

Edgar Filing: XSUNX INC - Form 10QSB

XSUNX INC  
Form 10QSB  
August 23, 2004

SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10QSB

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

CIK NO.: 0001039466

For Quarter Ended June 30, 2004

Commission File Number: 000-29621

XSUNX, INC.

-----  
(Name of Small Business Issuer in its charter)

COLORADO

84-1384159

-----  
State of incorporation or organization IRS Employer ID Number

65 Enterprise, Aliso Viejo, CA 92656

-----  
(Address of principal executive offices) (Zip Code)

Issuer'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 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 10, 2004 the number of shares outstanding of the registrant's only class of common stock was 112,779,602

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

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## PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

XSUNX  
(FORMERLY SUN RIVER MINING, INC.)

(AN EXPLORATION STAGE COMPANY)  
FINANCIAL STATEMENTS

NINE-MONTHS ENDED JUNE 30, 2004  
(UNAUDITED)

# Edgar Filing: XSUNX INC - Form 10QSB

Michael Johnson & Co., LLC.  
9175 Kenyon Ave., #100  
Denver, CO 80237  
Phone: 303-796-0099  
Fax: 303-796-0137

## ACCOUNTANTS' REVIEW REPORT

Board of Directors  
XSUNX, Inc.  
Denver, CO

We have reviewed the accompanying balance sheet of XSUNX, Inc. (An Exploration Stage Company) as of June 30, 2004 and the related statements of operations for the three and nine months ended June 30, 2004 and 2003 and the period February 27, 1997 (inception) to June 30, 2004 and cash flows and stockholders' equity for the nine-months ended June 30, 2004 and 2003 and for February 25, 1997 (inception) to June 30, 2004 included in the accompanying Securities and Exchange Commission Form 10-QSB for the period ended June 30, 2004. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of person responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States, the objective of which is the expression of an opinion regarding the financial statements 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 and standards of the PCAOB.

We have previously audited, in accordance with auditing standards generally accepted in the United States, the balance sheet as of September 30, 2003, and the related statements of operations, stockholders' equity and cash flows for the year then ended (not presented herein). In our report dated December 13, 2003, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying balance sheets as of June 30, 2004 is fairly stated in all material respects in relation to the balance sheet from which it has been derived.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, conditions exist which raise substantial doubt about the Company's ability to continue as a going concern unless it is able to generate

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sufficient cash flows to meet its obligations and sustain its operations. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Michael Johnson & Co., LLC  
 Michael Johnson & Co., LLC  
 Denver, CO  
 August 9, 2004

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XSUNX, INC.  
 (Formerly Sun River Mining, Inc.)  
 (A Development Stage Company)  
 Balance Sheets  
 (Unaudited)

	June 30, 2004
	-----
ASSETS:	
Current assets:	
Cash	\$ 69,142
	-----
Total current assets	69,142
	-----
Other assets:	
Patents	3
Deposit - Lease	22,500
	-----
Total other assets	22,503
	-----
TOTAL ASSETS	\$ 91,645
	=====
LIABILITIES AND STOCKHOLDERS' EQUITY:	
Current Liabilities:	
Accounts Payable	\$ 39,608
Accrued Officers Salaries & Taxes	98,831
Notes Payable	4,368
	-----
Total current liabilities	142,807
	-----
Stockholders' Equity:	
Preferred Stock, par value \$0.01 per share; 50,000,000 shares authorized; no shares issued and outstanding	-

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Common Stock, no par value; 500,000,000 shares authorized;	
112,646,953 shares issued and outstanding at June 30,	2,996,570
2004 and 111,298,148 outstanding at September 30, 2003	(3,047,732)
Deficit accumulated during the exploratory stage	-----
Total stockholders' profit (deficit)	(51,162)
	-----
 TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	 \$ 91,645
	=====

See Accountants' Review Report

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XSUNX, INC.  
(Formerly Sun River Mining, Inc.)  
(A Development Stage Company)  
Consolidated Statements of Operations  
(Unaudited)

	Three-Months Ended		Nine-Months Ended		Feb. (Ince June 2004
	June 30,		June 30,		
	2004	2003	2004	2003	
	-----	-----	-----	-----	-----
Revenue	\$ -	\$ -		\$ -	
Expenses:					
Abandoned Equipment	-	-	-	-	
Bank Charges	193	-	255	-	
Consulting	9,700	-	9,700	-	1
Contract R&D	61,645	-	74,495	-	
Depreciation	-	-	-	-	
Directors' Fees	29	-	29	-	
Due Diligence	-	-	-	-	
Equipment Rental	-	-	-	-	
Impairment loss	-	-	-	-	
Legal & Accounting	6,462	13,186	21,807	14,070	
Licenses & Fees	-	-	-	-	
Meals & Entertainment	30	-	142	-	
Office Expenses	4,219	-	6,978	-	
Salaries	33,108	-	98,108	-	
Postage & Shipping	122	-	424	-	
Printing	57	-	191	-	
Public Relations	350	-	1,190	-	
Rent	2,250	-	7,423	-	
Subscriptions	269	-	269	-	
Taxes	-	-	-	-	
Telephone	1,271	-	2,814	-	
Transfer Agent Expense	843	-	2,643	375	
Travel	1,665	-	1,887	-	
	-----	-----	-----	-----	-----

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Total Operating Expenses	122,213	13,186	228,355	14,445	3
Other Income (Expense)					
Interest Expense	-	-			
Interest Income	-	-			
Forgiveness of Debt	-	-			
Net (Loss)	\$ (122,213)	\$ (13,186)	\$ (228,355)	\$ (14,445)	\$ (3)

Per Share Information:

Weighted average number of common shares outstanding	111,479,898	15,362,970
Net Loss per Common Share	*	*

\* Less than \$.01

See Accountants' Review Report

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XSUNX INC.  
(Formerly Sun River Mining, Inc.)  
(A Development Stage Company)  
Statements of Cash Flows  
(Unaudited)

Indirect Method

	Nine-Months Ended June 30,	
	2004	2003
Cash Flows from Operating Activities:		
Net Loss	\$ (228,355)	\$ (14,445)
Adjustments to reconcile net loss to cash used in operating activities:		
Issuance of Common Stock for Services		
(Increase) in Deposits	(22,500)	
Increase in Accrued Expenses & Taxes	98,831	14,445
Increase in Accounts Payable	39,608	
Net Cash Flows Used for Operating Activities	(112,416)	
Cash Flows from Investing Activities:		
Purchase of Intangible Assets	-	
Net Cash Flows Used for Investing Activities	-	
Cash Flows from Financing Activities:		

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Proceeds from Notes Payable	4,368	
Issuance of Common Stock	174,844	
	-----	-----
Net Cash Flows Provided by Financing Activities	179,212	
	-----	-----
Net Increase (Decrease) in Cash	66,796	
	-----	-----
Cash and cash equivalents - Beginning of period	2,346	
	-----	-----
Cash and cash equivalents - End of period	\$ 69,142	
	=====	=====
Supplemental Disclosure of Cash Flow Information		
Cash Paid During the Year for:		
Interest	\$ -	
	=====	=====
Income Taxes	\$ -	
	=====	=====
NON-CASH TRANSACTIONS		
Common stock issued in exchange for services	\$ -	
	=====	=====

See Accountants' Review Report

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XSUNX, INC.  
(Formerly Sun River Mining, Inc.)  
(A Development Stage Company)  
Consolidated Statement of Stockholders' Equity (Deficit)  
June 30, 2004  
(Unaudited)

Continued...

	Common Stock		Deficit Accumulated During the Exploration Stage	Totals
	# of Shares	Amount		
	-----	-----	-----	-----
Inception - February 25, 1997	-	\$ -	\$ -	\$ -
Issuance of stock for cash 3/97	5,000	100	-	100
Issuance of stock for cash 3/97	5,590	111,800	-	111,800
Issuance of stock to Founders 3/97	14,110	-	-	-
Issuance of stock for Consolidation 4/97	445,000	312,106	-	312,106
Issuance of stock for cash 8/97	2,900	58,000	-	58,000
Issuance of stock for cash 9/97	2,390	47,800	-	47,800
Net Loss for Year	-	-	(193,973)	(193,973)
	-----	-----	-----	-----
Balance - September 30, 1997	474,990	529,806	(193,973)	335,833
	-----	-----	-----	-----
Issuance of stock for services 11/97	1,500	30,000	-	30,000
Issuance of stock for cash 9/98	50,000	200,000	-	200,000

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Consolidation stock cancelled 9/98	(60,000)	(50,000)	-	(50,000)
Issuance of stock for cash 9/98	200	4,000	-	4,000
Net Loss for year	-	-	(799,451)	(799,451)
Balance - September 30, 1998	466,690	713,806	(993,424)	(279,618)
Issuance of stock for cash 10/98	21,233	159,367	-	159,367
Issuance of stock for services 1/99	40,000	40,000	-	40,000
Issuance of stock for cash 1/99	37,500	296,125	-	296,125
Issuance of stock for services 1/99	25,000	276,500	-	276,500
Issuance of stock for cash 2/99	7,500	70,313	-	70,313
Issuance of stock for cash 4/99	45,225	122,108	-	122,108
Issuance of stock for salaries 6/99	70,000	147,000	-	147,000
Issuance of stock for cash 9/99	40,000	69,200	-	69,200
Net Loss for year	-	-	(1,482,017)	(1,482,017)
Balance - September 30, 1999	753,148	1,894,419	(2,475,441)	(581,022)
Issuance of stock for cash 9/00	15,000	27,000	-	27,000
Net Loss for year	-	-	(118,369)	(118,369)
Balance - September 30, 2000	768,148	1,921,419	(2,593,810)	(672,391)
Extinguishment of debt	-	337,887	-	337,887
Net Loss for year	-	-	(32,402)	(32,402)
Balance - September 30, 2001	768,148	2,259,306	(2,626,212)	(366,906)
Net Loss for year	-	-	(47,297)	(47,297)
Balance - September 30, 2002	768,148	2,259,306	(2,673,509)	(414,203)

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XSUNX, INC.  
(Formerly Sun River Mining, Inc.)  
(A Development Stage Company)  
Consolidated Statement of Stockholders' Equity (Deficit)  
June 30, 2004  
(Unaudited)

Continued...

	Common Stock		Deficit	
	# of Shares	Amount	Accumulated	Totals
	-----	-----	During the	-----
			Exploration	
			Stage	
	-----	-----	-----	-----
Issuance of stock for Assets 7/03	70,000,000	3	-	3
Issuance of stock for Cash 8/03	9,000,000	225,450	-	225,450
Issuance of stock for Debt 9/03	115,000	121,828	-	121,828
Issuance of stock for Accruals 9/03	115,000	89,939	-	89,939
Issuance of stock for Services 9/03	31,300,000	125,200	-	125,200
Net Loss for year	-	-	(145,868)	(145,868)
Balance - September 30, 2003	111,298,148	2,821,726	(2,819,377)	2,349
Issuance of stock for 3/04	20,000	1,418	-	1,418



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Issuance of stock for 3/04	80,750	9,811	-	9,811
Issuance of stock for 3/04	81,000	9,842	-	9,842
Issuance of stock for 4/04	217,450	22,598	-	22,598
Issuance of stock for 5/04	254,956	34,669	-	34,669
Issuance of stock for 6/04	694,649	96,506	-	96,506
Net Loss for period	-	-	(228,355)	(228,355)
	-----	-----	-----	-----
Balance - June 30, 2004	112,646,953	\$2,996,570	\$(3,047,732)	\$ (51,162)
	=====	=====	=====	=====

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

See Accountants' Review Report

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XSUNX, INC.  
(FORMERLY SUN RIVER MINING, INC.)  
Notes to Financial Statements  
June 30, 2004  
(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, 2004 and the results of operations for the three and nine-months ended June 30, 2004 and 2003 and for the period February 25, 1997 (inception) to June 30, 2004, and cash flows for the nine-months ended June 30, 2004 and 2003 and the for the period February 25, 1997 (inception) to June 30, 2004. 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, 2003.

Note 2 - Going Concern:  
-----

The Company's financial statements have been presented on the basis that it is a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

The Company is in the exploration state and has not earned any revenue from operations. The Company's ability to continue as a going concern is dependent upon its ability to develop additional sources of capital or locate a merger candidate and ultimately, achieve profitable operations. The accompanying financial statements do not include any adjustments that might result from the outcome of these uncertainties. Management is seeking new capital to revitalize the Company.

Note 3 - Subsequent Event:  
-----

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On May 13, 2004, the Company issued a letter of intent with MVSystems, to enter into a definitive asset license and cooperative venture agreement for the development and commercialization of cooperative uses of core technologies as supplemental enhancements to the commercial application of their respective technologies and business initiatives.

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XSUNX, INC.  
(FORMERLY SUN RIVER MINING, INC.)  
Notes to Financial Statements  
June 30, 2004  
(Unaudited)

Note 4 - Stock Option Plan:  
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Effective June 30, 2004, the Company adopted the 2004 Xsunx, Inc. Option Plan (the "Plan") to provide incentives for obtaining and retaining the services of eligible Employees, Consultants and Directors who are anticipated to contribute to the Company's long range success and insure to the benefit of all stockholders of the Company. The Plan authorizes the issuance of up to 30,000,000 shares of the Company's common stock pursuant to the grant and exercise of up to 30,000,000 stock options. The Plan was approved by unanimous written consent of the Board of Directors of Xsunx, Inc. The adoption of the Plan is subject to ratification by a majority of the Company's stockholders, which approval must be obtained within 12 months from the date the Plan was adopted by the Board.

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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-QSB 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

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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-QSB and Annual Report on Form 10-KSB filed by the Company in 2004 and any Current Reports on Form 8-K filed by the Company.

### Nature of Operations

XsunX, Inc. (XsunX) is currently working to establish scalable processes for the manufacture of photovoltaic technology in the mass production of environmentally friendly semi-transparent photovoltaic glazing processes for use in the glass, optical film and building materials industries.

Through the successful commercial development of its semi-transparent solar electric glazing processes the Company anticipates being able to take advantage of opportunities to provide a commercially viable method for converting large areas of architectural glass into electrical power producing

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systems. Upon the completion of our commercialization process the Company anticipates the majority of revenues to be derived from the licensing of its technology.

Management has established a plan under which the Company is commercializing its patented technology and developing new technology through the contracting for research, development and commercialization processes with certain qualified facilities that specialize in the Company's target market segments. This product development process is anticipated to provide the Company with the fastest path to marketable products, the maximization of corporate resources, and, the broadest access to cutting edge device, optical and material engineering facilities and technical expertise.

Although the Company faces many challenges in perfecting and establishing viable commercial processes it is encouraged by its developments efforts in which the production of working model samples of semi-transparent photovoltaic glazings approached 4% electrical conversion efficiencies. These working models established the basis for process and cell refinement that the Company believes will provide conversion efficiencies of 6% or greater. The Company is continuing to concentrate on the refinement of cell structures, manufacturing processes, the balancing of light transmittance and transparency, and conversion efficiencies.

In June the Company entered into an agreement with a private research and development firm, MVSsystems, Inc., under a proposal and plan for the further research and development of cell structure and manufacturing processes. The objective of this plan is to provide the Company with commercially viable

processes and manufacturing techniques necessary for the development of demonstrable products. Results under the plan have produced large area manufacturing processes necessary for the manufacture of all layers of semi-transparent solar cell design. On going development is now underway to establish viable manufacturing techniques for increasing the active power producing ratios of the glazing to as near 100% as possible (i.e. the percentage of total area coated by the glazing that converts sunlight to usable electrical energy as compared to the total size or area of glass or other transparent substrates covered by the glazing).

The Company has and continues to make investments in the development of intellectual property assets as part of a business-restructuring plan. The purpose of these on going investments is to acquire, develop and market patented and proprietary semi-transparent solar electric glazing processes.

Management believes the summary data presented herein is a fair presentation of the Company's results of operations for the periods presented. Due to a change in October 2003 of the Company's primary business focus and the introduction of new business opportunities these results may not necessarily be indicative of results to be expected for any future period. As such, results of the Company may, in the future, differ significantly from previous periods.

Results of Operations for the Three-Month Period Ended June 30, 2004 Compared to the Same Period in 2003

The Company generated no revenues in the period ended June 30, 2004 as well as for the same period in 2003.

The Company incurred operating expenses totaling \$122,213 for the three months ending June 30, 2004 compared to \$13,186 for the same period in 2003. Primary sources for the increases to operating expenses include: an increase of

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\$61,644 in Research and Development activities, and an increase of \$47,383 in General and Administrative expenses which include new expenses associated with a change in operations necessary for the development of the Company's new business plan as a developer and provider of semi-transparent solar electric glazing technologies.

The net loss for the three months ending June 30, 2004 was (\$122,213) as compared to a net loss of (\$13,186) for the same period 2003. The large increase of \$109,027 was due to an increase in expenditures associated with the Company's change in operations necessary for the development of the Company's new business plan and is anticipated to increase for the foreseeable future as the Company furthers efforts to complete the commercial development of a licensable process for the manufacture of semi-transparent solar electric glazing technologies.

The Company incurred Research and Development expenses totaling \$61,645 for the period ending June 30, 2004 and a cumulative total of \$74,494 for the nine-month period ending June 30, 2004 as compared to \$0.00 for the same periods in 2003. This increase in Research and Development expenses is anticipated to increase for the foreseeable future as the Company furthers efforts to complete the commercial development of a licensable process for the manufacture of semi-transparent solar electric glazing technologies.

Results of Operations for the Nine Month Period Ended June 30, 2004 Compared to Same Period ended June 30, 2003

The Company had no revenues in the nine-month period ended June 30, 2004 as well as for the same period in 2003.

The Company incurred operating expenses totaling \$228,355 in the nine-month period ended June 30, 2004 compared to \$14,446 in the same period ended June 30, 2003. The major components of the expenses in the nine-month period were Contract R&D of \$74,495, salaries of \$17,691, accrued deferred salaries of \$80,417, legal and accounting fees of \$21,807, consulting fees of \$9,700, rent of \$7,423, office and telephone expenses of \$9,792. These expenses were all incurred in preparing to commercialize a licensable process for the manufacture of semi-transparent solar electric glazing technologies.

The Company incurred consolidated net losses of (\$228,355) and (\$14,445) in the nine-month period ended June 30, 2004 and 2003 respectively. The associated net loss per share was nominal in the nine-month period ended June 30, 2004 and 2003.

The Company expects the trend of losses to continue at an accelerated rate in future quarters until the Company is able to begin sales of significance of which there is no assurance.

### Liquidity and Capital Resources

The Company had cash at the end of the period of \$69,142, total assets of \$91,645, and current liabilities of \$142,807 for a working capital (deficit) of (\$51,162) as compared to a working capital (deficit) of (\$39,286) at December 31, 2003 and working capital of \$2,346 at September 30, 2003. There were no cash flows provided from operations during the nine-month period ended June 30, 2004 and increases to general, administrative, research and development expenses in these periods resulted in an overall increase to working capital deficits. Cash flow from financing activities was \$174,844 for the nine-months ended June 30, 2004 as compared to \$0.00 for the same period 2003.

For the nine months ended June 30, 2004, the Company's capital needs have

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been met from the issuance of notes to principal executives of the company and the proceeds of a series of private placements of Common Stock made by the Company. The Company completed private placements of its common stock pursuant to Regulation S and Regulation D totaling \$153,572 in the quarter ended June 30, 2004. See "Part II - Item 2. Changes in Securities."

When necessitated by the Company's financial condition a principal executive of the Company has agreed to the deferment of monthly salary up to such time that the Company can repay any such deferred amounts. For the nine-month period ended June 30, 2004 the total accrued salary and taxes total \$80,417.

Cash and deposits at June 30, 2004 were \$91,645, an increase of \$82,996 from March 31, 2004. During the three-month period ended, June 30, 2004, the

Company used \$122,416 net cash in operating activities as compared to using \$0.00 for the same period 2003. This increase of cash used in operations of \$122,416 was entirely a result of an increase in research and development, general and administrative expenses in the commercial development of its new business objectives.

### NEED FOR ADDITIONAL FINANCING

The Company anticipates that there will be no cash generated from operations in the current year necessary to fund its anticipated cash requirements. The Company has incurred operating deficits since its reorganization in October 2003, which are expected to continue until its new business model is fully developed. Accordingly, the Company is dependent on raising additional capital necessary to meet the Company's cash needs for Research, Development, General and Administrative expenses including the costs of compliance with the continuing reporting requirements of the Securities Exchange Act of 1934.

The Company has been able to raise capital in a series of equity and debt offerings in the past and is actively pursuing additional financing in the form of loans or equity placements to cover on going cash needs. There can be no assurances that the Company will be able to obtain such additional financing, on terms acceptable to it and at the times required, or at all. Lack of capital may be a sufficient impediment to prevent it from accomplishing the goal of commercializing a licensable process for the manufacture of semi-transparent solar electric glazing technologies.

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.

### GOING CONCERN

The Company is in the development stage, and as of the period ending June 30, 2004, did not have any products for sale, and had not generated any revenue from sales or other operating activities. Furthermore, the Company does not anticipate having any products for sale or generating any revenues in this calendar year. To date the Company's principal source of liquidity has been the private placement of equity securities and the issuance of notes payable. As such, the Company's ability to secure additional financing on a timely basis is critical to its ability to stay in business and to pursue planned operational activities.

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Based on the foregoing and the Company's history of losses and current negative working capital balance, the Company's financial statements for the nine-month period ended June 30, 2004 include a going concern opinion from its outside auditors, which stated there "is substantial doubt" about our ability to continue operating as a "going concern."

### Item 3. 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 - None.

Item 2. Changes in securities -

.....In a private placement of the Company's common stock made by the Company that began on December 19, 2003 pursuant to Regulation S of the Act at a variable price equal to 27% of the five (5) day average closing bid price, the Company raised gross proceeds of \$59,624.16 from the sale of 521,500 shares during the quarter ending June 30, 2004. The total gross proceeds raised in this offering as of August 9, 2004 total \$86,526.95 from the sale of 757,250 shares. The Company is offering a total of 3,000,000 shares pursuant to this private placement, which has not been terminated and can be terminated at the discretion of the Company with three (3) days prior written notice to the purchaser.

In a private placement of the Company's common stock pursuant to Regulation S of the Act that began on April 9, 2004 at a variable price equal to 30% of the closing bid price on the date of the purchase, the Company raised gross proceeds of \$89,448.49 from the sale 615,555 shares during the quarter ending June 30, 2004. The total gross proceeds raised in this offering as of August 9, 2004 total \$105,802.70 from the sale of 724,204 shares. The Company is offering a total of 10,000,000 shares pursuant to this private placement, which has not been terminated and can be terminated at the discretion of the Company with two (2) week prior written notice to the purchaser.

In a private placement of the Company's common stock to accredited investors on June 16, 2004 pursuant to Section 4(6) of Regulation D thereof, the Company accepted an offer for the sale of 30,000 shares of common stock, at a price of \$.15 per share, which raised gross proceeds of \$4,500.00.

Effective June 30, 2004, the Company adopted the 2004 XsunX, Inc. Option Plan (the "Plan") to provide incentives for obtaining and retaining the services of eligible Employees, Consultants and Directors who are anticipated to contribute to the Company's long range success and inure to the benefit of all stockholders of the Company. The Plan authorizes the issuance of up to 30,000,000 shares of the Company's common stock pursuant to the grant and

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exercise of up to 30,000,000 stock options. The Plan was approved by unanimous written consent of the Board of Directors of Xsunx, Inc. The adoption of the Plan is subject to ratification by a majority of the Company's stockholders, which approval must be obtained within 12 months from the date the Plan was adopted by the Board.

- 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:
    - 10.1 2004 XsunX, Inc. Option Plan
    - 32 Sarbanes-Oxley Certification
    - 33 Sarbanes-Oxley Certification
  - B. Reports on Form 8-K: None.

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 19, 2004 XSUNX, INC.

By: /s/ Tom M. Djokovich  
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Tom M. Djokovich, Chief Executive Officer, President, and acting Chief Financial Officer

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Directors

By: /s/ Brian Altounian Dated: August 19, 2004  
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Chairman of the Board, Secretary

By: /s/ Tom Djokovich Dated: August 19, 2004  
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Director, President, CEO and acting CFO



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By: /s/ Thomas Anderson

Dated: August 19, 2004

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Director