

Edgar Filing: XSUNX INC - Form 10-Q

XSUNX INC  
Form 10-Q  
August 14, 2007

FORM 10-Q  
SECURITIES EXCHANGE COMMISSION  
Washington, D.C. 20549

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

For Quarter Ended June 30, 2007

Commission file number: 000-29621

XSUNX, INC.

(Exact name of registrant as specified in its charter)

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

65 Enterprise, Aliso Viejo, CA 92656  
(Address of principal executive offices) (Zip Code)

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

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: None

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 the filing requirements for at least the past 90 days. Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of August 14, 2007 the number of shares outstanding of the registrant's only class of common stock was 157,019,856.

Transitional Small Business Disclosure Format (check one): Yes  No

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements
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XSUNX, INC.  
(A DEVELOPMENT STAGE COMPANY)

FINANCIAL STATEMENTS

June 30, 2007  
(UNAUDITED)

JASPERS + HALL, PC  
CERTIFIED PUBLIC ACCOUNTANTS

-----  
9175 E. Kenyon Avenue, Suite 100  
Denver, CO 80237  
303-796-0099

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors  
XSUNX, INC.  
Aliso Viejo, CA

We have reviewed the accompanying balance sheet of XSUNX, INC. (a development stage company) as of June 30, 2007, and the related statements of operations, stockholders' equity (deficit), and cash flows for the three and nine month periods then ended. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards of the Public Company Accounting Oversight Board (United States). The review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements for them to be in conformity with accounting principles generally accepted in the United States.

/s/ Jaspers + Hall, PC  
Jaspers + Hall, PC  
Denver, CO

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August 13, 2007

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XSUNX, INC.  
(A Development Stage Company)  
Balance Sheets

	(Unaudited June 30, 2007 -----)
<b>ASSETS:</b>	
<b>Current assets:</b>	
Cash	\$ 1,363
Prepaid Research and Development Expense	291
Prepaid Research, Development and Professional Expense	25
Prepaid Legal Expense	-----
Total current assets	1,680 -----
<b>Fixed assets:</b>	
Office & Misc. Equipment	36
Research and Development Equipment	502
Leasehold Improvement	89
Total Fixed Assets	628
Less Depreciation	(145)
Total fixed assets	482 -----
<b>Other assets:</b>	
Patents	40
Security Deposit	5
Accrued Interest Receivable	68
Note Receivable	1,225
Marketable Prototype	1,765
Total other assets	3,104 -----
<b>TOTAL ASSETS</b>	<b>\$ 5,266</b> =====
 <b>LIABILITIES AND STOCKHOLDERS' EQUITY:</b>	
<b>Current Liabilities:</b>	
Accounts Payable	\$ 497
Accrued Expenses	38

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Total current liabilities	536
-----	
Stockholders' Equity:	
Preferred Stock, par value \$0.01 per share; 50,000,000 shares authorized; no shares issued and outstanding	
Treasury Stock, no par value; 26,798,418 issued and outstanding	
Common Stock, no par value; 500,000,000 shares authorized; 157,019,856 shares issued and outstanding at June 30, 2007	13,278
and 157,169,856 shares were issued and outstanding at September 30, 2006	
Common Stock Warrants	2,151
Deficit accumulated during the development stage	(10,699)
	-----
Total stockholders' profit (deficit)	4,730
	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 5,266
	=====

See Accountants' Review Report

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XSUNX, INC.  
(A Development Stage Company)  
Statements of Operations  
(Unaudited)

	Three-Months Ended		Nine-Months Ended		Fe (I
	June 30th		June 30th		
	2007	2006	2007	2006	
	-----	-----	-----	-----	-----
Revenue					
Service Income	\$ -	\$ -	\$ 6,880	\$ 8,000	
Other Income	-	-	-	-	
	-----	-----	-----	-----	-----
Total Revenue	-	-	6,880	8,000	
	-----	-----	-----	-----	-----
Expenses:					
Advertising	1,780	1,982	45,250	2,421	
Bank Charges	663	78	892	244	
Conferences & Seminars	1,125	7,040	10,495	8,540	
Consulting	59,462	19,382	102,004	19,382	
Depreciation	16,826	27,647	60,587	55,294	
Directors' Fees	-	-	-	-	
Due Diligence	-	-	-	13,000	
Dues and Subscriptions	-	-	-	-	
Equipment Rental	-	-	-	-	

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Filing Fees	1,079	-	3,576	4,625
Impairment loss		-	-	-
Insurance	14,085	-	48,670	-
Legal & Accounting	84,501	21,244	194,078	89,853
Licenses & Fees	20	-	90	-
Loan Fees		-	-	-
Meals & Entertainment		-	-	-
Miscellaneous	1,170	832	1,198	1,632
Office Expenses	3,239	2,633	14,673	2,891
Patent Fees		625	-	625
Postage & Shipping	2,857	33	5,555	768
Printing	396	944	6,778	7,684
Public Relations	24,660	76,742	51,960	129,263
Recruitment Expenses	29,806	-	29,806	-
Research & Development	15,313	368,608	326,550	679,884
Rent	19,764	1,950	50,114	6,450
Salaries	220,736	87,152	578,616	172,050
Subscription Reports	6,093	2,594	6,093	2,787
Taxes	1,003	-	1,507	-
Telephone	5,543	1,961	17,831	5,292
Transfer Agent Expense	150	91	533	321
Travel, Meals & Entertainment	52,718	13,142	128,299	25,165
Utilities	3,815	-	3,815	-
Warrant Expense		-	364	951,250
	-----	-----	-----	-----
Total Operating Expenses	566,804	634,680	1,689,334	2,179,421
	-----	-----	-----	-----
Other Income (Expense)				
Interest Expense	651	515,555	1,015	567,999
Interest Income	(71,820)	(28,811)	(156,589)	(28,975)
Forgiveness of Debt	-	-	-	-
	-----	-----	-----	-----
Total Other Income/Expense	(71,169)	486,744	(155,574)	539,024
	-----	-----	-----	-----
Net (Loss)	\$ (495,635)	\$ (1,121,424)	\$ (1,526,880)	\$ (2,710,445)
	=====	=====	=====	=====
Per Share Information:				
Basic				
common shares outstanding	157,169,856	147,013,051	156,505,367	127,245,894
	=====	=====	=====	=====
Net Loss per Common Share	\$ (0.003)	\$ (0.008)	\$ (0.010)	\$ (0.021)
	=====	=====	=====	=====

See Accountants' Review Report

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XSUNX, INC.  
(A Development Stage Company)  
Statement of Stockholders' Equity (Deficit)  
June 30, 2007

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(Unaudited)

	Treasury Stock		Common Stock		Common Stock
	# of Shares	Amount	# of Shares	Amount	Warrants
Inception February 25, 1997	-	-	-	-	-
Issuance of stock for cash	-	-	15,880	217,700	-
Issuance of stock to Founders	-	-	14,110	-	-
Issuance of stock for consolidation	-	-	445,000	312,106	-
Net Loss for Year	-	-	-	-	-
Balance - September 30, 1997	-	-	474,990	529,806	-
Issuance of stock for services	-	-	1,500	30,000	-
Issuance of stock for cash	-	-	50,200	204,000	-
Consolidation stock cancelled	-	-	(60,000)	(50,000)	-
Net Loss for Year	-	-	-	-	-
Balance - September 30, 1998	-	-	466,690	713,806	-
Issuance of stock for cash	-	-	151,458	717,113	-
Issuance of stock for services	-	-	135,000	463,500	-
Net Loss for Year	-	-	-	-	-
Balance - September 30, 1999	-	-	753,148	1,894,419	-
Issuance of stock for cash	-	-	15,000	27,000	-
Net Loss for year	-	-	-	-	-
Balance - September 30, 2000	-	-	768,148	1,921,419	-
Extinguishment of debt	-	-	-	337,887	-
Net Loss for year	-	-	-	-	-
Balance - September 30, 2001	-	-	768,148	2,259,306	-
Net Loss for year	-	-	-	-	-
Balance - September 30, 2002	-	-	768,148	2,259,306	-
Issuance of stock for Assets	-	-	70,000,000	3	-
Issuance of stock for Cash	-	-	9,000,000	225,450	-
Issuance of stock for Debt	-	-	115,000	121,828	-
Issuance of stock for Expenses	-	-	115,000	89,939	-
Issuance of stock for Services	-	-	31,300,000	125,200	-
Net Loss for year	-	-	-	-	-
Balance - September 30, 2003	-	-	111,298,148	2,821,726	-
Issuance of stock for cash	-	-	2,737,954	282,670	-
Issuance of Common Stock Warrants	-	-	-	-	1,200,000
Net Loss for Year	-	-	-	-	-
Balance - September 30, 2004	-	-	114,036,102	3,104,396	1,200,000

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Issuance of stock for cash	-	-	6,747,037	531,395	-
Issuance of stock for services	-	-	3,093,500	360,944	-
Issuance of stock for collateral	26,798,418	-	-	-	-
Net Loss for Year			-	-	-
Balance - September 30, 2005	26,798,418	-	123,876,639	3,996,735	1,200,000

See Accountants' Review Report

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XSUNX, INC.  
(A Development Stage Company)  
Statement of Stockholders' Equity (Deficit)  
June 30, 2007

(Unaudited)

	Treasury Stock		Common Stock		Common Stock
	# of Shares	Amount	# of Shares	Amount	Warrants
Issuance of stock for services	-	-	72,366	31,500	-
Issuance of Common Stock Warrants	-	-	-	-	951,250
Issuance of stock for debenture conversion	-	-	21,657,895	5,850,000	-
Issuance of stock for interest expense	-	-	712,956	241,383	-
Issuance of stock for warrant conversion	-	-	10,850,000	3,171,250	-
Net Loss for Year	-	-	-	-	-
Balance September 30, 2006	26,798,418	-	157,169,856	13,290,868	2,151,250
Net Loss for Period	-	-	-	-	-
Balance - December 31, 2006	26,798,418	-	157,169,856	13,290,868	2,151,250
Cancelation of Stock for Services Returned			(150,000)	(12,000)	
Release of Security Collateral (26,798,418)					
Net Loss for Period					
Balance March 31, 2007	-	\$ -	157,019,856	\$ 13,278,868	\$ 2,151,250
Net Loss for Period					
Balance June 30, 2007	-	\$ -	157,019,856	\$ 13,278,868	\$ 2,151,250

all shares have been adjusted for the 1 for 20 reverse split.

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XSUNX, INC.  
(A Development Stage Company)  
Statement of Cash Flows  
(Unaudited)

	Nine-Months Ended June 30,	
	2007	2006
Cash Flows from Operating Activities:		
Net Loss	\$ (1,526,880)	\$ (2,710,445)
Issuance of Common Stock for Services	(12,000)	7,500
Issuance of Common Stock for Loan Inducement	-	-
Warrant Expense	-	951,250
Amortization of Loan Fees	-	316,666
Issuance of Stock for Interest	-	10,550
Depreciation	60,587	55,294
Written Off Equipment	-	-
Adjustments to reconcile net loss to cash used in operating activities:	-	-
(Increase) Accounts Receivable	-	-
(Increase) Security Deposit	(3,200)	(2,615)
(Increase) in Prepaid Expense	29,664	(253,445)
(Decrease) in Accounts Payable	(84,242)	207,800
Increase in Accrued Expenses	31,812	828,586
Net Cash Flows Used for Operating Activities	(1,504,259)	(588,859)
Cash Flows from Investing Activities:		
Purchase of Equipment	(143,538)	(307,232)
Note Receivable	(1,225,000)	-
Accrued Interest earned	(68,493)	-
Purchase of Intangible Assets	-	(1,775,000)
Net Cash Flows Used for Investing Activities	(1,437,031)	(2,082,232)
Cash Flows from Financing Activities:		
Proceeds from Debenture Issue	-	4,500,000
Issuance of Common Stock for Warrants	-	3,171,250
Issuance of Common Stock for cash	-	-
Net Cash Flows Provided by Financing Activities	-	7,671,250
Net Increase (Decrease) in Cash	(2,941,290)	5,000,159

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Cash and cash equivalents - Beginning of period	4,305,105	175,869
	-----	-----
Cash and cash equivalents - End of period	\$ 1,363,815	\$ 5,176,028
	=====	=====
Supplemental Disclosure of Cash Flow Information		
Cash Paid During the Year for:		
Interest	\$ 1,015	\$ 160,500
	=====	=====
Income Taxes	\$ -	\$ -
	=====	=====
NON-CASH TRANSACTIONS		
Common stock issued (returned) in exchange for services	\$ (12,000)	\$ 7,500
	=====	=====
Conversion of debt for Stock		\$ 3,850,000
	=====	=====

See Accountants' Reivew Report

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XSUNX, INC.  
(A Development Stage Company)  
Notes to Financial Statements  
June 30, 2007  
(Unaudited)

Note 1 - Presentation of Interim Information:  
-----

In the opinion of the management of XSUNX, Inc., the accompanying unaudited financial statements include all normal adjustments considered necessary to present fairly the financial position as of June 30, 2007 and the results of operations for the three and nine-months ended June 30, 2007 and 2006 and for the period February 25, 1997 (inception) to June 30, 2007, and cash flows for the nine-months ended June 30, 2007 and 2006 and the for the period February 25, 1997 (inception) to June 30, 2007. Interim results are not necessarily indicative of results for a full year.

The financial statements and notes are presented as permitted by Form 10-Q, and do not contain certain information included in the Company's audited financial statements and notes for the fiscal year ended September 30, 2006.

Note 2 - Lease - Golden Suite:  
-----

As of July 1, 2006 a new lease was signed for the Golden Office in the amount of \$1,687.50 per month plus a fee of \$825.00 for utilities. This will increase to \$1,788 per month on July 1, 2007 and \$1,790.00 per month on July 1, 2008. The lease expires on June 30, 2009.

Note 3 - Technology Development and Licensing Agreement  
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On January 1, 2007, XSUNX, Inc. entered into a technology development program with a private firm to obtain licensing rights to plasma technologies for potential use in solar product manufacturing technologies. The technology development program included a Secured Promissory Note in the amount of up to \$1,500,000 made by the private firm for the benefit of XsunX in conjunction with a Loan Agreement and a Technology Development and License Agreement. The Note was for a term of 7 years and provided interest to XsunX at the rate of 10% per annum. Under the terms of the agreements, including the Note, XsunX provided the private firm with a credit extension of \$400,000 at the time of signing and was to disburse further credit extensions in the sum of \$137,500 per month for up to eight months. These credit extension funds were to be used by the private firm to develop technology to be licensed to XsunX under the terms of the Technology Development and License Agreement. Upon the successful completion of the technology development program, the Note could be converted into a membership interest in the private firm and an extension of the license for a period of 3 years. The security for the Note consisted of an interest in certain tangible and intangible assets of the private firm, the license rights, the ability to exercise the conversion, and all other rights and remedies provided by law. As of June 30, 2007, the current balance of the Note receivable was \$1,225,000 plus accrued interest earned in the amount of \$68,493. Beginning in July, XsunX suspended forwarding credit extension disbursements under the Note and requested that the private firm provide more comprehensive reports associated with the development of technology under the agreements. Each of the parties has now made a claim for default under the terms of the Note, Loan Agreement, and Technology Development Agreement. The parties are discussing mutually acceptable resolutions to their differences. XsunX has established a segregated account in which it has deposited funds sufficient to fund the maximum amount allowable under the Note should resolution include such credit extension disbursements.

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XSUNX, INC.  
(A Development Stage Company)  
Notes to Financial Statements  
June 30, 2007  
(Unaudited)

Note 4 - Employment and Consulting Agreements  
-----

Effective April 23, 2007, XSUNX, Inc. entered into a two year Consulting and Advisory Agreement with Dr. Richard Ahrenkiel to become a member of the Company's Scientific Advisory Board.

The company authorized the issuance of an option grant on April 23, 2007 to Dr. Ahrenkiel in the amount of 100,000 option shares at an option exercise price of \$0.45 with a first vesting date of July 23, 2007 with following vesting schedule:

- (a) The Option shall become exercisable in the amount of 12,500 shares upon the First Vesting Date. Thereafter, the Option shall vest become exercisable at the rate of 12,500 Shares per calendar quarter, or any apportioned amount thereof, during the term of engagement by XsunX, Inc. of the Optionee.

Note 5 - Agreement to Purchase Assets

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Effective March 23, 2007 XsunX, Inc. entered into a binding letter of intent with a manufacturer of photovoltaic products for the purchase of certain net assets of the manufacturer for the amount of five million dollars (\$5,000,000) USD in a cash transaction. The purpose of the letter of intent, and interest in the acquisition by XsunX, was driven by what XsunX anticipated was the opportunity to expand its current operations to include technologies and manufacturing capabilities for silicon wafer, conversion of wafers to solar cells, complete solar module manufacturing, and module mounting components. The operating assets are comprised of approximately twenty plus (20+) megawatts of annual polysilicon wafer manufacturing capabilities, and approximately fifteen (15) megawatts of solar cell and module manufacturing capabilities.

On or about April 27, 2007 the Company was notified by the seller of a change in direction and decision not to honor the sales agreement. In response to the sellers failure to honor the terms of the binding letter of intent the Company filed a complaint against the seller and related entities in the United States

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XSUNX, INC.  
(A Development Stage Company)  
Notes to Financial Statements  
June 30, 2007  
(Unaudited)

Note 5 - Agreement to Purchase Assets Continued  
-----

District Court for the District of Massachusetts on May 10th, 2007, alleging breach of contract and other claims. The Company continues to pursue efforts to enforce the terms and conditions of the binding letter of intent.

Note 6 - Planned Expansion of Business Operations  
-----

In April 2007, XsunX launched efforts to expand the scope of its business development efforts to include the planned establishment of an XsunX solar energy module manufacturing facility to be located in the United States. The Company intends to employ the use of certain of its technologies, and those under license, for use in the manufacture and sale of finished solar energy products. In July, the Company updated these plans to reflect plans for a module manufacturing line based on a dual 12.5 megawatt modular design delivering 25 megawatts of combined production capacity which the Company believes will allow operations to scale incrementally from as little as 12.5 megawatts to 25 to 100 megawatts of production capacity. The Company is working to complete the physical plans, complete site selection related to local and regional governmental support programs, and reviewing appropriate financing opportunities for the capital costs associated with the build out of the proposed new facilities.

Note 7 - Agreement for the Sale of Equipment:  
-----

The Company has entered into agreements with a foreign based company for the sale of certain vacuum deposition technology equipment valued at \$41,800,000, excluding royalty payments based on per watt annualized production totals. The agreements, consisting of a systems sale and a royalty based manufacturing

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license agreement, provide for thin film photovoltaic production equipment and two product development tools specializing in the fabrication of micro-crystalline and amorphous thin film silicon solar cells. Under the terms of the agreement the buyer was to provide the Company with a cash initial deposit payment of \$2.5 million USD by June 30, 2007. In July, the buyer notified XsunX that it is working with its investors to finalize financing and facility requirements for the systems and requested an extension to its payment terms. The Company has provided the buyer with a limited three month payment extension and is continuing to work closely with the buyer providing technical assistance as necessary.

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XSUNX, INC.  
(A Development Stage Company)  
Notes to Financial Statements  
June 30, 2007  
(Unaudited)

Note 8 - Subsequent Events:

-----  
On July 3, 2007 the company issued a termination for cause notice to its vendor working under a Phase 4 agreement for the development of commercially viable methods to manufacture patent pending multi-terminal solar cell devices. The decision to terminate was in part the result of an unsatisfactory review of the performance of the vendor by the newly appointed XsunX Scientific Advisory Board. The Company's modular 25MW system design does not incorporate the use of this multi-terminal device and XsunX does not anticipate any disruption to its current production plans from this change. XsunX plans to bring continued product development efforts for the multi-terminal device in-house. The Company anticipates that in addition to a reduction in direct costs associated with R&D, it will also benefit from greater control over this development program.

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### Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### CAUTIONARY AND FORWARD LOOKING STATEMENTS

In addition to statements of historical fact, this Form 10-Q contains forward-looking statements. The presentation of future aspects of XsunX, Inc. ("XsunX", the "Company" or "issuer") found in these statements is subject to a number of risks and uncertainties that could cause actual results to differ materially from those reflected in such statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. Without limiting the generality of the foregoing, words such as "may," "will," "expect," "believe," "anticipate," "intend," or "could" or the negative variations thereof or comparable terminology are intended to identify forward-looking statements.

These forward-looking statements are subject to numerous assumptions, risks and uncertainties that may cause XsunX's actual results to be materially different from any future results expressed or implied by XsunX in those statements. Important facts that could prevent XsunX from achieving any stated goals include, but are not limited to, the following:

Some of these risks might include, but are not limited to, the following:

- (a) volatility or decline of the Company's stock price;
- (b) potential fluctuation in quarterly results;
- (c) failure of the Company to earn revenues or profits;
- (d) inadequate capital to continue or expand its business, inability to raise additional capital or financing to implement its business plans;
- (e) failure to commercialize its technology or to make sales;
- (f) rapid and significant changes in markets;
- (g) litigation with or legal claims and allegations by outside parties;
- (h) insufficient revenues to cover operating costs.

There is no assurance that the Company will be profitable, the Company may not be able to successfully develop, manage or market its products and services, the Company may not be able to attract or retain qualified executives and technology personnel, the Company's products and services may become obsolete, government regulation may hinder the Company's business, additional dilution in outstanding stock ownership may be incurred due to the issuance of more shares, warrants and stock options, or the exercise of warrants and stock options, and other risks inherent in the Company's businesses.

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

CURRENT OVERVIEW

XsunX develops and markets proprietary Thin Film Photovoltaic (TFPV) solar cell designs and core solar cell manufacturing systems focusing on both amorphous and micro-crystalline silicon structures. These technologies represent semi-transparent and opaque devices types used in the conversion of solar energy into electrical power.

The product of the Company's development efforts are intended to deliver licensable technologies in the form of an integrated solution providing, a) commercially scalable manufactured processes and equipment designed for the specific manufacture of the Company's thin film solar technologies, and, b) proprietary thin film solar cell designs that address application opportunities for use in products in the growing field of Building Integrated Photovoltaics and conventional solar module production.

In October 2006 XsunX began sales and licensing efforts of its TFPV technologies to a global group of existing and new entrant solar product manufacturers. This effort was driven by what the Company perceived as a demand for new TFPV solar technologies by manufacturers seeking opportunities to enhance their competitive capabilities and better service their regional solar markets. Virtually all of the interest in the Company's technologies has been generated from foreign based companies seeking to capitalize on aggressive foreign government back subsidies promoting investment in solar and other renewable technologies within those regions.

In April 2007 XsunX launched efforts to expand the scope of its business development efforts to include the planned establishment of an XsunX TFPV solar energy module manufacturing facility to be located in the United States. The intent of these business expansion efforts is to address what the Company believes are growth opportunities within the domestic US market for solar energy products with specific focus on solar modules for use in large scale commercial projects, utilities, Power Purchase Agreements, and other on-grid applications. The Company anticipates that key drivers associated with the projected growth in demand for solar will be the adoption of Renewable Portfolio Standards (RPS) within regional and state governments mandating minimum renewable energy production quotas. XsunX believes that the use of tandem junction amorphous technologies to manufacture TFPV solar modules, derived in part from its multi-year development efforts with amorphous solar devices, provides XsunX marketable opportunities addressing growth in domestic demand for solar products.

The Company intends to employ the use of certain of its technologies, and those under license, for use in the manufacture and sale of finished solar energy products. In July 2007, the Company updated these plans to reflect plans for a module manufacturing line based on a dual 12.5 megawatt modular design delivering 25 megawatts of combined production capacity which the Company believes will allow operations to scale incrementally from as little as 12.5 megawatts to 25 to 100 megawatts of production capacity. The Company is working to complete the physical plans, complete site selection related to local and regional governmental support programs, and reviewing appropriate financing opportunities for the capital costs associated with the build out of the proposed new facilities.

Management believes the summary data presented herein is a fair presentation of the Company's results of operations for the periods presented. Due to the

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Company's change in primary business focus in October 2003 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 THREE-MONTH PERIOD ENDED JUNE 30, 2007 COMPARED TO THE SAME PERIOD IN 2006

### Sales:

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The Company generated no revenues in the period ended June 30, 2007 as compared to zero revenue in the same period in 2006. Additionally, there was no associated cost of sales.

### Operating Expenses:

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Operating Expenses for the three month period ending June 30, 2007 totaled \$566,804. This represents a reduction of \$68,876 as compared to the same period in 2006 which totaled \$634,680. A comparative analysis of the period to period performance is provided below.

### Salaries and Wages:

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Salaries and wages for the three month period ending June 30, 2007 were \$220,736 as compared to \$87,152 during the same period in 2006. The increase of \$133,584 was driven by the addition of employees in marketing, finance and the engineering and technical functions as part of a plan to increase internal technical and scientific capabilities and reduce dependency on outside parties.

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### Research and Development:

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Research and Development expense for the three month period ending June 30, 2007 totaled \$15,313 as compared to \$368,608 for the same period in 2006. The decrease of \$353,295 reflects the winding down of the Company's outsourced research and development efforts and new focus on the design and planned implementation of the facilities necessary to commercialize the Company's technology. This reduction is partially offset by the increase in salary and wages and the company brings on staff to continue the research and development efforts internally.

### Professional Services:

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Public relations expense for the three month period ending June 30, 2007 totaled \$24,660 as compared to 76,742 during this same period in 2006. The reduction of \$52,082 represents a reduction in the utilization of public relations services during the period due to reduced use of third party services.

Consulting expenses for the three month period ending June 30, 2007 totaled \$59,462 as compared to \$19,382 during the same period in 2006, an increase of \$40,080. This increase is largely due to the establishment of a compensated scientific advisory board and the use of professional engineering services

Legal and accounting fees for the three month period ending June 30, 2007



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totalled \$84,501 as compared to \$21,244 during the same period in 2006. The increase of \$63,257 is largely due to legal services associated with enforcing an agreement to acquire assets.

Recruiting fees of \$29,806 were paid during the three month period ending June 30, 2007. This compared to no expenses during the same period in 2006. The increase of \$29,806 was driven by the hiring activity reflected in salary and wages. We anticipate that costs associated with recruiting employees may continue to rise in future periods.

### Travel and Wages:

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Expenses for travel and wages were \$52,718 for the three month period ending June 30, 2007. This compared to \$13,412 for the same period in 2006. The increase of \$39,576 resulted from increase travel for sales and business development opportunities in the normal course of business

The net loss for the three months ending June 30, 2007 was (\$495,635) as compared to a net loss of (\$1,121,424) for the same period 2006. The decreased net loss of \$625,789 includes (i) The operating expense changes discussed above, (ii) a decrease in interest expense of \$514,904 related to the conversion of a debenture in the prior period to common stock, and (iii) an increase in interest income of \$43,009 resulting from the investment of cash balances in interest bearing accounts and the Sencera note.

The Company incurred net losses of (\$495,635) and (1,121,424) in the three-month period ended June 30, 2007 and 2006 respectively. The associated net loss per share was \$(0.003) for the three month period ended June 30, 2007 and \$(0.008) for the same period in 2006. The Company anticipates the trend of losses to continue in future quarters until the Company can recognize sales of significance of which there is no assurance.

### RESULTS OF OPERATIONS FOR THE NINE-MONTH PERIOD ENDED JUNE 30, 2007 COMPARED TO THE SAME PERIOD IN 2006

#### Sales:

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The Company generated no revenues in the period ended June 30, 2007 as compared to \$6,880 in the same period in 2006.

#### Operating Expenses:

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Operating Expenses for the nine months ending June 30, 2007 totaled \$1,689,334. This represents a reduction of \$490,087 as compared to the same period in 2006 which totaled \$2,179,421. A comparative analysis of the period to period performance is provided below.

#### Salaries and Wages:

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Salaries and wages for the nine month period ending June 30, 2007 were \$578,616 as compared to \$172,050 during the same period in 2006. The increase of \$406,566 was driven by the addition of employees in marketing, finance and the engineering and technical functions as part of a plan to increase internal technical and scientific capabilities and reduce dependency on outside parties.

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### Research and Development:

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Research and Development expense for the nine month period ending June 30, 2007 totaled \$326,550 as compared to \$679,884 for the same period in 2006. The decrease of \$353,335 reflects the winding down of the Company's outsourced research and development efforts and new focus on the design and planned implementation of the facilities necessary to commercialize the Company's technology. This reduction is partially offset by the increase in salary and wages and the company brings on staff to continue the research and development efforts.

### Professional Services:

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Public relations expense for the nine month period ending June 30, 2007 totaled \$51,960 as compared to 129,263 during this same period in 2006. The reduction of \$77,303 represents a reduction in the utilization of public relations services during the period due to reduced use of third party services.

Consulting expenses for the nine month period ending June 30, 2007 totaled \$102,004 as compared to \$19,382 during the same period in 2006, an increase of \$82,622. This increase is largely due to the establishment of a compensated scientific advisory board and the use of professional engineering services.

Legal and accounting fees for the nine month period ending June 30, 2007 totaled \$194,078 as compared to \$89,853 during the same period in 2006. The increase of \$48,670 is largely due to legal services associated with enforcing an agreement to acquire assets.

Recruiting fees of \$29,806 were paid during the nine month period ending June 30, 2007. This compared to no expenses during the same period in 2006. The increase of \$29,806 was driven by the hiring activity reflected in salary and wages. We anticipate that costs associated with recruiting employees may continue to rise in future periods.

### Travel and Wages:

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Expenses for travel and wages were \$128,299 for the nine month period ending June 30, 2007. This compared to \$25,165 for the same period in 2006. The increase of \$103,134 resulted from increase travel for sales and business development opportunities in the normal course of business.

### Facilities:

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Rent for Company facilities totaled \$50,114 for the nine month period ending June 30, 2007. This compares to \$6,450 for the same period in 2006. The creation

of the research and development center in Golden, Colorado accounts for the majority of the \$43,664 increase in rent expense.

Telephone and internet expenses for the nine month period ending June 30, 2007 totaled \$17,831. The total for the same period in 2006 was \$5,292. The increase of \$12,539 is due largely to the creation of the research and development center in Golden, Colorado.

Utilities for the nine month period ending June 30, 2007 were \$3,815 as compared

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to zero for the same period in 2006. The increase of \$3,815 was due to the creation of the research and development center in Golden, Colorado

The net loss for the nine months ending June 30, 2007 was (\$1,526,880) as compared to a net loss of (\$2,710,445) for the same period 2006. The decreased net loss of \$1,183,565 includes (i) The operating expense changes discussed above, (ii) a decrease in interest expense of \$566,984 related to the conversion of a debenture in the prior period to common stock, and (iii) an increase in interest income of \$127,614 resulting from the investment of cash balances in interest bearing accounts and the Sencera note.

The Company incurred net losses of (\$1,526,880) and (2,710,445) in the nine-month period ended June 30, 2007 and 2006 respectively. The associated net loss per share was \$(0.01) for the three month period ended June 30, 2007 and \$(0.02) for the same period in 2006. The Company anticipates the trend of losses to continue in future quarters until the Company can recognize sales of significance of which there is no assurance.

### LIQUIDITY AND CAPITAL RESOURCES

The Company had cash at June 30, 2007 of \$1,363,815 and prepaid expenses in the amount of \$316,255 as compared to cash of \$4,305,105 and prepaid expenses in the amount of \$349,117 as of September 30, 2006. The Company had a net working capital of \$1,143,801 as compared to a working capital of \$4,065,523 at September 30, 2006. Cash flow used in operating activities during the nine-month period ended, June 30, 2007, was (\$1,502,352) as compared to a use of cash of (\$588,859) for the same period 2006. The increase of cash used in operations of \$913,493 included (i) the decrease in net loss resulting primarily from decreased interest expense of \$566,984 relating to the conversion of a debenture in prior periods to common stock, (ii) increased cash flow on interest income of \$156,589 of which \$68,493 was a non-cash accrual of interest relating to the Sencera note, and (iii) the operation changes discussed above. The current period ending June 30, 2007 also included a non-cash depreciation expense of \$60,587 compared to \$55,294 in the same period in 2006. Additionally, a non-cash reduction to expense of \$12,000 was realized in the period associated with the return of common shares for services that were not performed.

For the six-months ended March 31, 2007, the Company's capital needs have been met from the use of working capital provided by the proceeds of (i) the issuance of Common Stock for Debenture conversion and; (ii) the issuance of Common Stock for warrant conversion which both occurred in the fiscal year ended September 30, 2006.

We had, at June 30, 2007, cash and cash equivalents of \$1,680,070 and net working capital of \$1,143,801.

### DEVELOPMENT STAGE COMPANY

The Company is to currently working to transition from the development stage to the implementation phase and as of the period ending June 30, 2007, did not have any significant revenues. We have begun marketing efforts and anticipate the sale of licenses in the 2007 or 2008 period, however the cash flow requirements associated with the transition to revenue recognition may exceed cash generated from operations in the current and future periods. We may seek to obtain additional financing from equity and/or debt placements. As such, the Company's ability to secure additional financing on a timely basis may be critical to its ability to stay in business and to pursue planned operational activities.

While we have been able to raise capital in a series of equity and debt offerings in the past 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,

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or at all.

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Irrespective of whether the Company's cash assets prove to be inadequate to meet the Company's operational needs, the Company might seek to compensate providers of services by issuances of stock in lieu of cash.

### Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We do not have any market risk sensitive instruments. Since all operations are in U.S. dollar denominated accounts, we do not have foreign currency risk. Our operating costs are reported in U.S. dollars.

The Company does not invest in term financial products or instruments or derivatives involving risk other than money market accounts, which fluctuate with interest rates at market.

### Item 4. CONTROLS AND PROCEDURES

The Company's Chief Executive Officer and Chairman have evaluated the effectiveness 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, as amended) as of the end of the period covered by this quarterly report and, based on this evaluation, have concluded that the disclosure controls and procedures are effective.

There have been no changes in the Company's internal control over financial reporting that occurred during the Company's first fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings.

The Company is currently not aware of nor has any knowledge of any legal proceedings or claims that we believe will have, individually or in the aggregate, a material adverse affect on our business, financial condition or operating results.

### Item 1A. RISK FACTORS

An investment in our shares involves a high degree of risk. Before making an investment decision, you should carefully consider all of the risks described on this Form 10-Q and Annual Reports on Form 10-K and Form 10KSB previously filed by the Company and any Current Reports on Form 8-K filed by the Company. If any of the risks discussed in these reports actually occur, our business, financial condition and results of operations could be materially and adversely affected. If this were to happen, the price of our shares could decline significantly and you may lose all or a part of your investment. The risk factors described below are not the only ones that may affect us. Our forward-looking statements in this prospectus are subject to the following risks and uncertainties. Our actual results could differ materially from those anticipated by our forward-looking statements as a result of the risk factors below. See "Cautionary and Forward-Looking Statements."

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### RISKS RELATED TO OUR BUSINESS

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#### WE HAVE NOT GENERATED ANY SIGNIFICANT REVENUES AND MAY NEVER ACHIEVE PROFITABILITY

We are a development stage company and, to date, have not generated any significant revenues. From inception through June 30, 2007, we had an accumulated deficit of \$10,699,526. For the quarter ended June 30, 2007 and 2006, we incurred net losses of \$495,635 and \$1,121,424 respectively. We cannot assure you that we can achieve or sustain profitability in the future. Our

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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, and if it will achieve market acceptance. We may not achieve our business objectives and the failure to achieve such goals would have an adverse impact on us.

#### WE MAY NEED TO RAISE ADDITIONAL CAPITAL WHICH MAY NOT BE AVAILABLE ON ACCEPTABLE TERMS OR AT ALL

In the future, we may be required to raise additional funds, particularly if we are unable to generate positive cash flow as a result of our operations. There can be no assurance that financing will be available in amounts or on terms acceptable to us, if at all. The inability to obtain additional capital may reduce our ability to continue to conduct business operations. If we are unable to obtain additional financing, we will likely be required to curtail our research and development plans. Any additional equity financing may involve substantial dilution to our then existing shareholders.

#### WE MAY NOT BE ABLE TO SUCCESSFULLY COMMERCIALIZE OUR TECHNOLOGIES WHICH WOULD RESULT IN CONTINUED LOSSES AND MAY REQUIRE US TO CURTAIL OR CEASE OPERATIONS

As is the case with any new technology, we expect the development process to continue. We cannot assure that our engineering resources will be able to modify the product fast enough to meet market requirements. We can also not assure that our product will gain market acceptance and that we will be able to successfully commercialize the technologies. The failure to successfully commercialize the technologies would result in continued losses and may require us to curtail or cease operations

#### OUR REVENUES ARE DEPENDENT UPON ACCEPTANCE OF OUR PRODUCTS BY LICENSEES; THE FAILURE OF WHICH WOULD CAUSE TO CURTAIL OR CEASE OPERATIONS

We believe that virtually all of our revenues will come from the licensing of our proprietary technologies to major manufacturers. We intend to offer non-exclusive licensing rights. As a result, we will continue to incur substantial operating losses until such time as we are able to generate revenues from licensing and service fees for our products through our distribution partners. There can be no assurance that businesses and customers will adopt our technology and products, or those businesses and prospective customers will agree to pay the licensing and service fees for our products. In the event that we are not able to significantly increase the number of customers that license our products, or if we are unable to charge the necessary license fees, our financial condition and results of operations will be materially and adversely affected.

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IF WE LOSE KEY EMPLOYEES AND CONSULTANTS OR ARE UNABLE TO ATTRACT OR RETAIN QUALIFIED PERSONNEL, OUR BUSINESS COULD SUFFER.

Our success is highly dependent on our ability to attract and retain qualified scientific and management personnel. We are highly dependent on our management, including Mr. Tom Djokovich who has been critical to the development of our technologies and business. The loss of the services of Mr. Djokovich could have a material adverse effect on our operations. We do not have an employment agreement with Mr. Djokovich. Accordingly, there can be no assurance that he will remain associated with us. His efforts will be critical to us as we continue to develop our technology and as we transition from a development stage company to a company with commercialized products and services. If we were to lose Mr. Djokovich, or any other key employees or consultants, we may experience difficulties in competing effectively, developing our technology and implementing our business strategies.

THE LOSS OF EXSISTING VENDOR RELATIONSHIPS OR INABILITY TO LOCATE VENDORS WITH THE SPECIFIC CAPABILITEIS OR CAPACITIES COULD SIGNIFICANLTY IMPEEDE OUR ABILITY TO COMMERCIALIZE THE COMPANY'S TECHNOLOGY RESULTNG IN A MATERIAL ADVERSE EFFECT CASUING THE BUSINESS TO SUFFER.

We have established a plan of operations under which a portion of our operations rely on vendors to provide components of the manufacturing process, system design, assembly, component parts or other equipment or expertise. A loss of any of these relationships or an inability to locate vendors with capabilities and /or capacities as required by the company could cause the Company to experience difficulties in implementing our business strategy. There can be no assurance that we could establish the necessary vendor relationships in a timely matter if at all.

THE LOSS OF STRATEGIC RELATIONSHIPS USED IN THE DEVELOPMENT OF OUR PRODUCTS AND TECHNOLOGY COULD IMPEDE OUR ABILITY TO COMPLETE OUR PRODUCT AND RESULT IN A MATERIAL ADVERSE EFFECT CAUSING THE BUSINESS TO SUFFER.

We have established a plan of operations under which a portion of our operations rely on strategic relationships with third parties, to provide general facilities, personnel, and expertise in research, development, systems design,

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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 CANNOT GUARANTEE YOU THAT OUR PATENTS ARE BROAD ENOUGH TO PROVIDE ANY MEANINGFUL PROTECTION NOR CAN WE ASSURE YOU THAT ONE OF OUR COMPETITORS MAY NOT DEVELOP MORE EFFECTIVE TECHNOLOGIES, DESIGNS OR METHODS WITHOUT INFRINGING OUR INTELLECTUAL PROPERTY RIGHTS OR THAT ONE OF OUR COMPETITORS MIGHT NOT DESIGN AROUND OUR PROPRIETARY TECHNOLOGIES.

We have been granted, and exclusively own, three patents from the United States Patent and Trademark Office. We have also been granted a license to a patent and technology portfolio relating to photovoltaic technology design, manufacturing processes, and the development of technology. These patents and licenses may not protect us against our competitors, and patent litigation is very expensive. We may not have sufficient cash available to pursue any patent litigation to its conclusion because currently we do not generate revenues.

We cannot rely solely on our current patents to be successful. The standards that the U.S. Patent and Trademark Office and foreign patent office's use to

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grant patents, and the standards that U.S. and foreign courts use to interpret patents, are not the same and are not always applied predictably or uniformly and can change, particularly as new technologies develop. As such, the degree of patent protection obtained in the U.S. may differ substantially from that obtained in various foreign countries. In some instances, patents have been issued in the U.S. while substantially less or no protection has been obtained in Europe or other countries.

We cannot be certain of the level of protection, if any, that will be provided by our patents. If we attempt to enforce them and they are challenged in court where our competitors may raise defenses such as invalidity, unenforceability or possession of a valid license. In addition, the type and extent of any patent claims that may be issued to us in the future are uncertain. Our patents may not contain claims that will permit us to stop competitors from using similar technology.

THE FOLLOWING RISKS RELATE PRINCIPALLY TO OUR COMMON STOCK AND ITS MARKET VALUE:

THERE IS A LIMITED MARKET FOR OUR COMMON STOCK WHICH MAY MAKE IT MORE DIFFICULT FOR YOU TO DISPOSE OF YOUR STOCK

Our common stock is quoted on the OTC Bulletin Board under the symbol "XSNX." There is a limited trading market for our common stock. Accordingly, there can be no assurance as to the liquidity of any markets that may develop for our common stock, the ability of holders of our common stock to sell our common stock, or the prices at which holders may be able to sell our common stock.

OUR STOCK PRICE MAY BE VOLATILE

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:

- o technological innovations or new products and services by us or our competitors;
- o additions or departures of key personnel;
- o sales of our common stock;

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- o our ability to integrate operations, technology, products and services;
- o our ability to execute our business plan;
- o operating results below expectations;
- o loss of any strategic relationship;
- o industry developments;
- o economic and other external factors; and
- o 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 addition, the securities markets have from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our common stock.

WE HAVE NOT PAID DIVIDENDS IN THE PAST AND DO NOT EXPECT TO PAY DIVIDENDS IN THE FUTURE. ANY RETURN ON INVESTMENT MAY BE LIMITED TO THE VALUE OF OUR COMMON STOCK

We have never paid cash dividends on our common stock and do not anticipate

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paying cash dividends in the foreseeable future. The payment of dividends on our common stock will depend on earnings, financial condition and other business and economic factors affecting it at such time as the board of directors may consider relevant. If we do not pay dividends, our common stock may be less valuable because a return on your investment will only occur if its stock price appreciates.

Item 2. Changes in Securities - None.

Item 3. Defaults upon senior securities - None.

Item 4. Submission of matters to a vote of security holders - None.

Item 5. Other information - None

Item 6. Exhibits and reports on Form 8-K -

A. Exhibits:

32 Sarbanes-Oxley Certification

33 Sarbanes-Oxley Certification

B. Reports on Form 8-K:

None

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### SIGNATURES

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

Dated: August 14, 2007

XSUNX, INC.

By: /s/ Tom M. Djokovich

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Tom M. Djokovich, Chief  
Executive Officer, President

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