee Name	**Amended Terms**
07-016	Robert Wendt	Section 3(i) (b) Exercise of Option was amended as follows; This Option shall become exercisable in the amount of 100,000 shares upon production by Optionee of a >10% NREL CIGS device produced on glass substrate. Device measured at AM1.5 using a light source and tester calibrated to NIST standards Section 3(i) (a,b,c) Vesting Schedule was amended as follows;
07-023	Robert Wendt	(a) This Option shall become exercisable in the amount of 250,000 shares upon production by Optionee of a >10% NREL CIGS device produced on stainless steel substrate. Device measured at AM1.5 using a light source and tester calibrated to NIST standards."

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		"(b) This Option shall become exercisable in the amount of 250,000 shares upon production by Optionee of one >10% full size 125 mm pseudo square cell on stainless steel (SS). Device measured at AM1.5 using a light source and tester calibrated to NIST standards."
		"(c) Intentionally Omitted"
34-2009	Robert Wendt	Section 3(i) (a) Exercise of Option was amended as follows; All remaining unvested Options under this Agreement shall vest and become exercisable upon production by Optionee, and third party validation, of functioning>10% full size 125 mm pseudo square cells on stainless steel (SS) – minimum 20 cells. Cells measured at AM1.5 using a light source and tester calibrated to NIST standards."

Director Compensation

In the fiscal year ended September 30, 2011, Directors received no additional cash or non-cash compensation for their service to the Company as directors. All Directors were reimbursed for any expenses actually incurred in connection with attending meetings of the Board of Directors.

SUMMARY COMPENSATION TABLE OF DIRECTORS

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

Compensation Committee Interlocks and Insider Participation

For the fiscal year ended September 30, 2011 no adjustments or additions to new or existing employment agreements were reviewed and deliberated by the five members of the Company's Board of Directors.

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

The following table sets forth, as of September 30, 2011, the number of shares of common stock owned of record and beneficially by executive officers, directors and persons who hold 5.0% or more of the outstanding common stock of the Company. Also included are the shares held by all executive officers and directors as a group. Unless otherwise indicated, the address of each beneficial owner listed below is c/o XsunX, Inc., 65 Enterprise, Aliso Viejo, California 92656.

Shareholders/Beneficial Owners	**Number of Shares**	**Ownership Percentage(1)**
Tom Djokovich(2) President & Director	14,993,000	6.5%
Thomas Anderson Director	1,500,000	< 1%
Oz Fundingsland Director	500,000	< 1%
Mike Russak Director	600,000	< 1%
Joseph Grimes Chief Operating Officer	2,900,000	1.3%
Robert Wendt Chief Technical Officer	3,000,000	< 1.3%

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All directors and executive officers as a group of (6 persons) account for ownership of 23,493,000 shares representing 10.13% of the issued and outstanding common stock. Each principal shareholder has sole investment power and sole voting power over the shares.

(1) Applicable percentage ownership is based on 231,998,637 shares of common stock issued and outstanding as of December 29, 2011. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of common stock that are currently exercisable or exercisable within 60 days of December 29, 2011 are deemed to be beneficially owned by the person holding such securities for the purpose of computing the percentage of ownership of such person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person.

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

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

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

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

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

The following directors are not independent: Tom Djokovich and Joseph Grimes.

Item 14. Principal Accounting Fees and Services

Audit Fees 2011

For the fiscal year ended September 30, 2011 HJ Associates & Consultants, LLP had incurred $28,600 for the following professional services: review of the interim financial statements included in quarterly reports on Form 10-Q for the periods ended December 30, 2010, March 31, 2011, June 30, 2011 and for audit fees related to the Company's annual report on Form 10-K. No other fees were billed by HJ Associates & Consultants, LLP in the fiscal year ended September 30, 2011.

Audit Fees 2010

For the fiscal year ended September 30, 2010 HJ Associates & Consultants, LLP had incurred $51,000 for the following professional services: review of the interim financial statements included in quarterly reports on Form 10-Q for the periods ended December 30, 2009, March 30, 2010, June 30, 2010, and for audit fees related to the Company's annual report on Form 10-K. No other fees were billed by HJ Associates & Consultants, LLP in the fiscal year ended September 30, 2010.

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PART IV

Item 15. Exhibits, Financial Statement Schedules

Exhibits:

Exhibit	Description
3.1	Articles of Incorporation(1)
3.2	Bylaws(2)
10.1	XsunX Plan of Reorganization and Asset Purchase Agreement, dated September 23, 2003.(3)
10.2	XsunX 2007 Stock Option Plan, dated January 5, 2007.(4)
10.3	Common Stock Purchase Agreement dated as of March 30, 2010, by and between the Company and Lincoln Park Capital Fund, LLC. (5)
10.4	Registration Rights Agreement dated as of March 30, 2010, by and between the Company and Lincoln Park Capital Fund, LLC. (5)
10.5	Form S-1 and S-1/A related to the filing of a registration statement by the Company (6)(7)
10.6	Form S-1/A related to the filing of a Post-Effective Amendment No. 1 registration statement by the Company.(8)
10.7	Form of Security Purchase Agreement used in connection with the sale of equity to an accredited investor totaling 1,250,000 shares of restricted common stock.(9)
10.8	Form of Security Purchase and Warrant Agreement used in connection with the sale of equity to accredited investors of 5,000,000 units composed of one share of restricted common stock and a five year warrant exercisable to purchase two shares of Common Stock, and the same Warrant Agreement used in connection with the cashless exercise by a holder of 5,000,000 warrants.(9)
10.9	Form of Exchange Agreement and Exchange Note used in connection with the exchange, partial repayment, and extension to a promissory note that had become due September 1, 2011. (9)
10.10	Form of Securities Purchase Agreement and Convertible Promissory Note used in connection with the sale of two convertible promissory notes in the aggregate amount of $95,500. (9)
10.11	Form of Stock Option Agreement used in connection with the issuance of Options to Joseph Grimes, October 2010(10)
10.12	Form of Stock Option Agreement used in connection with the issuance of options to Robert Wendt, October 2010(10)
16.1	Auditor Letter(9)
31.1	Sarbanes-Oxley Certification(9)
31.2	Sarbanes-Oxley Certification(9)
32.1	Sarbanes-Oxley Certification(9)
32.2	Sarbanes-Oxley Certification(9)

(1)

Incorporated by reference to Registration Statement Form 10SB12G #000-29621dated February 18, 2000 and by reference to exhibits included with the Company's prior Report on Form 8-K/A filed with the Securities and Exchange Commission dated October 29, 2003.

(2) Incorporated by reference to Registration Statement Form 10SB12G #000-29621 filed with the Securities and Exchange Commission dated February 18, 2000.

(3) Incorporated by reference to exhibits included with the Company's Report on Form 8-K/A filed with the Securities and Exchange Commission dated October 29, 2003.

(4) Incorporated by reference to exhibits included with the Company's Report on Form 8-K filed with the Securities and Exchange Commission dated January 5, 2007.

(5) Incorporated by reference to exhibits included with the Company's Report on Form 8-K filed with the Securities and Exchange Commission dated April 1, 2010.

(6) Incorporated by reference to exhibits included with the Company's Report on Form S-1 filed with the Securities and Exchange Commission dated April 30, 2010.

(7) Incorporated by reference to exhibits included with the Company's Report on Form S-1/A filed with the Securities and Exchange Commission dated June 25, 2010.

(8) Incorporated by reference to exhibits included with the Company's Post-Effective Amendment No.1 Report on Form S-1/A filed with the Securities and Exchange Commission dated March 29, 2011.

(9) Provided herewith.

(10) Incorporated by reference to exhibits included with the Company's Report on Form 10-K filed with the Securities and Exchange Commission dated December 29, 2010.

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SIGNATURES

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

Date: December 29, 2011 XSUNX, INC.

By: /s/ Tom Djokovich
Name: Tom Djokovich
Title: CEO and Principal Accounting Officer

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

/s/ Tom Djokovich *Tom Djokovich, Chief Executive Officer,* *Principal Executive Officer, Principal* *Financial and Accounting Officer, and Director*	December 29, 2011
/s/ Joseph Grimes Joseph Grimes, President, Chief Operating Officer and Director	December 29, 2011
/s/ Thomas Anderson Thomas Anderson, Director	December 29, 2011
/s/ Oz Fundingsland Oz Fundingsland, Director	December 29, 2011
/s/ Michael Russak Michael Russak, Director	December 29, 2011

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Report of Independent Registered Public Accounting Firm

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

Alisa Viejo, California

We have audited the accompanying balance sheets of XsunX, Inc. (a development stage company) as of September 30, 2011 and 2010 and the related statements of operations, stockholders' equity, and cash flows for the years then ended and for the period from February 25, 1997 (inception) to September 30, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements for the period from February 25, 1997 (inception) to September 30, 2008 were audited by other auditors and our opinion, insofar as it relates to cumulative amounts included for such prior periods, is based solely on the reports of such other auditors.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of XsunX, Inc. (a development stage company) as of September 30, 2011 and 2010, and the results of its operations and its cash flows for the years then ended and for the period from February 25, 1997 (inception) to September 30, 2011, in conformity with U.S. generally accepted accounting principles.

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

/s/ HJ Associates & Consultants, LLP

HJ Associates & Consultants, LLP

Salt Lake City, Utah

December 29, 2011

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XSUNX, INC.

(A Development Stage Company)

Balance Sheets

	September 30, 2011	September 30, 2010
ASSETS		
CURRENT ASSETS		
Cash	$66,576	$200,422
Other receivable	—	2,500
Prepaid expenses	9,204	14,061
Total Current Assets	75,780	216,983
PROPERTY & EQUIPMENT		
Office & miscellaneous equipment	29,841	28,942
Machinery & equipment	177,699	354,541
Total Property & Equipment	207,540	383,483
Less accumulated depreciation	(164,472)	(307,995)
Net Property & Equipment	43,068	75,488
OTHER ASSETS		
Manufacturing equipment in progress	81,975	230,000
Security deposit	3,200	3,200
Total Other Assets	85,175	233,200
TOTAL ASSETS	$204,023	$525,671
LIABILITIES AND SHAREHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable	$167,420	$418,288
Accrued expenses	8,740	8,945
Credit card payable	1,099	10,728
Accrued interest on note payable	95,641	49,949
Note payable	456,921	456,921
Total Current Liabilities	729,821	944,831

TOTAL LIABILITIES	729,821	944,831
SHAREHOLDERS' DEFICIT		
Preferred stock, $0.01 par value;		
50,000,000 authorized preferred shares	—	—
Common stock, no par value;		
500,000,000 authorized common shares		
224,998,637 and 209,055,337 shares issued and outstanding, respectively	25,638,369	24,813,369
Additional paid in capital	5,238,213	5,238,213
Paid in capital, common stock warrants	3,635,079	3,449,063
Deficit accumulated during the development stage	(35,037,459)	(33,919,805)
TOTAL SHAREHOLDERS' DEFICIT	(525,798)	(419,160)
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT	$204,023	$525,671

The Accompanying Notes are an Integral Part of These Financial Statements

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XSUNX, INC.

(A Development Stage Company)

Statements of Operations

	Years Ended September 30, 2011	September 30, 2010	From Inception Feb ruary 25, 1997 through September 30, 2011
REVENUE	$—	$—	$14,880
OPERATING EXPENSES			
Selling, general and administrative expenses	946,459	1,470,731	17,876,800
Research and development	282,492	292,999	3,163,954
Depreciation and amortization expense	38,472	86,948	687,826
TOTAL OPERATING EXPENSES	1,267,423	1,850,678	21,728,580
LOSS FROM OPERATIONS BEFORE OTHER INCOME/(EXPENSE)	(1,267,423)	(1,850,678)	(21,713,700)
OTHER INCOME/(EXPENSES)			
Interest income	—	44	445,537
Gain/(Loss) on sale of asset	17,000	(577)	16,423
Impairment of assets	—	(253,671)	(7,285,120)
Write down of inventory asset	—	(60,000)	(1,177,000)
Gain on legal settlement	179,580	—	1,279,580
Loan fees	—	—	(7,001,990)
Forgiveness of debt	—	—	592,154
Other, non-operating	—	—	(5,215)
Penalties	(596)	—	(596)
Interest expense	(46,215)	(45,721)	(187,532)
TOTAL OTHER INCOME/(EXPENSES)	149,769	(359,925)	(13,323,759)
NET LOSS	$(1,117,654)	$(2,210,603)	$(35,037,459)
BASIC AND DILUTED LOSS PER SHARE	$(0.01)	$(0.01)	

WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING BASIC AND DILUTED	218,617,564	204,441,056

The Accompanying Notes are an Integral Part of These Financial Statements

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XSUNX, INC.

(A Development Stage Company)

Statements of Stockholders' Equity

From Inception February 25, 1997 to September 30, 2011

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

Balance at September 30, 1998									
Issuance of stock for cash	—	—	151,458	717,113	—	—	—	—	717,113
Issuance of stock for services	—	—	135,000	463,500	—	—	—	—	463,500
Net Loss for the year ended September 30, 1999	—	—	—	—	—	—	—	(1,482,017)	(1,482,017
Balance at September 30, 1999	—	—	753,148	1,894,419	—	—	—	(2,475,441)	(581,022
Issuance of stock for cash	—	—	15,000	27,000	—	—	—	—	27,000
Net Loss for the year ended September 30, 2000	—	—	—	—	—	—	—	(118,369)	(118,369
Balance at September 30, 2000	—	—	768,148	1,921,419	—	—	—	(2,593,810)	(672,391
Extinguishment of debt	—	—	—	337,887	—	—	—	—	337,887
Net Loss for the year ended September 30, 2001	—	—	—	—	—	—	—	(32,402)	(32,402
Balance at September 30, 2001	—	—	768,148	2,259,306	—	—	—	(2,626,212)	(366,906
Net Loss for the year ended September 30, 2002	—	—	—	—	—	—	—	(47,297)	(47,297
Balance at September 30, 2002	—	—	768,148	2,259,306	—	—	—	(2,673,509)	(414,203
Issuance of stock for assets	—	—	70,000,000	3	—	—	—	—	3
Issuance of stock for cash	—	—	9,000,000	225,450	—	—	—	—	225,450
Issuance of stock for debt	—	—	115,000	121,828	—	—	—	—	121,828

Issuance of stock for expenses	—	—	115,000	89,939	—	—	—	—	89,939
Issuance of stock for services	—	—	31,300,000	125,200	—	—	—	—	125,200
Net Loss for the year ended September 30, 2003	—	—	—	—	—	—	—	(145,868)	(145,868
Balance at September 30, 2003	—	—	111,298,148	2,821,726	—	—	—	(2,819,377)	2,349
Issuance of stock for cash	—	—	2,737,954	282,670	—	—	—	—	282,670
Warrant expense	—	—	—	—	—	825,000	—	375,000	1,200,000
Net Loss for the year ended September 30, 2004	—	—	—	—	—	—	—	(1,509,068)	(1,509,068
Balance at September 30, 2004	—	—	114,036,102	3,104,396	—	825,000	—	(3,953,445)	(24,049
Issuance of stock for cash	—	—	6,747,037	531,395	—	—	—	—	531,395
Issuance of stock for services	—	—	3,093,500	360,945	—	—	—	—	360,945
Warrant expense	—	—	—	—	—	180,000	—	—	180,000
Beneficial conversion	—	—	—	—	400,000	—	—	—	400,000
Shares held as collateral for debentures	—	—	—	—	—	—	26,798,418	—	—
Net Loss for the year ended September 30, 2005	—	—	—	—	—	—	—	(1,980,838)	(1,980,838
Balance at September 30, 2005	—	—	123,876,639	3,996,736	400,000	1,005,000	26,798,418	(5,934,283)	(532,547
Issuance of stock for services	—	—	72,366	31,500	—	—	—	—	31,500
Warrant expense	—	—	—	—	—	996,250	—	—	996,250

Beneficial conversion	—	—	—	—	5,685,573	—	—	—	5,685,573
Debenture conversion	—	—	21,657,895	5,850,000	—	—	—	—	5,850,000
Issuance of stock for interest expense	—	—	712,956	241,383	—	—	—	—	241,383
Issuance of stock for warrant conversion	—	—	10,850,000	3,171,250	—	—	—	—	3,171,250
Net Loss for the year ended September 30, 2006	—	—	—	—	—	—	—	(9,112,988)	(9,112,988
Balance at September 30, 2006 (restated)	—	—	157,169,856	13,290,869	6,085,573	2,001,250	26,798,418	(15,047,271)	6,330,421
Cancellation of stock for services returned	—	—	(150,000)	—	—	—	—	—	—
Release of security collateral	—	—	—	—	—	—	(26,798,418)	—	(26,798,41
Issuance of stock for warrants	—	—	900,000	135,000	—	—	—	—	135,000
Stock option and warrant expense	—	—	—	—	—	772,315	—	—	772,315
Net Loss for the year ended September 30, 2007	—	—	—	—	—	—	—	(1,968,846)	(1,968,846
Balance at September 30, 2007 (restated)	—	—	157,919,856	13,425,869	6,085,573	2,773,565	—	(17,016,117)	(21,529,52
Fusion Equity common stock purchase	—	—	15,347,581	5,200,000	(55,300)	—	—	—	5,144,700
Commitment fees	—	—	3,500,000	1,190,000	(1,190,000)	—	—	—	—
Cumorah common stock purchase	—	—	8,650,000	2,500,000	—	—	—	—	2,500,000
Wharton settlement	—	—	875,000	297,500	(397,500)	—	—	—	(100,000

MVS warrant cancellation	—	—	—	—	805,440	(805,440)	—	—	—
Stock options and warrant expense	—	—	—	—	—	673,287	—	—	673,287
Net Loss for the year ended September 30, 2008	—	—	—	—	—	—	—	(4,058,952)	(4,058,952
Balance at September 30, 2008	—	—	186,292,437	22,613,369	5,248,213	2,641,412	—	(21,075,069)	(17,370,49
Issuance of common shares in October 2008 for cash (2,000,000 common shares issued at $0.20 per share)	—	—	2,000,000	400,000	—	—	—	—	400,000
Issuance of common shares in November 2008 for cash (1,000,000 common shares issued at $0.20 per share)	—	—	1,000,000	200,000	—	—	—	—	200,000
Issuance of common shares in November 2008 for services (50,000 common shares issued at a fair value of $0.22 per share)	—	—	50,000	11,000	—	—	—	—	11,000
Issuance of common shares in August 2009 for cash (1,129,483 common shares issued at $0.062 per share)	—	—	1,129,483	70,000	—	—	—	—	70,000

The Accompanying Notes are an Integral Part of These Financial Statements

XSUNX, INC.

(A Development Stage Company)

Statements of Stockholders' Equity

From Inception February 25, 1997 to September 30, 2011

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Stock Options/ Warrants Paid-in-Capital	Treasury Stock Shares	Deficit Accumulated during the Development Stage	Total
Issuance of common shares in August 2009 for services (900,000 common shares issued at a fair value of $0.12 per share)	—	—	900,000	108,000	—	—	—	—	108,000
Issuance of common shares in August 2009 for services (76,976 common shares issued at a fair value of $0.1364 per share)	—	—	76,976	10,500	—	—	—	—	10,500
Issuance of common shares in September 2009 for services	—	—	35,714	5,000	—	—	—	—	5,000

(35,714 common shares issued at a fair value of $0.14 per share)									
Issuance of common shares in September 2009 for cash (5,000,000 common shares issued at $0.07 per share)	—	—	5,000,000	350,000	—	—	—	—	350,000
Stock compensation expense	—	—	—	—	—	534,518	—	—	534,518
Net Loss for the year ended September 30, 2009								(10,634,133)	(10,634,133)
Balance at September 30, 2009	—	—	6,012,690	473,500	—	534,518	—	(31,709,202)	482,810
Issuance of common shares in October 2009 for cash (2,556,818 common shares issued at $0.088 per share)	—	—	2,556,818	225,000	—	—	—	—	225,000
Issuance of common shares in November 2009 for services (53,789 common shares issued at a fair value	—	—	53,789	10,000	—	—		—	10,000

of $0.1859 per share)									
Issuance of common shares in December 2009 for subscription receivable (1,000,000 common shares issued at $0.088 per share)	—	—	1,000,000	88,000	—	—		—	88,000
Issuance of common shares in March 2010 for cash (2,000,000 common shares issued at $0.075 per share)	—	—	2,000,000	150,000	—	—	—	—	150,000
Issuance of common shares in March 2010 for services (139,424 common shares issued at $0.16137 per share)	—	—	139,424	22,500	—	—	—	—	22,500
Issuance of common shares in March 2010 for cash (6,250,000 common shares issued at $0.10 per share)	—	—	6,250,000	500,000	—	—	—	—	500,000

Issuance of common shares in September 2010 for cash (279,661 common shares issued at $0.09167 per share)	—	—	279,661	25,000	—	—	—	—	25,000
Issuance of common shares in September 2010 for cash (291,035 common shares issued at $0.088 per share)	—	—	291,035	25,000	—	—	—	—	25,000
Stock compensation expense	—	—	—	—	—	273,133	—	—	273,133
Stock issuance costs	—	—	—	—	(10,000)	—	—	—	(10,000)
Net Loss for the year ended September 30, 2010	—	—	—	—	—	—		(2,210,603)	(2,210,603)
Balance at September 30, 2010	—	—	209,055,337	24,813,369	5,238,213	3,449,063	—	(33,919,805)	(419,160)
Issuance of common shares for cash	—	—	13,263,096	825,000	—	—	—	—	825,000
Issuance of common shares for a cashless exercise of warrants	—	—	2,680,204	—	—	—	—	—	—
Stock compensation	—	—	—	—	—	186,016		—	186,016

costs									
Net loss for the year ended September 30, 2011	—	—	—	—	—	—	—	(1,117,654)	(1,117,654)
Balance at September 30, 2011	—	$—	224,998,637	$25,638,369	$5,238,213	$3,635,079	$—	$(35,037,459)	$(525,798)

The Accompanying Notes are an Integral Part of These Financial Statements

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XSUNX, INC.

(A Development Stage Company)

Statements of Cash Flows

	For the Years Ended September 30, 2011	September 30, 2010	From Inception February 25,1997 through September 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$(1,117,654)	$(2,210,603)	$(35,037,459)
Adjustment to reconcile net loss to net cash used in operating activities			
Depreciation & amortization	38,472	86,948	687,826
Common stock issued for services and interest	—	32,500	1,996,634
Stock option and warrant expense	186,016	273,133	3,909,269
Beneficial conversion and commitment fees	—	—	5,685,573
Asset impairment	—	253,671	7,285,120
Write down of inventory asset	—	60,000	1,177,000
Gain on settlement of debt	(179,580)	—	(466,961)
(Gain)/Loss on sale of asset	(17,000)	577	(16,423)
Settlement of lease	—	—	59,784
Change in Assets and Liabilities:			
(Increase) Decrease in:			
Prepaid expenses	4,857	104,271	(9,204)
Inventory held for sale	—	—	(1,417,000)
Other receivable	2,500	(2,500)	—
Other assets	—	2,615	(3,200)
Increase (Decrease) in:			
Accounts payable	(80,916)	28,995	2,370,101
Accrued expenses	45,487	22,998	115,110
NET CASH USED IN OPERATING ACTIVITIES	(1,117,818)	(1,347,395)	(13,663,830)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase/Refund of manufacturing equipment and facilities in process	148,025	(230,000)	(5,906,604)
Payments on note receivable	—	—	(1,500,000)
Proceeds from sale of assets	17,000	244,100	261,100
Receipts on note receivable	—	—	1,500,000
Purchase of marketable prototype	—	—	(1,780,396)
Purchase of fixed assets	(6,053)	—	(597,972)

NET CASH PROVIDED/(USED) BY INVESTING ACTIVITIES	158,972	14,100	(8,023,872)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from warrant conversion	—	—	3,306,250
Proceeds from debentures	—	—	5,850,000
Proceeds for issuance of common stock, net	825,000	1,003,000	12,598,028
NET CASH PROVIDED BY FINANCING ACTIVITIES	825,000	1,003,000	21,754,278
NET INCREASE (DECREASE) IN CASH	(133,846)	(330,295)	66,576
CASH, BEGINNING OF PERIOD	200,422	530,717	—
CASH, END OF PERIOD	$66,576	$200,422	$66,576
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Interest paid	$440	$28	$120,131
Taxes paid	$—	$—	$—

SUPPLEMENTAL DISCLOSURES OF NON CASH TRANSACTIONS

During the year ended September 30, 2011, the Company issued 2,680,204 shares of common stock in a cashless exercise of stock purchase warrants

The Accompanying Notes are an Integral Part of These Financial Statements

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XSUNX, INC.

(A Development Stage Company)

Notes to Financial Statements

September 30, 2011 and 2010

1. ORGANIZATION AND LINE OF BUSINESS

Organization

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

Line of Business

In the year ended September 30, 2010, XsunX modified its previous plans to directly establish product manufacturing infrastructure. We have re-focused operations on the development of a cross-industry thin film solar manufacturing concept that we believed provides an opportunity for XsunX to establish a competitive advantage within the industry. We have been developing and we have begun to market a hybrid manufacturing solution to produce high performance Copper Indium Gallium (di) Selenide (CIGS) thin film solar cells. Our patent pending system and processing technology, which we call CIGSolar™, focuses on the mass production of individual thin-film CIGS solar cells that match silicon solar cell dimensions and can be offered as a non-toxic, high-efficiency and lowest-cost alternative to the use of silicon solar cells. We intend to offer licenses for the use of the CIGSolar™ process technology thereby generating revenue streams through licensing fees and manufacturing royalties for the use of the technology.

Going Concern

The accompanying financial statements have been prepared on a going concern basis of accounting, which contemplates continuity of operations, realization of assets and liabilities and commitments in the normal course of business. The accompanying financial statements do not reflect any adjustments that might result if the Company is unable to continue as a going concern. The Company does not generate significant revenue, and has negative cash flows from operations, which raise substantial doubt about the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern and appropriateness of using the going concern basis is dependent upon, among other things, additional cash infusion. The Company has obtained funds from its shareholders since its inception through the year ended September 30, 2011. Management believes the existing shareholders and the prospective new investors will provide the additional cash needed to meet the Company's obligations as they become due, and will allow the development of its core of business.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Development Stage Activities and Operations

The Company has been in its initial stages of formation and for the year ended September 30, 2011, had no revenues. A development stage activity as one in which all efforts are devoted substantially to establishing a new business and even if planned principal operations have commenced, revenues are insignificant.

Use of Estimates

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

Cash and Cash Equivalents

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

Fair Value of Financial Instruments

The Company's financial instruments, including cash and cash equivalents, accounts payable and accrued liabilities are carried at cost, which approximates their fair value, due to the relatively short maturity of these instruments. As of September 30, 2011, and 2010, the Company's notes payable have stated borrowing rates that are consistent with those currently available to the Company and, accordingly, the Company believes the carrying value of these debt instruments approximates their fair value.

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

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XSUNX, INC.

(A Development Stage Company)

Notes to Financial Statements

September 30, 2011 and 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2011, and 2010, were $38,472 and $86,948, respectively.

Loss per Share Calculations

Loss per Share is the calculation of basic earnings per share and diluted earnings per share. Basic earnings per share are computed by dividing income available to common shareholders by the weighted-average number of common shares available. Diluted earnings per share is computed similar to basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. The Company's diluted loss per share is the same as the basic loss per share for the years ended September 30, 2011 and 2010 as the inclusion of any potential shares would have had an anti-dilutive effect due to the Company generating a loss.

Revenue Recognition

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

Advertising

Advertising costs are expensed as incurred. Total advertising costs were $6,622, and $8,515 for the years ended September 30, 2011 and 2010, respectively.

Research and Development

Research and development costs are expensed as incurred. Total research and development costs were $282,492 and $292,999 for the years ended September 30, 2011, and 2010, respectively.

Stock-Based Compensation

Share-based Payment applies to transactions in which an entity exchanges its equity instruments for goods or services and also applies to liabilities an entity may incur for goods or services that are to follow a fair value of those equity instruments. We are required to follow a fair value approach using an option-pricing model, such as the Black Scholes option valuation model, at the date of a stock option grant. The deferred compensation calculated under the fair value method would then be amortized over the respective vesting period of the stock option. This has not had a material impact on our results of operations.

Income Taxes

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

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

Recent Accounting Pronouncements

Management reviewed accounting pronouncements issued during the three months ended September 30, 2011, and no pronouncements were adopted during the period.

3. CAPITAL STOCK

At September 30, 2011, the Company's authorized stock consisted of 500,000,000 shares of common stock, with no par value. The Company is also authorized to issue 50,000,000 shares of preferred stock with a par value of $0.01 per share. The rights, preferences and privileges of the holders of the preferred stock will be determined by the Board of Directors prior to issuance of such shares.

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XSUNX, INC.

(A Development Stage Company)

Notes to Financial Statements

September 30, 2011 and 2010

3. CAPITAL STOCK (continued)

During the year ended September 30, 2011, pursuant to an S-1 Registration Statement declared effective by the SEC on June 30, 2010, and a Post-Effective Amendment No. 1 registration declared effective by the Securities and Exchange Commission on April 4, 2011 the Company sold to Lincoln Park Capital Group, LLC (LPC) a total of approximately 7,013,096 shares for a total investment of $575,000. These shares were sold at various pricing between $0.08 and $0.0888 per share, and included 159,720 of the remaining pool of 1,236,112 commitment shares were issued on a pro rata basis to LPC as LPC has purchased additional shares pursuant to the effective S-1 Registration Statement.

During the year ended September 30, 2011, the Company also issued 5,000,000 units composed of one share of restricted common stock and a five year warrant exercisable to purchase two shares of Common Stock at $0.04 per share for cash of $200,000; 1,250,000 shares of restricted common stock at a price of $0.04 per share for cash of $50,000; a holder of warrants exercised all available 5,000,000 warrants utilizing a cashless exercise provision resulting in the net issuance of 2,680,204 shares of the Company’s restricted common stock. The above shares were issued in a transactions exempt from registration pursuant to Section 4(2) of the Securities Act.

During the year ended September 30, 2010, the Company issued 2,556,818 shares of common stock at a price of $0.088 per share for cash of $225,000; issued 193,213 shares of common stock at fair values between $0.16137 and $0.1859 per share for services; issued 1,000,000 shares of common stock at a price of $0.088 for a subscription payable; issued 2,000,000 shares of common stock at a price of $0.08 per share for cash of $150,000; Also, through an equity offering the Company received $550,000 in cash, and issued 6,820,696 shares of common stock, which included 1,263,888 commitment shares. The shares were issued at prices between $0.088 and $0.10 per share.

4. STOCK OPTIONS AND WARRANTS

The Company adopted a Stock Option Plan for the purposes of granting stock options to its employees and others providing services to the Company, which reserves and sets aside for the granting of Options for Twenty Million (20,000,000) shares of Common Stock. Options granted under the Plan may be either Incentive Options or Nonqualified Options and shall be administered by the Company's Board of Directors ("Board"). Each Option shall be exercisable to the nearest whole share, in installments or otherwise, as the respective Option agreements may provide. Notwithstanding any other provision of the Plan or of any Option agreement, each Option shall expire on the date specified in the Option agreement. During the year ended September 30, 2011, the Company granted 11,000,000 incentive stock options to employees that will vest upon completion of various milestones. 1,000,000 of the shares were part of the Company's 2007 Stock Option Plan. The stock options are exercisable for a period of five years from the date of grant at an exercise price between $0.10 and $0.53 per share and expire at various times through October 2015.

Risk free interest rate	1.67% to 2.77%
Stock volatility factor	90.56% to 104.73%
Weighted average expected option life	5 years
Expected dividend yield	None

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

	9/30/2011		9/30/2010	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Outstanding, beginning of year	10,180,000	$ 0.27	10,180,000	$ 0.27
Granted	11,000,000	$ 0.10	—	$ —
Exercised	—	$ —	—	$ —
Expired	—	$ —	—	$ —
Outstanding, end of year	21,180,000	$ 0.18	10,180,000	$ 0.27
Exercisable at the end of year	8,544,159	$ 0.27	6,858,328	$ 0.29
Weighted average fair value of options granted during the year		$ 0.10		$ —

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XSUNX, INC.

(A Development Stage Company)

Notes to Financial Statements

September 30, 2011 and 2010

4. STOCK OPTIONS AND WARRANTS (continued)

The weighted average remaining contractual life of options outstanding issued under the plan as of September 30, 2011 was as follows:

Exercisable Prices	Stock Options Outstanding	Stock Options Exercisable	Average Remaining Contractual Life (years)
$0.46	1,150,000	950,000	0.32 years
$0.53	100,000	100,000	0.40 years
$0.45	100,000	100,000	0.56 years
$0.41	100,000	100,000	0.91 years
$0.36	2,500,000	1,500,000	1.07 years
$0.36	500,000	500,000	1.12 years
$0.36	500,000	500,000	1.16 years
$0.36	115,000	115,000	2.03 years
$0.16	5,115,000	4,679,159	2.50 years
$0.10	11,000,000	—	4.05 years
	21,180,000	8,544,159	

Stock-based compensation expense recognized during the period is based on the value of the portion of stock-based payment awards that is ultimately expected to vest. Stock-based compensation expense recognized in the financial statements of operations during the year ended September 30, 2011, included compensation expense for the stock-based payment awards granted prior to, but not yet vested, as of September 30, 2011 based on the grant date fair value estimated, and compensation expense for the stock-based payment awards granted subsequent to September 30, 2011, based on the grant date fair value estimated. We account for forfeitures as they occur. The stock-based compensation expense recognized in the statement of operations during the years ended September 30, 2011 and 2010 was $186,016 and $273,133, respectively.

Warrants

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

	9/30/2011 Number of Options	Weighted average exercise price	9/30/2010 Number of Options	Weighted average exercise price
Outstanding, beginning of year	4,195,332	$ 0.61	4,195,332	$ 0.61
Granted	10,000,000	$ 0.04	—	$ —
Exercised	(5,000,000)	$ (0.04)	—	$ —
Expired	(612,000)	$ (0.73)	—	$ —
Outstanding, end of year	8,583,332	$ 0.32	4,195,332	$ 0.61
Exercisable at the end of year	8,583,332	$ 0.32	4,047,332	$ 0.64
Weighted average fair value of warrants granted during the year		$ 0.04		$ —

At September 30, 2011, the weighted average remaining contractual life of warrants outstanding:

Exercisable Prices	Warrants Outstanding	Warrants Exercisable	Weighted Average Remaining Contractual Life (years)
$0.20	250,000	250,000	0.25 years
$0.50	1,666,666	1,666,666	1.09 years
$0.75	1,666,666	1,666,666	1.09 years
$0.04	2,500,000	2,500,000	4.30 years
$0.04	2,500,000	2,500,000	4.46 years
	8,583,332	8,583,332	

5. INCOME TAXES

The Company files income tax returns in the U.S. Federal jurisdiction, and the state of California. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2008.

Included in the balance at September 30, 2011, are no tax positions for which the ultimate deductibility is highly certain, but for which

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XSUNX, INC.

(A Development Stage Company)

Notes to Financial Statements

September 30, 2011 and 2010

5. INCOME TAXES (continued)

there is uncertainty about the timing of such deductibility. Because of the impact of deferred tax accounting, other than interest and penalties, the disallowance of the shorter deductibility period would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period.

The Company's policy is to recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. During the period ended September 30, 2011, the Company did not recognize interest and penalties.

6. DEFERRED TAX BENEFIT

At September 30, 2011, the Company had net operating loss carry-forwards of approximately $19,390,000 that may be offset against future taxable income from the year 2011 through 2030. No tax benefit has been reported in the September 30, 2011 financial statements since the potential tax benefit is offset by a valuation allowance of the same amount.

The income tax provision differs from the amount of income tax determined by applying the U.S. federal and state income tax rate of 40% to pretax income from continuing operations for the years ended September 30, 2011 and 2010 due to the following:

	9/30/2011	9/30/2010
Book Income	$(447,062)	$(884,241)
State Income Taxes	—	—
Nondeductible Stock Compensation	74,406	109,253
Nondeductible Penalties	238	—
Asset Impairment	—	125,468
Meals & Entertainment	530	682
Depreciation	11,339	24,225
Loss on disposal of assets	(6,494)	13,931
NOL Carryover	—	—
Valuation Allowance	367,043	610,682

Income Tax Expense	$—	$—

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

Net deferred tax assets consist of the following components as of September 30, 2011 and 2010:

	9/30/2011	9/30/2010
Deferred Tax Assets:		
NOL Carryforward	$7,755,958	$7,269,868
Depreciation	—	—
Contribution Carryforward	40	40
Section 179 Expense Carry-forward	73,406	90,686
R&D Carryforward	37,407	19,045
Deferred Tax Liabilities:	—	—
Depreciation	(15,280)	(10,058)
Valuation Allowance	(7,851,531)	(7,369,581)
Net Deferred Tax Asset	$—	$—

7. PROMISSORY NOTE

During the year ended September 30, 2009, the Company converted accounts payable to a promissory note in the amount of $456,921. The note accrues interest at 10% per annum. The note, including all principal and interest were due September 1, 2011. The interest expense for the years ended September 30, 2011 and 2010 was $45,692 and $45,721. Merix Corporation (the original holder) of the note sold, assigned and conveyed all of its right, title and interest in the note to a third party during the 2011 calendar year. At the time the promissory note matured the Company was engaged in negotiations to re-pay and/or alter the terms of the note with the new holder.

8. SALE AND DISPOSITION OF ASSETS

On April 21, 2011 the Company received payment in the amount of $17,000 for an offer it accepted on April 14, 2011 for the sale of equipment no longer in use by the Company. The book value of the asset was zero and the Company recognized a gain of $17,000.

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XSUNX, INC.

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Notes to Financial Statements

September 30, 2011 and 2010

9. COMMITMENTS AND CONTINGENCIES

In February 2010, the Company elected to negotiate a settlement related to a dispute over a re-stocking fee on certain equipment with a vendor, Airgas Corp., agreeing to pay $114,641 in 12 equal monthly payments of $9,553, which commenced on March 1, 2010. As of September 30, 2011, the debt was paid in full.

On March 31, 2011 we entered into a settlement agreement with Billco Manufacturing Inc. agreeing to pay $30,000 in the form of 3 equal monthly payments of $10,000 commencing April 15, 2011 as full and final settlement for an open book account balance of $340,568 purportedly owed to the vendor by XsunX. XsunX completed all payments and on June 22, 2011 we received a full release from the vendor. The accounts payable liability of $209,580 which the Company booked while working to settle this claim was reduced to $30,000 and the Company recognized $179,580 gain on settlement of debt.

The Company continues to lease a corporate office facility located in Aliso Viejo. The lease is month to month at a monthly rate of $1,000 per month.

10. SUBSEQUENT EVENTS

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

As part of the Company's operating plans, and efforts to maximize the use of its capital resources towards the assembly of its initial baseline multi-chamber CIGSolar™ thermal co-evaporation system, the Company's CEO, COO, and CTO agreed effective October 2011 to salary reductions under which each executive would receive an annualized salary of $120,000.

On October 24, 2011, in exchange for a promissory note (the "Note") of $456,921 plus accrued interest of $98,645 that had become due at September 1, 2011, the Company issued 7,000,000 restricted shares of common stock as payment for the reduction of $205,565 of principal and accrued interest balance under the Note, and exchanged the Note for and issued a new unsecured promissory exchange note (the “Exchange Note”) in the amount of $350,000. The note bears interest at 10% per annum and matures on September 30, 2012.

On October 27, 2011, and again on December 7, 2011 XsunX, Inc. (the "Company") consummated a Securities Purchase Agreement (the "Purchase Agreements") providing for the sale by the Company of 8% unsecured Convertible Notes in the aggregate principal amount of $53,000 and $42,500 respectively (the “Note”) which amounts were advanced immediately at the time of each sale. The October 27, 2011 Note matures on July 31, 2012, and the December 7, 2011 Note matures on September 12, 2012. The Company has the right to redeem a portion or all amounts outstanding under the either Note prior to one hundred and eighty one days from issuance of the Note under a variable redemption rate premium. After one hundred and eighty days the holder may convert into shares of common stock at a conversion price of sixty percent of the average lowest five closing bid prices for the common stock, during the ten trading day period ending on the latest complete trading day prior to the conversion date. The holder has certain rights of first refusal related to financings of less than seventy five thousand dollars by the Company, and in the event of certain default conditions the Company may be subject a default premium of fifty percent.

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