

XSUNX INC
Form 10-Q
May 17, 2010

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For The Quarterly Period Ended March 31, 2010

Commission File Number: 000-29621

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

Colorado
(State of incorporation)

84-1384159
(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

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, as amended, during the preceding twelve (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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

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 number of shares of common stock issued and outstanding as of May 14, 2010 was 208,484,641.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

XSUNX, INC.

(A Development Stage Company)
BALANCE SHEETS

| | March 31, 2010 (Unaudited) | September 30, 2009 |
|--|----------------------------------|-----------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash & cash equivalents | \$ 597,445 | \$ 530,717 |
| Inventory asset | 240,000 | 300,000 |
| Prepaid expenses | 26,870 | 118,332 |
| Total Current Assets | 864,315 | 949,049 |
| PROPERTY & EQUIPMENT | | |
| Office & miscellaneous equipment | 51,708 | 51,708 |
| Machinery & equipment | 450,386 | 450,386 |
| Leasehold improvements | 89,825 | 89,825 |
| | 591,919 | 591,919 |
| Less accumulated depreciation | (425,306) | (378,353) |
| Net Property & Equipment | 166,613 | 213,566 |
| OTHER ASSETS | | |
| Manufacturing equipment in progress | 437,219 | 207,219 |
| Security deposit | 5,815 | 5,815 |
| Total Other Assets | 443,034 | 213,034 |
| TOTAL ASSETS | \$ 1,473,962 | \$ 1,375,649 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 521,347 | \$ 389,293 |
| Accrued expenses | 23,994 | 24,451 |
| Credit card payable | 5,439 | 17,918 |
| Total Current Liabilities | 550,780 | 431,662 |
| LONG TERM LIABILITIES | | |
| Accrued interest on note payable | 27,102 | 4,256 |
| Note payable, vendor | 456,921 | 456,921 |
| Total Long Term Liabilities | 484,023 | 461,177 |
| TOTAL LIABILITIES | 1,034,803 | 892,839 |
| COMMITMENTS & CONTINGENCIES | | |
| SHAREHOLDERS' EQUITY | | |
| Preferred stock, \$0.01 par value; 50,000,000 authorized preferred shares | - | - |
| Common stock, no par value; 500,000,000 authorized common shares 208,484,641 and 196,484,610 shares issued and outstanding, respectively | 24,763,369 | 23,767,869 |
| Paid in capital, common stock warrants | 3,325,866 | 3,175,930 |
| Additional paid in capital | 5,238,213 | 5,248,213 |
| Deficit accumulated during the development stage | (32,888,289) | (31,709,202) |

| | | | | |
|--|----|-----------|----|-----------|
| TOTAL SHAREHOLDERS' EQUITY | | 439,159 | | 482,810 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ | 1,473,962 | \$ | 1,375,649 |

The accompanying notes are an integral part of these financial statements

XSUNX, INC.
(A Development Stage Company)
STATEMENTS OF OPERATIONS
(Unaudited)

| | Three Months Ended | | Six Months Ended | | From Inception February 25, 1997 through March 31, 2010 |
|--|--------------------|-------------------|-------------------|-------------------|--|
| | March 31, 2010 | March 31, 2009 | March 31, 2010 | March 31, 2009 | March 31, 2010 |
| REVENUE | \$ - | \$ - | \$ - | \$ - | \$ 14,880 |
| OPERATING EXPENSES | | | | | |
| Selling and marketing expenses | 92,056 | 30,927 | 202,049 | 131,462 | 1,300,583 |
| General and administrative expenses | 265,925 | 652,980 | 544,949 | 1,675,922 | 11,338,819 |
| Research and development | 107,491 | 165,898 | 152,382 | 178,734 | 2,857,931 |
| Stock option and warrant expense | 75,568 | 77,251 | 149,936 | 154,501 | 3,600,056 |
| Depreciation and amortization expense | 23,476 | 40,337 | 46,953 | 77,389 | 609,359 |
| TOTAL OPERATING EXPENSES | 564,516 | 967,393 | 1,096,269 | 2,218,008 | 19,706,748 |
| LOSS FROM OPERATIONS BEFORE OTHER INCOME/(EXPENSE) | (564,516) | (967,393) | (1,096,269) | (2,218,008) | (19,691,868) |
| OTHER INCOME/(EXPENSES) | | | | | |
| Interest income | - | 1,094 | 44 | 4,509 | 445,537 |
| Impairment of assets | - | - | - | - | (7,031,449) |
| Write down of inventory asset | (60,000) | - | (60,000) | - | (1,177,000) |
| Legal settlement | - | - | - | - | 1,100,000 |
| Loan fees | - | - | - | - | (7,001,990) |
| Forgiveness of debt | - | 287,381 | - | 287,381 | 592,154 |
| Other, non-operating | - | (108) | - | 7,481 | (5,215) |
| Interest expense | (11,427) | - | (22,862) | - | (118,458) |
| TOTAL OTHER INCOME/(EXPENSES) | (71,427) | 288,367 | (82,818) | 299,371 | (13,196,421) |
| NET LOSS | \$ (635,943) | \$ (679,026) | \$ (1,179,087) | \$ (1,918,637) | \$ (32,888,289) |
| BASIC AND DILUTED LOSS PER SHARE | \$ (0.00) | \$ (0.00) | \$ (0.01) | \$ (0.01) | |
| WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING BASIC AND DILUTED | 201,914,092 | 188,868,536 | 200,288,206 | 188,868,536 | |

The accompanying notes are an integral part of these financial statements

XSUNX, INC.
(A Development Stage Company)
STATEMENT OF SHAREHOLDERS' EQUITY

| | Preferred Stock Shares | Amount | Common Stock Shares | Amount | Additional Paid-in Capital | Stock Options/ Warrants Paid-in- Capital | Deficit Accumulated during the Development Stage | Total |
|--|------------------------------|--------|------------------------|---------------|----------------------------------|--|--|------------|
| Balance at September 30, 2009 | - | \$ - | 196,484,610 | \$ 23,767,869 | \$ 5,248,213 | \$ 3,175,930 | \$ (31,709,202) | \$ 482,810 |
| Issuance of common shares in October 2009 for cash (2,556,818 common shares issued at \$0.088 per share) (unaudited) | - | - | 2,556,818 | 225,000 | - | - | - | 225,000 |
| Issuance of common shares in November 2009 for services (53,789 common shares issued at a fair value of \$0.1859 per share) (unaudited) | - | - | 53,789 | 10,000 | - | - | - | 10,000 |
| Issuance of common shares in December 2009 for subscription receivable (1,000,000 common shares issued at \$0.088 per share) (unaudited) | - | - | 1,000,000 | 88,000 | - | - | - | 88,000 |
| Stock compensation expense (unaudited) | - | - | - | - | - | 149,936 | - | 149,936 |
| Issuance of common shares in March 2010 for cash | - | - | 2,000,000 | 150,000 | - | - | - | 150,000 |

| | | | | | | | | |
|--|---|------|-------------|---------------|--------------|--------------|-----------------|-------------|
| (2,000,000 common shares issued at \$0.075 per share) (unaudited) | | | | | | | | |
| Issuance of common shares in March 2010 for services (139,424 common shares issued at \$0.16 per share) (unaudited) | - | - | 139,424 | 22,500 | - | - | - | 22,500 |
| Issuance of common shares in March 2010 for cash (6,250,000 common shares issued at \$0.08 per share) (unaudited) | - | - | 6,250,000 | 500,000 | - | - | - | 500,000 |
| Stock issuance costs (unaudited) | - | - | - | - | (10,000) | - | - | (10,000) |
| Net Loss for the six months ended March 31, 2010 (unaudited) | - | - | - | - | - | - | (1,179,087) | (1,179,087) |
| Balance at March 31, 2010 (unaudited) | - | \$ - | 208,484,641 | \$ 24,763,369 | \$ 5,238,213 | \$ 3,325,866 | \$ (32,888,289) | \$ 439,159 |

The accompanying notes are an integral part of these financial statements

XSUNX, INC.
(A Development Stage Company)
STATEMENTS OF CASH FLOWS
(Unaudted)

| | Six Months Ended | | From Inception February 25,1997 through March 31, 2010 |
|---|-------------------|--------------------|--|
| | March 31, 2010 | March 31, 2009 | 2010 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net loss | \$ (1,179,087) | \$ (1,918,637) | \$ (32,888,289) |
| Adjustment to reconcile net loss to net cash used in operating activities | | | |
| Depreciation & amortization | 46,953 | 77,389 | 609,359 |
| Common stock issued for services and interest | 32,500 | 11,000 | 1,996,634 |
| Stock option and warrant expense | 149,936 | 154,500 | 3,600,056 |
| Beneficial conversion and commitment fees | - | - | 5,685,573 |
| Asset impairment | - | - | 7,031,449 |
| Write down of inventory asset | 60,000 | - | 1,177,000 |
| Gain on settlement of debt | - | - | (287,381) |
| Settlement of lease | - | - | 59,784 |
| Change in Assets and Liabilities: | | | |
| (Increase) Decrease in: | | | |
| Prepaid expenses | 91,462 | (15,384) | (26,870) |
| Inventory held for sale | - | - | (1,417,000) |
| Other assets | - | - | (5,815) |
| Increase (Decrease) in: | | | |
| Accounts payable | 119,575 | 1,138,645 | 2,559,515 |
| Accrued expenses | 22,389 | (10,449) | 51,096 |
| NET CASH USED IN OPERATING ACTIVITIES | (656,272) | (562,936) | (11,854,889) |
| CASH FLOWS USED IN INVESTING ACTIVITIES: | | | |
| Purchase of manufacturing equipment and facilities in process | (230,000) | (1,400,871) | (6,054,629) |
| Payments on note receivable | - | - | (1,500,000) |
| Receipts on note receivable | - | - | 1,500,000 |
| Purchase of marketable prototype | - | - | (1,780,396) |
| Purchase of fixed assets | - | (68,025) | (591,919) |
| NET CASH USED BY INVESTING ACTIVITIES | (230,000) | (1,468,896) | (8,426,944) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Proceeds from warrant conversion | - | - | 3,306,250 |
| Proceeds from debentures | - | - | 5,850,000 |
| Proceeds for issuance of common stock, net | 953,000 | 600,000 | 11,723,028 |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 953,000 | 600,000 | 20,879,278 |
| NET INCREASE (DECREASE) IN CASH | 66,728 | (1,431,832) | 597,445 |
| CASH & CASH EQUIVALENTS, BEGINNING OF PERIOD | 530,717 | 2,389,218 | - |
| CASH & CASH EQUIVALENTS, END OF PERIOD | \$ 597,445 | \$ 957,387 | \$ 597,445 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | | |
| Interest paid | \$ 4 | \$ - | \$ 119,679 |

| | | | | | | |
|------------|----|---|----|---|----|---|
| Taxes paid | \$ | - | \$ | - | \$ | - |
|------------|----|---|----|---|----|---|

The accompanying notes are an integral part of these financial statements

XSUNX, INC.
(A Development Stage Company)
Notes to Financial Statements – (Unaudited)
March 31, 2010

1. BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all normal recurring adjustments considered necessary for a fair presentation have been included. Operating results for the six months ended March 31, 2010 are not necessarily indicative of the results that may be expected for the year ending September 30, 2010. For further information refer to the financial statements and footnotes thereto included in the Company's Form 10-K for the year ended September 30, 2009.

Going Concern

The accompanying financial statements have been prepared on a going concern basis of accounting, which contemplates continuity of operations, realization of assets and liabilities and commitments in the normal course of business. The accompanying financial statements do not reflect any adjustments that might result if the Company is unable to continue as a going concern. The Company does not generate significant revenue, and has negative cash flows from operations, which raise substantial doubt about the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern and appropriateness of using the going concern basis is dependent upon, among other things, additional cash infusion. The Company has obtained funds from its shareholders since its inception through the six months ended March 31, 2010. Management believes the existing shareholders and the prospective new investors will provide the additional cash needed to meet the Company's obligations as they become due, and will allow the development of its core of business.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Development Stage Activities and Operations

The Company has been in its initial stages of formation and for the period ended March 31, 2010, had no revenues. A development stage activity as one in which all efforts are devoted substantially to establishing a new business and even if planned principal operations have commenced, revenues are insignificant.

Use of Estimates

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

differ from those estimates.

Cash and Cash Equivalents

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

Fair Value of Financial Instruments

The Company's financial instruments, including cash and cash equivalents, accounts payable and accrued liabilities are carried at cost, which approximates their fair value, due to the relatively short maturity of these instruments. As of March 31, 2010, and September 30, 2009, the Company's notes payable have stated borrowing rates that are consistent with those currently available to the Company and, accordingly, the Company believes the carrying value of these debt instruments approximates their fair value.

XSUNX, INC.
(A Development Stage Company)
Notes to Financial Statements – (Unaudited)
March 31, 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loss per Share Calculations

Loss per Share is the calculation of basic earnings per share and diluted earnings per share. Basic earnings per share are computed by dividing income available to common shareholders by the weighted-average number of common shares available. Diluted earnings per share is computed similar to basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. The Company's diluted loss per share is the same as the basic loss per share for the period ended March 31, 2010 as the inclusion of any potential shares would have had an anti-dilutive effect due to the Company generating a loss.

Revenue Recognition

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

Stock-Based Compensation

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

3. CAPITAL STOCK

At March 31, 2010, the Company's authorized stock consisted of 500,000,000 shares of common stock, with no par value. The Company is also authorized to issue 50,000,000 shares of preferred stock with a par value of \$0.01 per share. The rights, preferences and privileges of the holders of the preferred stock will be determined by the Board of Directors prior to issuance of such shares. During the six months ended March 31, 2010, the Company issued 2,556,818 shares of common stock at a price of \$0.088 per share for cash of \$225,000; 1,000,000 shares of common stock issued at a price of \$0.088 per share for cash of \$88,000; 53,789 shares of common stock issued at a price of \$0.1859 per share for services at a fair value of \$10,000; 2,000,000 shares of common stock issued at a price of \$0.075 per share for cash of \$150,000; 6,250,000 shares of common stock issued for net proceeds of \$500,000; 139,424 shares of common stock issued at a price of \$0.16 per share for services at a fair value of \$22,500. During the six months ended March 31, 2009, the Company issued 3,000,000 shares of common stock at a price of \$0.20 per share for cash of \$600,000; 50,000 shares of common stock issued at a price of \$0.22 per share for services at fair value of \$11,000.

4. STOCK OPTIONS AND WARRANTS

The Company adopted a Stock Option Plan for the purposes of granting stock options to its employees and others providing services to the Company, which reserves and sets aside for the granting of Options for Twenty Million (20,000,000) shares of Common Stock. Options granted under the Plan may be either Incentive Options or Nonqualified Options and shall be administered by the Company's Board of Directors ("Board"). Each Option shall be exercisable to the nearest whole share, in installments or otherwise, as the respective Option agreements may provide. Notwithstanding any other provision of the Plan or of any Option agreement, each Option shall expire on the date specified in the Option agreement. During the period ended March 31, 2010, the Company granted no stock options.

XSUNX, INC.
(A Development Stage Company)
Notes to Financial Statements – (Unaudited)
March 31, 2010

4. STOCK OPTIONS AND WARRANTS (Continued)

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

| | For the period ended 3/31/2010 | |
|--|-----------------------------------|--|
| | Number of Options | Weighted average exercise price |
| Outstanding, beginning of the period | 10,180,000 | \$ 0.27 |
| Granted | - | \$ - |
| Exercised | - | \$ - |
| Expired | - | \$ - |
| Outstanding, end of the period | 10,180,000 | \$ 0.27 |
| Exercisable at the end of the period | 5,890,914 | \$ 0.31 |
| Weighted average fair value of options granted during the period | | \$ - |

The weighted average remaining contractual life of options outstanding issued under the plan as of March 31, 2010 was as follows:

| Exercisable Prices | Stock Options Outstanding | Stock Options Exercisable | Average Remaining Contractual Life (years) |
|-----------------------|---------------------------------|---------------------------------|---|
| \$ 0.46 | 1,150,000 | 950,000 | 1.82 years |
| \$ 0.53 | 100,000 | 100,000 | 1.90 years |
| \$ 0.45 | 100,000 | 100,000 | 2.06 years |
| \$ 0.41 | 100,000 | 100,000 | 2.41 years |
| \$ 0.36 | 2,500,000 | 1,441,750 | 2.57 years |
| \$ 0.36 | 500,000 | 481,250 | 2.62 years |
| \$ 0.36 | 500,000 | 481,250 | 2.66 years |
| \$ 0.36 | 115,000 | 76,667 | 3.53 years |
| \$ 0.16 | 5,115,000 | 2,159,997 | 4.00 years |
| | 10,180,000 | 5,890,914 | |

Stock-based compensation expense recognized during the period is based on the value of the portion of stock-based payment awards that is ultimately expected to vest. Stock-based compensation expense recognized in the financial statements of operations during the six months ended March 31, 2010, included compensation expense for the stock-based payment awards granted prior to, but not yet vested, as of March 31, 2010 based on the grant date fair value estimated, and compensation expense for the stock-based payment awards granted subsequent to March 31, 2010, based on the grant date fair value estimated. We account for forfeitures as they occur. The stock-based compensation expense recognized in the statement of operations during the six months ended March 31, 2010 and 2009 was \$149,936 and \$154,500, respectively.

XSUNX, INC.
 (A Development Stage Company)
 Notes to Financial Statements – (Unaudited)
 March 31, 2010

4. STOCK OPTIONS AND WARRANTS (Continued)

Warrants

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

| | For the period ended 3/31/2010 | Weighted average exercise price |
|---|-----------------------------------|--|
| | Number of Options | |
| Outstanding, beginning of the period | 4,195,332 | \$ 0.61 |
| Granted | - | \$ - |
| Exercised | - | \$ - |
| Expired | - | \$ - |
| Outstanding, end of the period | 4,195,332 | \$ 0.61 |
| Exercisable at the end of period | 4,047,332 | \$ 0.64 |
| Weighted average fair value of warrants granted during the period | | \$ - |

At March 31, 2010, the weighted average remaining contractual life of warrants outstanding:

| Warrants Outstanding | Warrants Exercisable | Average Remaining Contractual Life (years) |
|-------------------------|-------------------------|---|
| 112,000 | 112,000 | 1.01 years |
| 500,000 | 352,000 | 1.30 years |
| 250,000 | 250,000 | 1.75 years |
| 1,666,666 | 1,666,666 | 2.59 years |
| 1,666,666 | 1,666,666 | 2.59 years |
| 4,195,332 | 4,047,332 | |

XSUNX, INC.
(A Development Stage Company)
Notes to Financial Statements – (Unaudited)
March 31, 2010

5. PROMISSORY NOTE

During the year ended September 30, 2009, the Company converted an accounts payable to a promissory note in the amount of \$456,921. The note accrues interest at 10% per annum. The note, including all principal and interest, is due September 1, 2011. The interest expense related to this note for the six months ended March 31, 2010 is \$22,846.

6. NOTES, COMMITMENTS, AND CONTINGENCIES

Leased Facility Transactions

Our lease for facilities in Golden, at the lease rate of \$1,790 per month plus \$945 in triple net for a total of \$2,735 per month will expire May 30, 2010. Under agreement with the landlord we plan to vacate the premises by June 15, 2010. While we do not currently conduct operations of any significance in the facility, a machine built under contract for us, and held in inventory for sale by us, is housed in this facility and we are engaged in the sale and transfer of this machine as part of our plans to prepare to vacate.

Settlement of Vendor Dispute

On September 3, 2009, we received notice of an action filed by Airgas, Corp. in the State of Oregon, Multnomah County, requesting, a) that the court grant the re-possession of certain industrial gas management equipment (the “equipment”) for shipment back to the vendor (we had returned the equipment to the vendor on August 28, 2009), b) that the court grant the vendor unspecified re-stocking and re-shipment fees, or c) the sum of \$117,207 plus interest and collection fees for payment for the equipment. Earlier attempts by us to return the equipment were met with demands for re-stocking fees from the vendor. We had refused to pay re-stocking fees. The vendor eventually agreed to the return of the equipment and then subsequently filed its claim. In February 2010, prior to a summary judgment hearing, we elected to negotiate a settlement with Airgas Corp. agreeing to pay \$114,641 in 12 equal monthly payments of \$9,553 commencing March 1, 2010. No default currently exists under this agreement.

MVSystems, Inc. Abandonment of Patent Application

In May 2008 XsunX licensed certain patented and patent-pending technologies from MVSystems, Inc. In April 2009 the Company received notice from MVSystems that one of the patent pending technologies licensed by XsunX, U.S. Patent Application No. 10/905,545 entitled “Stable Three-Terminal and Four Terminal Solar Cells and Solar Cell Panels Using Thin-Film Silicon Technology, had been rejected by the US Patent Office for various deficiencies. In August 2009 MVSystems notified the Company that it had amended its application and re-filed the amended patent application with the U.S Patent Office. On January 22, 2010, the Company received notification from MVSystems that the above referenced patent application had again been rejected by the United States Patent Office and that MVSystems had elected to abandon the above referenced patent application. By prior agreement, the Company has assumed all rights of MVS to prosecute or maintain the referenced patent application, and the Company continues to hold related contractual rights and claims against MVSystems, Inc. The Company's current plan of operations and technology development efforts does not contemplate the use of the above referenced patent application technology.

7. CONCENTRATION OF CREDIT RISK

The Company has a concentration of credit risk for cash by maintaining deposits with banks, which may at times exceed the insured amounts. The accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000 per financial institution. At March 31, 2010, the Company's uninsured cash deposits were \$347,445.

8. SUBSEQUENT EVENTS

The following is an item management has evaluated as subsequent events pursuant to the requirement of Topic 855.

On April 21, 2010 the Company received payment in the amount of \$240,000 for an offer it accepted on April 16, 2010 for the sale of inventory asset held for sale, plus certain associated attendant assets. The inventory asset was revalued and written down to its fair market value for the six months ended March 31, 2010.

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 Quarterly Report on 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. Our actual results could differ materially from those anticipated by these forward-looking statements as a result of many factors, including those discussed under "Item 1A: Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q.

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.

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

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BUSINESS OVERVIEW

In the fiscal year ended September 30, 2009, XsunX modified its previous plans to directly establish a solar module manufacturing infrastructure. We have re-focused operations on the development of a cross-industry thin film solar manufacturing concept that we believe provides an opportunity for XsunX to establish a competitive advantage within the industry. Our current efforts are focused on the combination of highly developed thin film solar processes with state-of-the-art mature magnetic media thin film manufacturing technologies derived from the hard disc drive (HDD) industry to improve manufacturing output, increase cell efficiency and production yields, and lower the costs for the production of high efficiency Copper Indium Gallium (di) Selenide (CIGS) thin film solar cells.

It is our belief that by leveraging the manufacturing processes from the HDD industry and adapting them to thin-film solar technologies, we can reduce the cost per watt for solar to well below \$1 per watt, thereby making solar a viable alternative in the energy field. Furthermore, it is our belief that our expertise, experience and proprietary technology in this area will allow us to seek joint ventures with larger companies thereby generating revenue streams through licensing fees and manufacturing royalties.

RESULTS OF OPERATIONS FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2010 COMPARED TO THE SAME PERIOD IN 2009

Revenue:

The Company generated no revenues for the periods ended March 31, 2010 and 2009 respectively. Additionally, there was no associated cost of sales.

Selling and Marketing Expenses:

Selling and marketing expenses for the three month period ended March 31, 2010 were \$92,056, as compared to \$30,927 for the same period in 2009. The increase of \$61,129 in selling and marketing expenses between the periods is primarily attributable to increase in public relation expenses relating to increasing the Company's exposure, and efforts to establish brand awareness under the Company's revised plan of operations.

General and Administrative Expenses:

General and administrative expenses for the three month period ending March 31, 2010 were \$265,925 as compared to \$652,980 during the same period in 2009. The decrease of \$367,055 was related primarily to closing the Company's Oregon facilities, the reduction of operations at the Company's Colorado facilities with the intent to close that facility, and a general reduction to salaries and operating expenses under the Company's re-focused plan of operations for the development of a new cross-industry thin film solar manufacturing technology.

Research and Development:

Research and development for the three month period ended March 31, 2010 were \$107,491 as compared to \$165,898 during the same period in 2009. The decrease of \$58,407 was due to a reduction to expenses associated with the Company's revised plan of operations to develop a new thin film solar manufacturing technology.

Net Loss:

The net loss for the three months ended March 31, 2010 was \$(635,943) as compared to a net loss of \$(679,026) for the same period 2009. The decreased net loss of \$(43,083) includes the operating expense changes discussed above, and the net change in non-cash expenses of \$18,544, which includes depreciation and stock option expense. 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 SIX-MONTH PERIOD ENDED MARCH 31, 2010 COMPARED TO THE SAME PERIOD IN 2009

Revenue:

The Company generated no revenues in the six month period ended March 31, 2010 and 2009 respectively. Additionally, there was no associated cost of sales.

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Selling and Marketing Expenses:

Selling and marketing expenses for the six month period ended March 31, 2010 were \$202,049, as compared to \$131,462 for the same period in 2009. The increase of \$70,587 in selling and marketing expenses between the periods is primarily attributable to an increase in public relation expenses relating to increasing the Company's exposure, and efforts to establish brand awareness under the Company's revised plan of operations.

General and Administrative Expenses:

General and administrative expenses for the six month period ending March 31, 2010 were \$544,949 as compared to \$1,675,922 during the same period in 2009. The decrease of \$1,130,973 was related primarily to closing the Company's Oregon facilities, the reduction of operations at the Company's Colorado facilities with the intent to close that facility, and a general reduction to salaries and operating expenses under the Company's re-focused plan of operations for the development of a new cross-industry thin film solar manufacturing technology.

Research and Development:

Research and development for the six month period ended March 31, 2010 were \$152,382 as compared to \$178,734 during the same period in 2009. The decrease of \$26,352 was due to a reduction to expenses associated with the Company's revised plan of operations to develop a new thin film solar manufacturing technology.

Net Loss:

The net loss for the six months ended March 31, 2010 was \$(1,179,087) as compared to a net loss of \$(1,918,637) for the same period 2009. The decreased net loss of \$739,550 includes the operating expense changes discussed above, and the net change of \$35,001 in non-cash expenses, which includes depreciation and stock option expense. 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

As of March 31, 2010, we had \$313,535 of working capital as compared to \$517,387 at September 30, 2009. This decrease of \$114,271 was due primarily to a decrease in the estimated value of inventory held for sale.

During the six months ended March 31, 2010, the Company used \$(656,272) of cash for operating activities, as compared to cash used of \$(562,936) for the prior period. The increase in cash used of \$93,336 for operating activities was primarily due to a decrease in the use of accounts payable to finance operations.

Cash used by investing activities for the six months ended March 31, 2010 was \$(230,000), as compared to cash use of \$(1,468,896) for the prior period. The net decrease of cash used in investing activities was primarily due to a decrease in the purchase of manufacturing equipment and facilities in process under the Company's revised plan of operations.

Cash provided by financing activities for the six months ended March 31, 2010 was \$953,000, as compared to \$600,000 for the prior period. Our capital needs have primarily been met from the proceeds of private placements, as we are currently in the development stage and had no revenues.

Our financial statements as of March 31, 2010 have been prepared under the assumption that we will continue as a going concern from inception (February 25, 1997) through March 31, 2010. Our independent registered public accounting firm has issued their report dated January 11, 2010 that included an explanatory paragraph expressing

substantial doubt in our ability to continue as a going concern without additional capital becoming available. Our ability to continue as a going concern ultimately is dependent on our ability to generate a profit which is dependent upon our ability to obtain additional equity or debt financing, attain further operating efficiencies and, ultimately, to achieve profitable operations. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

For the six months ended March 31, 2010, the Company's capital needs have been met from the use of working capital provided by the proceeds of (i) the Company's working capital and (ii) the sale of unregistered common stock for proceeds totaling \$953,000 dollars.

On March 30, 2010, the Company entered into a purchase agreement (the "Purchase Agreement") with Lincoln Park Capital, LLC ("LPC") whereby LPC agreed to purchase up to an aggregate of \$5,000,000 of our common stock (the "Purchase Shares"). Pursuant to the terms of the Purchase Agreement, LPC purchased an initial amount of \$500,000 of Purchase Shares (5,000,000 Purchase Shares) from us, and in consideration for LPC entering into the Purchase Agreement we agreed to the issuance of up to 2,500,000 shares of common stock (the "Commitment Shares") to LPC of which 1,250,000 have been issued to LPC. Further, subject to our satisfaction of certain conditions, such as the effectiveness of a registration statement covering the shares under the Purchase Agreement, LPC agreed to buy more of the Purchase Shares at our direction, at any time, in any amount up to \$50,000 at a specified purchase price per share. Also, pursuant to the terms of the Purchase Agreement, after the SEC has declared effective the registration statement, we will have the right, over a 25-month period, to sell the remaining Purchase Shares to LPC in amounts up to \$500,000 per sale, subject to certain conditions as set forth in the Purchase Agreement, up to the aggregate commitment of \$5,000,000.

DEVELOPMENT STAGE COMPANY

The Company is currently working to transition from the development stage to the implementation phase and as of the period ended March 31, 2010, did not have any significant revenues. The transition to revenue recognition may exceed cash generated from operations in the current and future periods. We have in the past experienced substantial losses and negative cash flow from operations and have required financing, including equity and debt financing, in order to pursue the commercialization of products based on our technologies. We expect that we will continue to need significant financing to operate our business. If additional financing is not available or not available on terms acceptable to us, our ability to fund our operations, maintain our research and development efforts necessary to complete the development of marketable products or otherwise respond to competitive pressures may be significantly impaired. We could also be forced to curtail our business operations, reduce our investments, decrease or eliminate capital expenditures and delay the execution of our business plan which would have a material adverse affect on our business.

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, or at all.

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.

OFF-BALANCE SHEET ARRANGEMENTS

None

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 4T. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures and internal controls to ensure that information required to be disclosed in the Company's filings under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Our Chief Executive Officer and Chief Operating Officer have evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. The evaluation included certain control areas in which we have made, and are continuing to make, changes to improve and enhance controls. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited or reviewed may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Based on such evaluation, our Chief Executive Officer and Chief Operating Officer have concluded that, as of the end of such period, our disclosure controls and procedures were effective, and we have discovered no material weakness.

Changes in Internal Control over Financial Reporting

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended March 31, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

There are no material changes from the risk factors previously disclosed in the Registrant's Form 10-K filed on January 13, 2010.

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

We are a development stage company and, to date, have not generated any significant revenues. The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate our continuation as a going concern. Net loss for the three months ended March 31, 2010 and 2009 was \$(635,943) and \$(679,026), respectively. Net cash used for operations was \$(656,272) and \$(562,936) for the six months ended March 31, 2010 and 2009, respectively. From inception through March 31, 2010, we had an accumulated deficit of \$(32,898,289).

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

We expect that we will need to obtain additional financing to continue to operate our business, including capital expenditures to complete the development of marketable thin film manufacturing technologies, and financing may be unavailable or available only on disadvantageous terms which could cause the Company to curtail its business operations and delay the execution of its business plan.

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

As discussed in the “Liquidity and Capital Resources” section herein above, on March 30, 2010, we entered into a Purchase Agreement with LPC whereby LPC agreed to purchase up to an aggregate of \$5,000,000 of our common stock (referred to herein as “Purchase Shares”). Pursuant to the terms of the Purchase Agreement, LPC purchased an initial amount of \$500,000 of such Purchase Shares (5,000,000 Purchase Shares) from us, and in consideration for LPC entering into the Purchase Agreement we agreed to the issuance of up to 2,500,000 shares of common stock (referred to herein as the “Commitment Shares”) to LPC of which 1,250,000 have been issued to LPC. Further, subject to our satisfaction of certain conditions, such as the effectiveness of a registration statement covering the shares under the Purchase Agreement, LPC agreed to buy more of the Purchase Shares at our direction, at any time, in any amount up to \$50,000 at a specified purchase price per share. Also, pursuant to the terms of the Purchase Agreement, after the SEC has declared effective the registration statement, we will have the right, over a 25-month period, to sell the remaining Purchase Shares to LPC in amounts up to \$500,000 per sale, subject to certain conditions as set forth in the Purchase Agreement, up to the aggregate commitment of \$5,000,000.

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

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

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

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

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

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

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

We will be competing with firms, both domestic and foreign, that perform research and development, as well as firms that manufacture and sell solar products. In addition, we expect additional potential competitors to enter the markets for solar products in the future. Some of these current and potential competitors are among the largest industrial companies in the world with longer operating histories, greater name recognition, access to larger customer bases,

well-established business organizations and product lines and significantly greater resources and research and development staff and facilities. There can be no assurance that one or more such companies will not succeed in developing technologies or products that will become available for commercial sale prior to our products, that will have performance superior to products based on our technologies or that would otherwise render our products noncompetitive. If we fail to compete successfully, our business would suffer and we may lose or be unable to gain market share.

The loss of strategic relationships used in the development of our thin film manufacturing technologies and products could impede our ability to complete the development of our products and have a material adverse affect on our business.

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

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

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

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

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

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

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

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

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

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

Downturns in general economic conditions could adversely affect our profitability.

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

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

This quarterly report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this quarterly report. The standards that must be met for management to assess the internal control over financial reporting as effective are new and complex, and require significant documentation, testing and possible remediation to meet the detailed standards and will impose significant additional expenses on us. We may encounter problems or delays in completing activities necessary to make an assessment of our internal control over financial reporting. In addition, rules may be adopted by the SEC, pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 that will require annual assessment of our internal control over financial reporting, and attestation of our assessment by our independent registered public accountants. The attestation process by our independent registered public accountants will be new and we may encounter problems or delays in completing the implementation of any requested improvements and receiving an attestation of our assessment by our independent registered public accountants. If we cannot assess our internal control over financial reporting as effective, or our independent registered public accountants are unable to provide an unqualified attestation report on such assessment, investor confidence and share value may be negatively impacted.

Our common stock is considered a "Penny Stock" and as a result, related broker-dealer requirements affect it's trading and liquidity.

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

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

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

investment objectives.

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

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

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

- investors may have difficulty buying and selling or obtaining market quotations;
- market visibility for our common stock may be limited; and
- a lack of visibility for our common stock may have a depressive effect on the market for our common stock.

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

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

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

- technological innovations or new products and services by us or our competitors;
- additions or departures of key personnel;
- sales of our common stock;
- our ability to integrate operations, technology, products and services;
- our ability to execute our business plan;
- operating results below expectations;
- loss of any strategic relationship;
- industry developments;
- economic and other external factors; and
- period-to-period fluctuations in our financial results.

Because we have a limited operating history with limited revenues to date, you may consider any one of these factors to be material. Our stock price may fluctuate widely as a result of any of the above listed factors. In recent years, the securities markets in the United States have experienced a high level of price and volume volatility, and the market price of securities of many companies have experienced wide fluctuations that have not necessarily been related to the operations, performances, underlying asset values or prospects of such companies. For these reasons, our shares of

common stock can also be expected to be subject to volatility resulting from purely market forces over which we will have no control. If our business development plans are successful, we may require additional financing to continue to develop and exploit existing and new technologies and to expand into new markets. The exploitation of our technologies may, therefore, be dependent upon our ability to obtain financing through debt and equity or other means.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On March 17, 2010 the Company accepted an offer for the sale of 2,000,000 shares of its restricted common stock in a private placement for cash proceeds of \$150,000. The shares were issued in a transaction exempt from registration pursuant to Section 4(2) of the Securities Act.

In March 2010, the Company issued 139,424 shares of its restricted common stock in connection with a service agreement to provide marketing and financing service to the Company. Subject to the service agreement the shares were valued at \$22,500. Such shares were issued in a transaction exempt from registration pursuant to Section 4(2) of the Securities Act.

On March 30, 2010, the Company issued certain securities pursuant to a securities purchase agreement to Lincoln Park Capital Fund, LLC. Information related to this issuance was disclosed in the Company's Current Report on Form 8-K filed with the SEC on April 1, 2010.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. (REMOVED AND RESERVED)

None.

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

(a) Exhibits:

| EXHIBIT | DESCRIPTION |
|---------|--|
| 3.1 | Articles of Incorporation (1) |
| 3.2 | Bylaws (2) |
| 10.1 | XsunX Plan of Reorganization and Asset Purchase Agreement, dated September 23, 2003 (3) |
| 10.2 | Form 8-K related to the release of a newsletter to shareholders. (4) |
| 10.3 | Form 8-K related to a Material Definitive Financing Agreement entered into by the Company.(5) |
| 10.4 | Form S-1 related to the filing of a registration statement by the Company.(6) |
| 31.1 | Certifications of the Chief Executive and Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Certification Act of 2002 (7) |
| 31.2 | Certifications of the Chief Operating Officer pursuant to Section 302 of the Sarbanes-Oxley Certification Act of 2002 (7) |
| 32.1 | Certification Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of the Sarbanes-Oxley Certification Act Of 2002 (7) |
| 32.2 | Certification Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of the Sarbanes-Oxley Certification Act Of 2002 (7) |

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- (1) Incorporated by reference to Registration Statement Form 10SB12G #000-29621 dated February 18, 2000 and by reference to exhibits included with the Company's prior Report on Form 8-K/A filed with the Securities and Exchange Commission dated October 29, 2003.
 - (2) Incorporated by reference to Registration Statement Form 10SB12G #000-29621 filed with the Securities and Exchange Commission dated February 18, 2000.
 - (3) Incorporated by reference to exhibits included with the Company's prior Report on Form 8-K/A filed with the Securities and Exchange Commission dated October 29, 2003.
 - (4) Incorporated by reference to exhibits included with the Company's prior Report on Form 8-K filed with the Securities and Exchange Commission dated February 24, 2010.
 - (5) Incorporated by reference to exhibits included with the Company's prior Report on Form 8-K filed with the Securities and Exchange Commission dated April 1, 2010.
 - (6) Incorporated by reference to exhibits included with the Company's prior Report on Form S-1 filed with the Securities and Exchange Commission dated April 30, 2010.
 - (7) Provided herewith

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.

XSUNX, INC.

Dated: May 17, 2010

By: /s/ Tom M. Djokovich
Tom M. Djokovich,
Principal Executive and Financial Officer

Dated: May 17, 2010

By: /s/ Joseph Grimes
Joseph Grimes
Chief Operating Officer and President