XENONICS HOLDINGS, INC.

FORM 10-Q
(Quarterly Report)

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Address	3186 LIONSHEAD AVENUE CARLSBAD, CA, 92010
Telephone	760.477.8900
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Industry	Construction Supplies & Fixtures
Sector	Consumer Cyclicals
Fiscal Year	09/30

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

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2015

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______to _____

Commission file number: 001-32469

XENONICS HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Nevada **(State or other jurisdiction of incorporation or organization)**	**84-1433854** **(I.R.S. Employer Identification No.)**
3186 Lionshead Avenue **Carlsbad, California** **(Address of principal executive offices)**	**92010** **(Zip code)**

(760) 477-8900
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☐	Smaller Reporting Company ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The registrant had 26,305,368 shares of common stock outstanding as of August 3, 2015.

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PART I. FINANCI AL INFORMATION

ITEM 1. Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEETS

Rounded to the nearest thousand, except par value	**June 30, 2015** (unaudited)	**September 30, 2014**
Assets		
Current Assets:		
Cash	$ 47,000	$ 130,000
Accounts receivable	—	432,000
Inventories	543,000	701,000
Deferred financing costs, current portion	55,000	55,000
Other current assets	19,000	19,000
Total Current Assets	664,000	1,337,000
Inventories, net of current portion	367,000	444,000
Equipment, furniture and fixtures at cost, net	2,000	5,000
Deferred financing costs, less current portion, net	62,000	103,000
Other assets	21,000	20,000
Goodwill	375,000	375,000
Total Assets	$ 1,491,000	$ 2,284,000
Liabilities and Shareholders' Deficit		
Current Liabilities:		
Accounts payable	$ 587,000	$ 593,000
Accrued expenses	165,000	207,000
Accrued payroll and related taxes	154,000	131,000
Accrued interest	613,000	367,000
Convertible note payable, net of discount	9,000	—
Total Current Liabilities	1,528,000	1,298,000
Notes payable, net of debt discount	2,275,000	2,271,000
Derivative liabilities	1,015,000	904,000
Convertible notes payable, net of debt discount, less current portion	310,000	74,000
Total Liabilities	5,128,000	4,547,000
Contingencies (Note 13)		
Shareholders' Deficit:		
Preferred shares, $0.001 par value, 5,000,000 shares authorized, 0 shares issued and outstanding	—	—
Common shares, $0.001 par value, 50,000,000 shares authorized as of June 30, 2015 and September 30, 2014; 25,755,000 shares issued and outstanding as of June 30, 2015 and 24,976,000 as of September 30, 2014	26,000	25,000
Additional paid-in capital	27,756,000	27,561,000
Accumulated deficit	(31,419,000)	(29,849,000)
Total Shareholders' Deficit	(3,637,000)	(2,263,000)
Total Liabilities and Shareholders' Deficit	$ 1,491,000	$ 2,284,000

See notes to unaudited condensed consolidated financial statements.

CONDENSED CONSOLIDATED S TATEMENTS OF OPERATIONS

	Three months ended June 30,		Nine months ended June 30,	
	2015	2014	2015	2014
Rounded to the nearest thousand,, except per share amounts	(unaudited)		(unaudited)	
Revenues	$ 451,000	$ 257,000	$ 1,412,000	$ 337,000
Cost of goods sold	253,000	155,000	809,000	200,000
Gross profit	198,000	102,000	603,000	137,000
Selling, general and administrative	391,000	378,000	1,180,000	1,177,000
Research and development	92,000	57,000	259,000	285,000
Loss from operations	(285,000)	(333,000)	(836,000)	(1,325,000)
Other expenses:				
Interest expense	(288,000)	(113,000)	(682,000)	(298,000)
Amortization of deferred financing costs	(14,000)	—	(42,000)	—
Change in fair value of derivative liabilities	844,000	—	(8,000)	—
Net income (loss) before provision for income taxes	257,000	(446,000)	(1,568,000)	(1,623,000)
Income tax provision	—	—	2,000	2,000
Net income (loss)	$ 257,000	$ (446,000)	$ (1,570,000)	$ (1,625,000)
Net income (loss) per share:				
Basic and fully-diluted	$ 0.01	$ (0.02)	$ (0.06)	$ (0.07)
Weighted average shares outstanding:				
Basic and fully-diluted	25,168,000	24,976,000	25,156,000	24,976,000

See notes to unaudited condensed consolidated financial statements.

CONDENSED CONSOLIDATED S TATEMENTS OF CASH FLOWS

	Nine months ended June 30, 2015	Nine months ended June 30, 2014
Rounded to the nearest thousand	(unaudited)	
Cash flows from operating activities:		
Net loss	$ (1,570,000)	$ (1,625,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	2,000	5,000
Change in inventory reserves	77,000	—
Non-cash charge for warrant extension	3,000	—
Amortization of debt discount and non-cash interest expense on convertible notes	352,000	67,000
Amortization of deferred financing costs	42,000	—
Change in fair value of derivative liabilities	8,000	—
Changes in operating assets and liabilities:		
Accounts receivable	432,000	28,000
Inventories	158,000	137,000
Other current assets	(2,000)	3,000
Accounts payable	(7,000)	312,000
Accrued expenses	(42,000)	22,000
Accrued interest	246,000	231,000
Accrued payroll and related taxes	25,000	189,000
Net cash used in operating activities	(276,000)	(631,000)
Cash flows from financing activities:		
Proceeds from convertible notes payable	289,000	420,000
Payment on notes payable	(146,000)	—
Warrants exercised	50,000	—
Net cash provided by financing activities	193,000	420,000
Net decrease in cash	(83,000)	(211,000)
Cash, beginning of period	130,000	220,000
Cash, end of period	$ 47,000	$ 9,000
Supplemental cash flow information:		
Cash paid during the period for income taxes	$ 2,000	$ —
Cash paid during the period for interest	$ 80,000	$ —
Supplemental schedule of non-cash financing activities		
Convertible note conversion	$ 20,000	$ —
Derivative expense for conversion of notes payable	$ 123,000	$ —
The Company issued warrants to purchase shares of common stock in connection with notes payable. The fair value of the warrants was recorded as debt discount and additional paid in capital	$ —	$ 19,000
The Company issued warrants to purchase shares of common stock as deferred financing costs in conjunction with convertible notes payable offerings	$ —	$ 21,000
Debt discount was recorded for the beneficial conversion feature in conjunction with convertible notes payable	$ —	$ 57,000

See notes to unaudited condensed consolidated financial statements.

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. These financial statements and notes thereto should be read in conjunction with the financial statements and notes thereto for the year ended September 30, 2014 included in the Xenonics Holdings, Inc. ("Holdings") Form 10-K filing. The results for the interim period are not necessarily indicative of the results for the full fiscal year.

The condensed consolidated financial statements include the accounts of Holdings and its wholly-owned subsidiary, Xenonics, Inc. ("Xenonics"), collectively, the "Company".

2. GOING CONCERN

The Company's financial statements are prepared using generally accepted accounting principles in the United States of America applicable to a going concern which contemplates the realization of assets and liquidation of liabilities in the normal course of business. At this time the Company has not yet received pending sufficient orders for its products to cover its operating costs and meet its obligations as they become due, which raises substantial doubt about its ability to continue as a going concern.

The future of the Company as an operating business will depend on its ability to (1) obtain purchase orders and ship its products, (2) collect for sales in a timely manner, (3) continue to exercise tight cost controls to conserve cash and attain profitable operations, and (4) obtain sufficient financing as may be required to sustain its operations.

The accompanying financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern. If the Company is unable to obtain adequate revenues and financing, it could be forced to cease operations.

3. RECENT ACCOUNTING PRONOUNCEMENTS

The Company reviews new accounting standards as issued. Although some of these accounting standards issued are effective after the end of the Company's previous fiscal year may be applicable to the Company, it has not identified any standards that it believes merit further discussion. The Company believes that none of the new standards will have a significant impact on its consolidated financial statements.

4. EARNINGS (LOSS) PER SHARE

Earnings (loss) per share is computed by dividing the income (loss) available to common shareholders by the weighted average number of common shares outstanding. Diluted earnings per share is computed similarly 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 additional common shares that were dilutive had been issued. Common share equivalents are excluded from the computation if their effect is anti-dilutive. The Company's common share equivalents consist of stock options and warrants.

The diluted earnings per share did not include the dilutive effect, if any, from the potential exercise of stock options and warrants outstanding using the treasury stock method, because their effect would have been anti-dilutive to the loss in the period. For the three and nine months ended June 30, 2015, the number of unvested stock options and vested warrants excluded was 10,045,000. Also excluded were 13,729,000 shares that could be issued for convertible debt. For the three months ended June 30, 2014, the number of unvested stock options and vested warrants excluded was 7,437,000. There was no convertible debt as of June 30, 2014.

5. *INVENTORIES*

Inventories were comprised of :

	June 30, 2015 (unaudited)	September 30, 2014
Raw materials	$ 715,000	$ 961,000
Work in process	59,000	50,000
Finished goods	136,000	134,000
Total	910,000	1,145,000
Less: Current portion	(543,000)	(701,000)
Long-term portion	$ 367,000	$ 444,000

6. *USE OF ESTIMATES*

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

7. *NOTES PAYABLE*

As of June 30, 2015 the following promissory notes were outstanding.

Notes Payable	June 30, 2015	September 30, 2014
Secured note payable maturing on June 23, 2017 bearing interest at 13% per annum	$ 450,000	$ 450,000
Secured note payable maturing on June 23, 2017 bearing interest at 13% per annum	500,000	500,000
Secured note payable maturing on June 23, 2017 bearing interest at 13% per annum	500,000	500,000
Secured note payable maturing on June 23, 2017, bearing interest at 18% per annum, net of debt discount of $-0-and $2,000 at June 30, 2015 and September 30, 2014, respectively	200,000	198,000
Secured note payable, maturing on June 23, 2017, bearing interest at 10% per annum, net of debt discount of $-0- and $2,000 at June 30, 2015 and September 30, 2014, respectively	50,000	48,000
Secured notes payable, maturing on June 23, 2017, bearing interest at 18% per annum	50,000	50,000
Secured notes payable, maturing on June 23, 2017, bearing interest at 13% per annum	525,000	525,000
Total long-term notes payable	$ 2,275,000	$ 2,271,000

Future payments under long-term notes payable as of June 30, 2015 are as follows:

2017	$ 2,275,000
Total	$ 2,275,000

8. *SECURED CONVERTIBLE NOTES PAYABLE*

XNNH Secured Convertible Notes Payable

During the year ended September 30, 2014, the Company issued and sold secured convertible notes of the Company in an aggregate principal amount of $638,000. The convertible promissory notes bear interest at a rate of 13% per annum and are convertible at the option of the holder into common stock of the Company at a conversion rate of $0.07 per share. Management evaluated the embedded conversion option in light of the guidance in ASC 815: Derivatives and Hedging and noted that the conversion option did not require bifurcation and derivative accounting. Management further evaluated the conversion option in light of the guidance in ASC 470: Debt and determined that a beneficial conversion feature existed and required measurement and re cognition. Management valued the beneficial conversion feature at $595,000 based on the intrinsic value of the beneficial conversion feature capped at total proceeds related to the instrument. The beneficial conversion feature was recorded as a debt discou nt (with a corresponding credit to Additional Paid in Capital) and such discount is being amortized to interest expense using the effective interest rate method over the life of the note. As of June 30, 2015, $ 425 ,000 of the note discount remains unamortiz ed. The notes are due three years from issuance and expire through September 9, 2017.

Private Placement Secured Convertible Notes Payable

During the year ended September 30, 2014, the Company issued and sold secured convertible notes of the Company in an aggregate principal amount of $343,000 through a private placement offering pursuant to a Subscription Agreement. The notes bear interest at 13% per annum and are convertible at the option of the holder thereof into shares of the Company’s common stock at a conversion rate of $0.07 per share. Additionally, the Company paid commissions of $56,000 and issued to the Placement Agent five-year warrants to purchase 922,902 shares of common stock of the Company at $0.12 per share. As of June 30, 2015, $230,000 of the note discount remains unamortized. The notes are due three years from issuance and expire through September 9, 2017.

The Company accounted for the Warrants relating to the aforementioned Private Placement in accordance with ASC 815-10, Derivatives and Hedging. They are marked to market for each reporting period through the consolidated statement of operations. On the closing date, the warrant liabilities were recorded at fair value of $109,000. The value of the warrant liability as of September 30, 2014 was $151,000 and as of June 30, 2015 was $149,000. As a result of a change in the estimated fair market value of the warrant liability the Company recorded other income of $2,000 for the nine months ended June 30, 2015. Such change in the estimated fair value was primarily due to the fluctuation in the Company's common stock price.

The fair value of the warrants was determined using a path-dependent Monte Carlo simulation based on the following assumptions: Expected term: 3.90 – 4.19 years, Risk free rate: 1.33% – 1.38%, Volatility: 123%.

The Company accounted for the Convertible Notes relating to the aforementioned Private Placement in accordance with ASC 815-10, Derivatives and Hedging. Because the embedded conversion feature in the notes is not indexed to the Company's stock and is not classified in stockholders' equity, they are bifurcated and recorded as liabilities at fair value. They are marked to market each reporting period through the consolidated statement of operations. On the closing date, the derivative liabilities were recorded at fair value of $547,000. The value of the derivative liability as of September 30, 2014 was $753,000 and as of June 30, 2015 was $633,000 As a result of a change in the estimated fair market value of the derivative liability the Company recorded other income of $120,000 for the nine months ended June 30, 2015. Such change in the estimated fair value was primarily due to the fluctuation in the Company's common stock price.

The fair value of the embedded derivative was determined using the Monte Carlo simulation based on the following assumptions: Hazard rate: 31.42%; Volatility: 119% - 121%; Risk free rate: 0.650% - 0.712%.

Private Placement Convertible Notes Payable

During the quarter ended June 30, 2015, the Company issued and sold two convertible notes of the Company in an aggregate principal amount of $157,500 through a private placement offering. The notes bear interest at 12% per annum and are convertible at any time after six months from the date of the note into shares of the Company’s common stock. The conversion rate for the first note is equal to 65% of the arithmetic average of the two lowest closing bids of the Company’s common stock occurring during the 15 consecutive trading days immediately preceding the date which the holder elects to convert all or part of the note. The conversion rate for the second note is equal to 65% of the lowest trading price of the Company’s common stock during the 20 consecutive trading days prior to the date on which the holder elects to convert all or part of the note. The Company paid commissions of $14,200. As of June 30, 2015, $14,000 of the note discounts remain unamortized. The first note is due May 21, 2017 and the second is due May 22, 2016.

The Company accounted for the Convertible Notes relating to the aforementioned Private Placement in accordance with ASC 815-10, Derivatives and Hedging. Because the embedded conversion feature in the notes is not classified in stockholders' equity, they are bifurcated and recorded as liabilities at fair value. They are marked to market each reporting period through the consolidated statement of operations. On the closing date, the derivative liabilities were recorded at fair value of $226,000. The value of the derivative liability as of June 30, 2015 was $232,000. As a result of the change in the estimated fair market value of the derivative liability the Company recorded an additional other expense of $6,000 for the nine months ended June 30, 2015.

The fair value of the embedded derivative as of June 30, 2015 was determined using the Monte Carlo simulation based on the following assumptions: Volatility: 104 % - 118%; Risk free rate: 0.230 % - 0.601 %.

Convertible Notes Payable	June 30, 2015	September 30, 2014
Private Placement Convertible Note Payable, maturing May 22, 2016, bearing interest at 12% per annum, net of debt discount of $74,000 at June 30, 2015	$ 9,000	—
Total short-term convertible note payable	$ 9,000	—
XNNH Secured Convertible Notes Payable, maturing through September, 2017, bearing interest at 13% per annum, net of debt discount of $425,000 and $573,000 at June 30, 2015 and September 30, 2014, respectively	$ 213,000	$ 65,000
Private Placement Secured Convertible Notes Payable, maturing through September, 2017, bearing interest at 13% per annum, net of debt discount of $230,000 and $334,000 at June 30, 2015 and September 30, 2014, respectively	93,000	9,000
Private Placement Convertible Note Payable, maturing May 21, 2017, bearing interest at 12% per annum, net of debt discount of $71,000 at June 30, 2015	4,000	—
Total long-term convertible notes payable	$ 310,000	$ 74,000

Future payments under secured convertible notes payable as of June 30, 2015 are as follows:

2016	$ 83,000
2017	1,036,000
Total	$ 1,119,000

9. *STOCK BASED COMPENSATION*

Stock Options - US GAAP requires that compensation cost relating to share-based payment arrangements be recognized in the financial statements. US GAAP requires measurement of compensation cost for all employee share-based awards at fair value on date of grant and recognition of compensation over the service period for awards expected to vest. The fair value of stock options is determined using the Black-Scholes valuation model. Such fair value is recognized as expense over the service period, net of estimated forfeitures.

US GAAP requires that equity instruments issued to non-employees in exchange for services be valued at the more accurate of the fair value of the services provided or the fair value of the equity instruments issued. For equity instruments issued that are subject to a required service period the expense associated with the equity instruments is recorded as the instruments vest or the services are provided. The Company has granted options and warrants to non-employees and recorded the fair value of these equity instruments on the date of issuance using the Black-Scholes valuation model. The Company has granted stock to non-employees for services and values the stock at the more reliable of the market value on the date of issuance or the value of the services provided. For grants subject to vesting or service requirements, expenses are deferred and recognized over the more appropriate of the vesting period, or as services are provided.

In July 2003, the Company's board of directors adopted a stock option plan. Under the 2003 option plan, options to purchase up to 1,500,000 shares of common stock are available for employees, directors, and outside consultants.

In December 2004, the Company's board of directors adopted a 2004 stock incentive plan. The Company may issue up to 1,500,000 shares of common stock under the 2004 plan and no person may be granted awards during any twelve-month period that cover more than 300,000 shares of common stock.

The fair value of each option award is estimated on the date of grant using the Black-Scholes valuation model. There were no options granted during the three months ended June 30, 2015 and 2014.

Expected volatility is determined based on historical volatility. Expected life is determined based on historical experience of similar awards, giving consideration to the contractual terms of the stock-based awards and vesting schedules. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. Share-based compensation expense recognized is based on the options ultimately expected to vest. US GAAP requires forfeitures to be estimated at the time of grant and revised, if necessary, in subseq uent periods if actual forfeitures differ from those estimated. Forfeitures were estimated based on the Company's historical experiences.

A summary of the Company's stock option activity as of June 30, 2015, and changes during the nine months then ended is presented below:

	Stock Options	Weighted Average Exercise Price	Weighted Average Contractual Term (Years)	Aggregate Intrinsic Value *
Outstanding at October 1, 2014	2,315,000	$ 0.18	3.44	
Granted	—	—		
Exercised	—	—		
Forfeited, Expired or Cancelled	—	—		
Outstanding at June 30, 2015	2,315,000	$ 0.18	2.70	$ 23,000
Exercisable at June 30, 2015	—	—	—	$ — *

* The aggregate intrinsic value of a stock option is the amount by which the market value of the underlying stock exceeds the exercise price of the option. The market value of our stock was $0.19 at June 30, 2015.

None of the outstanding stock options were vested as of June 30, 2015.

There was no compensation expense related to outstanding options for the three and nine months ended June 30, 2015 and 2014.

Stock warrants – The Company recognizes the value of stock warrants issued based upon an option-pricing model at their fair value as an expense over the period in which the grants vest from the measurement date, which is the date when the number of warrants, their exercise price and other terms became certain.

At June 30, 2015 and 2014, 7,730,000 and 7,437,000 warrants were outstanding and 7,730,000 and 7,437,000 warrants were vested, respectively.

During the nine months ended June 30, 2015, the Company extended the due dates for 100,000 outstanding warrants from December 10, 2014 to March 9, 2015. Non-cash compensation expense of $3,000 was recorded for the nine months ended June 30, 2015 for this extension. During the nine months ended June 30, 2015, these warrants were exercised – 50,000 for cash and 50,000 pursuant to a cashless exercise.

There was no compensation expense related to outstanding warrants for the three and nine months ended June 30, 2014.

10. INCOME TAXES

The Company made a comprehensive review of its portfolio of uncertain tax positions in accordance with recognition standards established for certain tax positions. In this regard, an uncertain tax position represents the Company's expected treatment of a tax position taken in a filed tax return, or planned to be taken in a future tax return, that has not been reflected in measuring income tax expense for financial reporting purposes. As of June 30, 2015 and September 30, 2014, the Company does not have a liability for unrecognized tax benefits. The Company concluded that at this time there are no uncertain tax positions. As of June 30, 2015, the Company does not expect any material changes to unrecognized tax positions within the next twelve months.

The Company recognizes the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in the Company's financial statements or tax returns. Judgment is required in assessing the future tax consequences of events that have been recognized in our financial statements or tax returns. Fluctuations in the actual outcome of these future tax consequences could materially impact our financial position or our results of operations. For the nine months ended June 30, 2015, deferred income tax assets and the corresponding valuation allowance increased by $763,000.

The Company's 2015 provision for income taxes primarily relates to state taxes. The difference between the Company's 2015 effective rate and statutory rate is primarily due to the use of federal net operating losses to offset taxable income. The difference between the Company's 2014 effective rate and statutory rate is primarily due to the utilization of net operating losses.

11. FAIR VALUES, INPUTS AND VALUATION TECH NIQUES FOR FINANCIAL ASSETS AND LIABILITIES DISCLOSURES

The fair value measurements and disclosure guidance defines fair value and establishes a framework for measuring fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In accordance with this guidance, the Company has categorized its recurring basis financial assets and liabilities into a three-level fair value hierarchy based on the priority of the inputs to the valuation technique.

The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company’s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

The levels of the fair value hierarchy are described below:

- Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access.
- Level 2 inputs utilize other than quoted prices included in Level 1 that are observable for the asset, either directly or indirectly, for substantially the full term of the asset. Level 2 inputs include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active and inputs other than quoted prices that are observable in the marketplace for the asset. The observable inputs are used in valuation models to calculate the fair value for the asset.
- Level 3 inputs are unobservable but are significant to the fair value measurement for the asset, and include situations where there is little, if any, market activity for the asset. These inputs reflect management’s own assumptions about the assumptions a market participant would use in pricing the asset.

The following sets forth by level, within the fair value hierarchy, the Company’s assets and liabilities measured at fair value in the balance sheet as of June 30, 2015:

Level 1 - The Company’s cash and cash equivalents are measured using level 1 inputs.

Level 2 - The Company's embedded derivative liabilities and warrant liabilities are measured on a recurring basis using Level 2 inputs.

Level 3 - The Company has no Level 3 measurements.

The Company's embedded derivative liabilities are re-measured to fair value as of each reporting date until the notes are converted or paid off. See Note 8 above for more information about these liabilities and the inputs used for calculating fair value.

A review of fair value hierarchy classifications is conducted on a quarterly basis. Changes in the observability of valuation inputs may result in a reclassification of levels for certain securities within the fair value hierarchy.

12. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company’s cash and cash equivalents are measured at fair value in the Company’s condensed consolidated financial statements and are valued using unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 inputs under ASC 820). The fair value of the notes payable is estimated based on current rates offered to the Company for similar debt of the same remaining maturities.

13. CONTINGENCIES

The Company is occasionally subject to legal proceedings and claims that arise in the ordinary course of business. It is impossible to predict with any certainty the outcome of pending disputes, and management cannot predict whether any liability arising from pending claims and litigation will be material in relation to the Company’s consolidated financial position or results of operations.

14. SUBSEQUENT EVENTS

Management has evaluated all activity through the date that the consolidated financial statements were issued and concluded that there were no subsequent events that occurred that would require recognition in the consolidated financial statements or disclosure in the notes to the consolidated financial statements.

ITEM 2. Management ' s Discussion and Analysis of Financial Condition and Result s of Operations (rounded in thousands)

The following discussion and analysis should be read in conjunction with the condensed consolidated financial statements and accompanying notes filed as part of this report.

Forward-Looking Statements

The following Management's Discussion and Analysis of Financial Condition and Results of Operations, as well as information contained elsewhere in this report, contain statements that constitute "forward-looking statements." These statements include statements regarding the intent, belief or current expectations of us, our directors or our officers with respect to, among other things: anticipated financial or operating results, financial projections, business prospects, future product performance and other matters that are not historical facts. The success of our business operations is dependent on factors such as the impact of competitive products, product development, commercialization and technology difficulties, the results of financing efforts and the effectiveness of our marketing strategies, general competitive and economic conditions. Forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Actual results may differ materially from those projected in the forward-looking statements as a result of various factors, including as a result of the factors described in the "Risk Factors" section of our most recent Annual Report on Form 10-K. We do not undertake any obligation to update or revise any forward-looking statements contained in this report, whether as a result of new information, future events or otherwise.

Results of Operations

Three-months ended June 30, 2015 compared to the three-months ended June 30, 2014.

We operate in the security lighting systems and night vision industries, and the majority of our revenues are derived from sales of our illumination products and our SuperVision night vision product to various customers.

Revenues: Revenues for the quarter ended June 30, 2015 were $451,000 compared to revenues of $257,000 for the quarter ended June 30, 2014. In the quarter ended June 30, 2015, 100% of revenues were from sales of our NightHunter products to the military (U.S. Army, U.S. Marines and military distributors) and -0-% were from sales of SuperVision units. In the quarter ended June 30, 2014, 100% of revenues were to the military market and -0-% were from sales of SuperVision units.

Cost of Goods and Gross Profit: Cost of goods consists of the cost of manufacturing our NightHunter products.

The gross profit percentages were 44% and 40% for the quarters ended June 30, 2015 and 2014, respectively. The increase in the gross profit percentage was caused by a change in the product mix which has varying margins.

Selling, General and Administrative: Selling, general and administrative expenses increased by $13,000 to $391,000 for the quarter ended June 30, 2015 as compared to $378,000 for the quarter ended June 30, 2014.

Research & Development: Research and development expenses increased by $35,000 to $92,000 for the quarter ended June 30, 2015 compared to $57,000 for the quarter ended June 30, 2014. The increase is primarily attributable to higher compensation costs in the quarter.

Other Expenses: For the quarter ended June 30, 2015 Other expenses include a derivative gain of $844,000, compared to none for quarter ended June 30, 2014. Derivative liabilities were recorded during 2014 for three-year convertible notes totaling $343,000 that include variable conversion elements and warrant liabilities. Derivative liabilities were also recorded for the two convertible notes issued and sold during the quarter ended June 30, 2015. The derivative gain for the quarter ended June 30, 2015 was caused by the decrease in the Company's common stock price from $0.34 per share at March 31, 2015 to $0.19 per share at June 30, 2015 offset by the additional liabilities for the convertible notes issued during the quarter ended June 30, 2015.

Interest expense for the quarter ended June 30, 2015 was $288,000 compared to $113,000 for the quarter ended June 30, 2014. The increase is attributed to the increase in interest for additional notes payable, including $84,000 of immediate interest charges for the two new convertible notes payable. There was $91,000 of debt discount amortization for the quarter ended June 30, 2015. There was $19,000 of debt discount amortization for the quarter ended June 30, 2014.

Amortization of deferred financing costs was $14,000 for the quarter ended June 30, 2015. There was no amortization of deferred financing costs for the quarter ended June 30, 2014.

Net Income: Higher revenues and the derivative gain for the quarter ended June 30, 2015 account for the net income of $257,000 compared to the net loss of $446,000 for the quarter ended June 30, 2014.

Nine months ended June 30, 2015 compared to the nine months ended June 30, 2014

Revenues: Revenues for the nine months ended June 30, 2015 were $1,412,000 compared to revenues of $337,000 for the nine months ended June 30, 2014. For the nine months ended June 30, 2015, 100% of revenues were from sales of our NightHunter products to the military (U.S. Army, U.S. Marines and military distributors) and 0% were from sales of SuperVision units. For the nine months ended June 30, 2014, 95% of revenues were from sales of our NightHunter products to the military market and 5% were from sales of SuperVision units.

Cost of Goods and Gross Profit: Cost of goods consists of the costs of manufacturing our NightHunter and SuperVision products.

The gross profit percentages were 43% and 41% for the nine months ended June 30, 2015 and 2014, respectively.

Selling, General and Administrative: Selling, general and administrative expenses increased by $3,000 to $1,180,000 for the nine months ended June 30, 2015 as compared to $1,177,000 for the nine months ended June 30, 2014.

Research & Development: Research and development expenses decreased by $26,000 to $259,000 for the nine months ended June 30, 2015 compared to $285,000 for the nine months ended June 30, 2014. The decrease is primarily attributable to lower outside engineering expenses offset by higher compensation costs in the first nine months of the fiscal year.

Other Expense: For the nine months ended June 30, 2015 interest expense was $682,000 compared to $298,000 of interest expense for the nine months ended June 30, 2014. The increase is attributed to the increase in interest for additional notes payable. Debt discount amortization for the nine months ended June 30, 2015 and 2014 was $256,000 and $67,000, respectively.

For the nine months ended June 30, 2015 Other expenses include a derivative loss of $8,000, compared to none for nine months ended June 30, 2014. Derivative liabilities were recorded during 2014 for three-year convertible notes totaling $343,000 that include variable conversion elements and warrant liabilities. The derivative loss for the nine months ended June 30, 2015 was caused by an increase in the derivative liability for the two convertible notes issued and sold during the quarter ended June 30, 2015 offset by a decrease in the valuation for the 2014 convertible notes and warrants, which was caused by the decrease in the Company’s common stock price from $0.21 per share at September 30, 2014 to $0.19 per share at June 30, 2015.

Amortization of deferred financing costs was $42,000 for the nine months ended June 30, 2015. There was no amortization of deferred financing costs for the nine months ended June 30, 2014.

Net Loss: Higher revenues and gross profit for the nine month period ended June 30, 2015 were offset by higher interest expenses and the derivative loss to account for a net loss of $1,570,000 compared to a net loss of $1,625,000 for the nine month months ended June 30, 2014.

Liquidity and Capital Resources

As of June 30, 2015, the Company had negative working capital of $864,000 and a current ratio of 0.43 to 1 as compared to working capital of $39,000 and a current ratio of 1.03 to 1 as of September 30, 2014.

Long term liabilities include derivative liabilities of $783,000 for the 2014 three-year convertible notes totaling $323,000. These notes include variable conversion elements and warrant liabilities. The notes are convertible into common stock at $0.07 per share. If the notes are converted into common stock, the derivative liabilities would be eliminated.

Long term liabilities also include derivative liabilities of $232,000 for two convertible notes issued in May 2015 totaling $157,500. These notes include variable conversion elements. The conversion rate for the first note is equal to 65% of the arithmetic average of the two lowest closing bids of the Company’s common stock occurring the 15 consecutive trading days immediately preceding the date which the holder elects to convert all or part of the note. The conversion rate for the second note is equal to 65% of the lowest trading price of the Company’s common stock during the 20 consecutive trading days prior to the date on which the holder elects to convert all or part of the note. If the notes are converted into common stock, the derivative liabilities would be eliminated.

Significant sources of cash used in operating activities during the first nine months of the current year included a decrease in accounts receivable of $432,000 and a decrease in inventories of $158,000, offset by a decrease in accounts payable of $7,000 and a decrease in accrued expenses of $42,000. Cash used in operating activities totaled $276,000 for the nine months ended June 30, 2015.

Based on the pending U.S. military and possible international orders, no additional financing will be required, but if these orders are not forthcoming, short –term financing will be required. Although management believes it can obtain additional financing, there is no certainty that it can.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

Not applicable

ITEM 4. Controls and Procedures

The Company's management conducted an evaluation, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness as of the end of the period covered by this quarterly report of the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act"). Disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission (the "SEC") and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of June 30, 2015, which is the end of the period covered by this quarterly report.

Based upon our evaluation, we also concluded that there was no change in our internal control over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHE R INFORMATION

ITEM 6. Exhibits

Exhibit Number	Description
31.1	Certification of the Chairman of the Board and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act
32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act
32.2	Certification pursuant to Section 906 of the Sarbanes-Oxley Act
101	The following financial information from the Quarterly Report on Form 10-Q of Xenonics Holdings, Inc. for the quarter ended June 30, 2015, formatted in XBRL (eXtensible Business Reporting Language): (1) Consolidated Balance Sheets as of June 30, 2015 and September 30, 2014; (2) Consolidated Statements of Operations for the three and nine months ended June 30, 2015 and 2014; (3) Consolidated Statements of Cash Flows for nine months ended June 30, 2015 and 2014; and (4) Notes to Condensed Financial Statements.

SIGNAT URES

Pursuant to the requirements 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.

XENONICS HOLDINGS, INC.

Date: August 19, 2015	By:	/s/ Alan P. Magerman
		Alan P. Magerman
		Chairman of the Board
		Chief Executive Officer
Date: August 19, 2015	By:	/s/ Richard S. Kay
		Richard S. Kay
		Chief Financial Officer

EXHIBIT 31.1

Certification of the Chairman of the Board and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act.

I, Alan P. Magerman, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Xenonics Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 19, 2015

/s/ Alan P. Magerman
Alan P. Magerman
Chairman of the Board
Chief Executive Officer

EXHIBIT 31.2

Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act.

I, Richard S. Kay, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Xenonics Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: August 19, 2015

/s/ Richard S. Kay
Name: Richard S. Kay
Title: Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION OF THE CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Xenonics Holdings, Inc. (the “Company”) hereby certifies that, to his knowledge:

(i) The Quarterly Report on Form 10-Q of the Company for the quarter ended June 30, 2015 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 19, 2015

/s/ Alan P. Magerman
Alan P. Magerman
Chairman of the Board
Chief Executive Officer

EXHIBIT 32.2

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Xenonics Holdings, Inc. (the "Company") hereby certifies that, to his knowledge:

(i) The Quarterly Report on Form 10-Q of the Company for the quarter ended June 30, 2015 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 19, 2015

/s/ Richard S. Kay
Richard S. Kay
Chief Financial Officer