

Edgar Filing: XSUNX INC - Form 10-Q/A

XSUNX INC
Form 10-Q/A
August 07, 2006

FORM 10-Q/A

AMENDMENT #1

UNITED STATES
SECURITIES EXCHANGE COMMISSION
Washington, D.C. 20549

Quarterly Report under Section 13 or 15(d) of the Securities Exchange Act of 1934 For Quarterly Period Ended June 30, 2006

or

Transition Report under Section 13 or 15(d) of the Exchange Act For the Transition period from _____ to _____

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 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 by check my whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

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 3, 2006 the number of shares outstanding of the registrant's only class of common stock was

Edgar Filing: XSUNX INC - Form 10-Q/A

153,898,896.

Table of Contents

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.....

 Independent Auditor's Report.....

 Balance Sheets June 30, 2006 (unaudited) and September 30, 2005.....

 Statements of Operations for the Three Months and Nine Months ended June 30, 2006 and 2005 (unaudited) and the period February 25, 1997 (inception) to June 30, 2006.....

 Statements of Stockholders Equity for the period February 25, 1997 (inception) to June 30, 2006 (unaudited).....

 Statements of Cash Flows for the Nine Months ended June 30, 2006 and 2005 (unaudited) and the period February 27, 1997 (inception) to June 30, 2006.....

 Notes to Financial Statements (Unaudited).....

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.....

Item 3. Quantitative and Qualitative Disclosures About Market Risk.....

Item 4. Controls and Procedures.....

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.....

Item 1A. Risk Factors.....

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.....

Item 3. Defaults upon Senior Securities.....

Item 4. Submission of Matters to a Vote of Security Holders.....

Item 5. Other Information

Item 6. Exhibits.....

Signatures.....

Edgar Filing: XSUNX INC - Form 10-Q/A

PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

XSUNX, INC.

(A DEVELOPMENT STAGE COMPANY)
FINANCIAL STATEMENTS

NINE-MONTHS ENDED JUNE 30, 2006
(UNAUDITED)

2

JASPERS + HALL, PC CERTIFIED PUBLIC ACCOUNTANTS

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
XSUNX, INC.
Aliso Viejo, CA

We have reviewed the accompanying balance sheet of XSUNX, INC. (a development stage company) as of June 30 2006, and the related statements of operations, stockholders' equity (deficit), and cash flows for the three-month period then ended. These financial statements are the responsibility of the Company's management.

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

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements for them to be in conformity

Edgar Filing: XSUNX INC - Form 10-Q/A

with accounting principles generally accepted in the United States.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2, conditions exist which raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Jaspers + Hall, PC

Jaspers + Hall, PC
Denver, CO
August 3, 2006

F-1

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

	Unaudited June 30, 2006
ASSETS:	
Current assets:	
Cash	\$5,176,028
Prepaid Expenses	333,429
Total current assets	5,509,457
Fixed assets:	
R&D Equipment (Net)	417,769
Total fixed assets	417,769
Other assets:	
Patents	30,000
Security Deposit	2,615
Deferred Financing Costs	183,334
Prototype Production System	1,765,000
Total other assets	1,980,949

Edgar Filing: XSUNX INC - Form 10-Q/A

TOTAL ASSETS	\$7,908,175
<hr/>	
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT):	
Current Liabilities:	
Accounts Payable	\$ 906,963
Accrued Expenses	43,656
Accrued Interest	210,000
Notes Payable	2,000,000
	<hr/>
Total current liabilities	3,160,619
	<hr/>
Stockholders' Equity (Deficit):	
Preferred Stock, par value \$0.01 per share; 50,000,000 shares authorized; no shares issued and outstanding	-
Common Stock, no par value; 500,000,000 shares authorized; 151,267,417 shares issued and outstanding at June 30, 2006 and 123,876,739 outstanding at September 30, 2005	11,036,035
Common stock warrants	2,151,250
Deficit accumulated during the development stage	(8,439,729)
	<hr/>
Total stockholders' equity (deficit)	4,747,556
	<hr/>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY DEFICIT	\$7,908,175
	<hr/>

See Accountants' Review Report

F-2

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

	Three-Months Ended June 30,		Nine-Months Ended June 30,	
	2006	2005	2006	2005
	<hr/>	<hr/>	<hr/>	<hr/>
Revenue	\$ -	\$ -	\$ 8,000	\$ -
	<hr/>	<hr/>	<hr/>	<hr/>
Expenses:				
Abandoned Equipment	-	-	-	-
Advertising	1,982	1,344	2,421	3,754
Bank Charges	78	71	244	372

Edgar Filing: XSUNX INC - Form 10-Q/A

Conferences and Seminars	7,040		8,540	-
Consulting	19,382	10,000	19,382	10,000
Depreciation	27,647	-	55,294	-
Directors' Fees	-	-	-	-
Due Diligence	-	-	13,000	-
Dues and Subscriptions	-	-	-	-
Equipment Rental	-	-	-	-
Filing Fees	-	-	4,625	-
Impairment loss	-	-	-	-
Insurance	-	-	-	-
Legal and Accounting	21,244	31,150	89,853	49,783
Licenses & Fees	-	-	-	25
Meals & Entertainment	-	551	-	551
Office Expenses	2,633	587	2,891	3,135
Other Operating Expenses	832	2,098	1,632	2,098
Patent Fees	625	-	625	-
Salaries	87,152	41,032	172,050	120,144
Postage & Shipping	33	377	768	849
Printing	944	1,219	7,684	1,721
Public Relations	76,742	42,645	129,263	81,871
Rent	1,950	3,290	6,450	7,040
Research and Development	368,608	144,310	679,884	357,646
Subscription Reports	2,594	104	2,787	104
Taxes	-	-	-	-
Telephone	1,961	1,342	5,292	3,675
Transfer Agent Expense	91	319	321	3,413
Travel	13,142	1,904	25,165	6,584
Warrant Option Expense	-	-	951,250	-
	-----	-----	-----	-----
Total Operating Expenses	634,680	282,343	2,179,421	652,765
	-----	-----	-----	-----
Other Income (Expense)				
Interest Expense	515,555	-	567,999	-
Returned Merchandise	-	(98)	-	(516)
Interest Income	(28,811)	-	(28,975)	-
Forgiveness of Debt	-	-	-	-
	-----	-----	-----	-----
Net (Loss)	\$ (1,121,424)	\$ (282,245)	\$ (2,710,445)	\$ (652,249)
	-----	-----	-----	-----
Per Share Information:				
Weighted average number of common shares outstanding	147,013,051	120,544,239	127,245,894	114,036,102
	-----	-----	-----	-----
Net Loss per Common Share	\$ (0.007)	\$ (0.002)	\$ (0.021)	\$ (0.006)
	-----	-----	-----	-----

See Accountants' Review Report

Edgar Filing: XSUNX INC - Form 10-Q/A

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

	Nine-Months Ended June 30,	
	2006	2005
Cash Flows from Operating Activities:		
Net Loss	\$ (2,710,445)	\$ (652,249)
Issuance of Common Stock for Services	7,500	34,000
Issuance of Common Stock for Loan Inducement	-	-
Warrant expense	951,250	-
Amortization of loan fees	316,666	-
Issuance of Common Stock for Interest	10,550	-
Depreciation	55,294	-
Adjustments to reconcile net loss to cash used in operating activities:		
(Increase) Decrease in Deposits	(2,615)	2,500
(Increase) in Prepaid Expenses	(253,445)	(23,500)
Increase in Accrued Expenses & Taxes	207,800	1,576
Increase in Accounts Payable	828,586	256,779
Net Cash Flows Used for Operating Activities	(588,859)	(380,894)
Cash Flows from Investing Activities:		
Purchase of Fixed Assets	(307,232)	(173,000)
Purchase of Prototype and Patent	(1,775,000)	(10,000)
Net Cash Flows Used for Investing Activities	(2,082,232)	(183,000)
Cash Flows from Financing Activities:		
Payment of Note Payable	-	(1,225)
Proceeds from Notes Payable - Net	4,500,000	-
Issuance of Common Stock	3,171,250	531,395
Net Cash Flows Provided by Financing Activities	7,671,250	530,170
Net Increase (Decrease) in Cash	5,000,159	(33,724)
Cash and cash equivalents - Beginning of period	175,869	37,344
Cash and cash equivalents - End of period	\$ 5,176,028	\$ 3,620
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	\$ 7,500	\$ 34,000
Conversion of debt for stock	\$ 3,850,000	\$ -

Edgar Filing: XSUNX INC - Form 10-Q/A

See Accountants' Review Report

F-4

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

	Treasury Stock		Common Stock		Warr St
	# of Shares	ount	# of Shares	Amount	
Balance - September 30, 1999	-	\$ -	753,148	\$1,894,419	
Issuance of stock for cash	-	-	15,000	27,000	
Net Loss for year	-	-	-	-	
Balance - September 30, 2000	-	-	768,148	1,921,419	
Extinguishment of debt	-	-	-	337,887	
Net Loss for year	-	-	-	-	
Balance - September 30, 2001	-	-	768,148	2,259,306	
Net Loss for year	-	-	-	-	
Balance - September 30, 2002	-	-	768,148	2,259,306	
Issuance of stock for Assets	-	-	70,000,000	3	
Issuance of stock for Cash	-	-	9,000,000	225,450	
Issuance of stock for Debt	-	-	115,000	121,828	
Issuance of stock for Accruals	-	-	115,000	89,939	
Issuance of stock for Services	-	-	31,300,000	125,200	
Net Loss for year	-	-	-	-	
Balance - September 30, 2003	-	-	111,298,148	2,821,726	
Issuance of stock for cash	-	-	181,750	21,071	
Issuance of stock for cash	-	-	217,450	22,598	
Issuance of stock for cash	-	-	254,956	34,669	
Issuance of stock for cash	-	-	694,649	96,306	
Issuance of stock for cash	-	-	157,649	21,421	
Issuance of stock for cash	-	-	57,000	5,133	
Issuance of stock for cash	-	-	1,174,500	81,472	
Issuance of common stock warrants	-	-	-	-	1,2
Net Loss for period	-	-	-	-	
Balance - September 30, 2004	-	-	114,036,102	3,104,396	1,2
Issuance of stock for cash	-	-	5,919,537	471,068	
Issuance of stock for cash	-	-	300,600	20,067	
Issuance of stock for services	-	-	310,000	27,000	
Issuance of stock for cash	-	-	527,000	40,260	
Issuance of stock for services	-	-	125,000	10,000	

Edgar Filing: XSUNX INC - Form 10-Q/A

Issuance of stock for services	-	-	114,469	13,827	
Issuance of stock for collateral	26,798,418	-	-	-	
Issuance of stock for loan inducement	-	-	2,544,031	310,117	
Net Loss for Period	-	-	-	-	
	-----	-----	-----	-----	-----
Balance - September 30, 2005	26,798,418	-	123,876,739	3,996,735	1,2
	-----	-----	-----	-----	-----
Issuance of stock for services	-	-	40,441	7,500	
Issuance of common stock warrants	-	-	-	-	9
Issuance of stock for debenture conversion	-	-	8,500,000	850,000	
Issuance of stock for interest on debenture	-	-	105,500	10,550	
Issuance of stock for warrant conversion	-	-	4,475,000	2,108,750	
Issuance of stock for warrant conversion	-	-	6,375,000	1,062,500	
Issuance of stock for debenture conversion	-	-	7,894,737	3,000,000	
Net Loss for Period	-	-	-	-	
	-----	-----	-----	-----	-----
Balance - June 30, 2006	26,798,418	\$ -	151,267,417	\$11,036,035	\$2,1
	=====	=====	=====	=====	=====

See Accountants' Review Report

F-5

XSUNX, INC.
(A Development Stage Company)
Notes to Financial Statements
June 30, 2006
(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, 2006 and the results of operations for the three and nine-months ended June 30, 2006 and 2005 and for the period February 25, 1997 (inception) to June 30, 2006, and cash flows for the nine-months ended June 30, 2006 and 2005 and the for the period February 25, 1997 (inception) to June 30, 2006. 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, 2005.

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 development stage and has not earned any significant revenue from operations. The Company's ability to continue as a going concern is dependent upon its ability to develop additional sources of capital and ultimately, achieve profitable operations. The accompanying financial statements do not include any adjustments that might result from the outcome of these uncertainties.

Edgar Filing: XSUNX INC - Form 10-Q/A

Note 3 - Convertible Debentures:

On July 14, 2005, XSUNX, Inc., entered into a Convertible Debenture agreement with Cornell Capital Partners, LP in the amount of \$400,000. On August 16, 2005, XSUNX, Inc. received an additional \$450,000 from Cornell Capital Partners, LP bring the total principal value of the Debenture to \$850,000. Interest accrued on the outstanding principal balance at an annual rate equal to twelve percent (12%). This Debenture was convertible into shares of Common Stock at the option of the Holder, with a conversion price in effect on any Conversion Date equal to ten cents (\$.10). On January 12, 2006 XSUNX paid \$47,216.67 of the then accrued interest to Cornell. On February 8, 2006 Cornell converted \$350,000 of the principal balance of this debenture and on March 1, 2006 Cornell converted the remaining principal and accrued interest balance totaling \$510,550. Upon conversion of these notes XsunX issued 8,605,500 shares of common stock to Cornell. The remaining balance of the Debenture is Zero.

On December 2, 2005, XsunX, Inc. consummated a second Securities Purchase Agreement with Cornell Capital Partners, LP, providing for the sale by the Company to Cornell of 10% secured convertible debentures in the aggregate principal amount of \$5,000,000 ("The Debenture") of the total amount of \$5,000,000 has been advance and the remaining \$1,000,000 un-paid principal balance of this Debenture is include in Notes Payable at June 30, 2006. The Debenture is convertible into shares of Common Stock at the option of the Holder at a conversion price per share equal to the lesser of \$.38 or 95% of the lowest daily volume weighted average price of the Common Stock, as quoted by Bloomberg, LP, for the 30 trading days immediately preceding the date of conversion (the "Variable Market Price"). Unless waived by the Company, the Holders may not, together with their affiliates, convert more than an aggregate of \$350,000 in any 30-day period of principal amount of the Debentures in the Variable Market Price. Cornell has agreed not to short any of the shares of Common Stock. As of the date of this filing there have been three conversions of this Debenture by Cornell totaling \$4,000,000 resulting in a remaining principal balance of \$1,000,000. Interest in the amount of approximately \$210,000 has accrued and is included in accrued interest as of June 30, 2006.

F-6

Note 4 - Equity Transactions:

Warrant Grants

Expanded Use License stock warrant MVSsystems, Inc. - As consideration for the grant of an Expanded Use License on October 12, 2005, granting XSUNX additional benefits for use of licensed technologies and patents, XSUNX granted MVS a warrant, (the "Expanded Use License Stock Warrant") for the purchase of up to Seven Million (7,000,000) shares of common stock of XSUNX, the warrant will expire five (5) years after the date of the grant and is subject to the following vesting provisions:

- (1) The Expanded Use License Stock Warrant allowed for the vesting of one million (1,000,000) warrants on the effective date of the agreements.
- (2) Another one million (1,000,000) warrants will vest upon the satisfactory completion of a Phase 4 development program for the development of certain opaque solar technologies.
- (3) The balance of the remaining five million (5,000,000) warrants

Edgar Filing: XSUNX INC - Form 10-Q/A

will vest upon the date the technologies licensed within the Expanded Use License are licensed to a third party in a bona fide arms-length commercial setting.

Debenture Warrants - In connection with the issuance of a debenture in the principal amount of \$5,000,000 in December, 2005, 3,125,000 warrants were granted to Cornell Capital Partners, LP at \$.45 and 1,250,000 warrants were granted at \$.55.

The total charged in expense for the 2006 fiscal year has been \$951,250 for the issuance of the above described Expanded Use License and Debenture warrants.

Employment Incentive Warrants - In connection with the issuance of an employment agreement to Joseph Grimes in April 2006, the Company granted 500,000 warrants at the then market price of \$1.69. On July 20, 2006 the Company and Mr. Grimes mutually agreed to the cancellation of the remaining 388,000 unvested balance of this warrant and to the grant of a new warrant agreement in the amount of 500,000 warrants at the then market price of \$.51. The warrant will expire five (5) years after the date of the grant and is subject to the following vesting provisions:

- (1) The Warrant shall become exercisable at the rate of 28,000 shares per month up to and through the first nine months of employment of Optionee by Company.
- (2) One Hundred Thousand (100,000) shares shall become exercisable upon the completion and delivery of a marketing plan by Optionee to the Board of Directors.
- (3) One Hundred Forty Eight Thousand (148,000) shares shall become exercisable upon the first sale or licensure of an XSUNX, Inc. technology under the marketing plan.

Issuance of Shares

Debenture Conversion - On February 8, 2006 Cornell Capital Partners, LLP converted \$350,000 of the principal balance of \$850,000 debenture issued to Cornell in July 2005. On March 1, 2006 Cornell converted the remaining principal and accrued interest balance totaling \$510,550. Upon conversion of the notes XSUNX issued 8,605,500 shares of common stock to Cornell. The conversion price for all of the above issued shares was \$.10. The remaining value of the debenture is \$0.

Warrant Conversion - In February 2006, a consultant exercised 100,000 of the available 1,000,000 available \$.15 cent warrants the amount of \$15,000 dollars was paid to XSUNX by the consultant.

Warrant Conversion - In March 2006 Cornell Capital Partners, LLP exercised 3,125,000 of the available 3,125,000 \$.45 warrants and 1,250,000 \$.55 cent warrants. The aggregate amount of \$2,093,750 dollars was paid to XSUNX by Cornell. The Company issued 4,375,000 shares of common stock in association with the exercise of these warrants.

F-7

Warrant Conversion - In April 2006 Cornell Capital Partners, LLP exercised 4,250,000 of the available 4,250,000 \$.15 warrants and 2,125,000 of the available 2,125,000 \$.20 cent warrants. The aggregate amount of \$1,062,500 dollars was paid to XSUNX by Cornell. The Company issued 6,375,000 shares of common stock in association with the exercise of these warrants.

Edgar Filing: XSUNX INC - Form 10-Q/A

Debenture Conversions - On May 10, 2006 Cornell Capital Partners, LLP converted \$2,000,000 of the principal balance of the \$5,000,000 debenture issued to Cornell in December 2005 and the Company issued 5,263,158 shares of common stock to Cornell. Subsequently, on June 12 Cornell converted another \$1,000,000 and the Company issued 2,631,579 shares of common stock to Cornell, and on July 17, 2006 another \$1,000,000 was converted by Cornell for which the Company issued 2,631,579 shares of common stock to Cornell. The conversion price for all of the above issued shares was \$.38 each. The remaining un-paid principal balance of the Debenture as of August 3, 2006 is \$1,000,000.

Issuance of Shares for Service

XSUNX has accounted for \$18,000 dollars in services rendered in accounts payable to the Company in the nine-months ended June 30, 2006, and for which XSUNX is required to issue non-registered shares in the aggregate value of \$18,000. The shares may be issued based on the then current market price for the Company's common stock at the end of each month of services. Upon issuance approximately 23,058 shares may be issued to this service provider.

Note 5 - Property Acquisition:

Subject to the terms of the Expanded Use License Agreement between XsunX and MVSystems, Inc. the parties have planned to build a first run production Machine for the purpose of proofing and demonstrating technology. XsunX may attempt to market this Machine. In the event that XsunX sells this first Machine the parties have agreed to a 50/50 split of the net proceeds of the sale of this Machine excluding production Costs and reasonable marketing expenses.

Note 6 - Deferred Financing Costs:

Costs related to obtaining the capital funding by Cornell Capital Partners, LLP are capitalized and amortized over the term of the related debt using the straight-line method.

Note 7 - Commitments and Contingencies

Operating Leases

In April 2006 the Company entered into a three year lease for operations facilities in Golden, CO. The Company provided a \$2,615 security deposit and expensed \$79,867 in costs associated with tenant improvements to the facilities in preparation for occupancy. The following is a schedule, by years, of the minimum base payments required under this operating lease for facilities. An additional \$825 monthly is also due as a pro rata share equaling 4.12% of the operating costs for real estate taxes, assessments, and the expenses of operating and maintaining common areas within the commercial grounds surrounding the leased facilities.

Annual Rent Schedule	Rate/sf	Annualized Rent	Monthly Rent
-----	-----	----	----
7/1/06-6/30/07	\$6.75	\$20,250.00	\$1,687.50
7/1/07-6/30/08	\$6.95	\$20,850.00	\$1,737.50
7/1/08-6/30/09	\$7.16	\$21,480.00	\$1,790.00

Edgar Filing: XSUNX INC - Form 10-Q/A

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

CAUTIONARY AND FORWARD LOOKING STATEMENTS

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

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

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

- (a) volatility or decline of the Company's stock price;
- (b) potential fluctuation in quarterly results;
- (c) failure of the Company to earn revenues or profits;
- (d) inadequate capital to continue or expand its business, inability to raise additional capital or financing to implement its business plans;
- (e) failure to commercialize its technology or to make sales;
- (f) rapid and significant changes in markets;
- (g) litigation with or legal claims and allegations by outside parties; and
- (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-KSB filed by the Company and any Current Reports on Form 8-K filed by the Company.

CURRENT OVERVIEW

XsunX, Inc. is developing and commercializing innovative new thin film photovoltaic (TFPV) solar cell technologies and manufacturing processes to service expanding global energy demands. The Company has focused its efforts on lowering the cost per watt of solar power and making solar cell technology easier to use in a wide variety of applications. XsunX calls this dual improvement to cost and efficiency the XFactor(TM). The process for producing electricity is known as Photovoltaics. Photovoltaics ("PV") is the science of capturing and converting solar energy into electricity.

The Company is focusing its research and product development efforts on thin film PV devices and their manufacturing methods in an effort to capitalize on what it perceives as cost and application diversity advantages to current rigid multi-crystalline silicon wafer technologies. The Company's thin film cell designs employ between .2 microns to 1.5 microns of material thickness as opposed to an approximate 400 microns of material thickness for multi-crystalline cell designs. This significant reduction in cell thickness and flexibility of the completed cell structure leads to the use of "thin film" terminology in describing the solar cell design.

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

Building Integrated Photovoltaics or ("BIPV") allows photovoltaic material, in the form of photoelectric panels, to be incorporated into the design of building materials; thus, providing a new and smart way to integrate additional sources of power production into the operation of buildings. As the BIPV category of the photovoltaic industry is beginning its growth into the US, and worldwide markets, XsunX intends to positioned itself as one of the first companies dedicated to the large scale commercialization of BIPV through a combination of innovation and patented thin film designs and manufacturing techniques.

Through the successful commercial development of its Power Glass(R) film, a semi-transparent solar electric glazing process, patent pending multi-terminal solar cell designs, patented and innovative new manufacturing methods the Company anticipates being able to take advantage of opportunities to provide manufacturers of solar products exciting new application opportunities and reductions to the cost per watt of solar power. The Company anticipates the majority of revenues to be derived from the sale of its proprietary manufacturing systems and the licensing of its technologies.

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 in October 2003 and new business opportunities these historical results may not necessarily be indicative of results to be expected for any future period. As such, future results of the Company may differ significantly from previous periods.

Edgar Filing: XSUNX INC - Form 10-Q/A

RESULTS OF OPERATIONS FOR THE THREE-MONTH PERIOD ENDED JUNE 30, 2006 COMPARED TO THE SAME PERIOD IN 2005

The Company had no revenues in the quarter ended June 30, 2006 nor in the same period in 2005.

The Company incurred operating expenses totaling \$634,680 for the three months ending June 30, 2006 compared to \$282,343 for the same period in 2005, a 225% increase. Primary sources for the increase to operating expense of \$352,337 include: Research and Development expenses increased by \$224,298 to \$368,608 as compared to \$144,310 for the same period in 2005, Depreciation expenses increased by \$27,647 as compared to \$0 for the same period in 2005, Public Relations expenses increased by \$34,097 to \$76,742 from \$42,645 in 2005 and, General and Administrative expenses increased by \$66,295 to \$161,683 from \$95,388 in 2005 representing the continued increase in costs associated with expansion of the Company's business plan. These expenses in the third quarter of the current fiscal year were all incurred in preparing to commercialize innovative new thin film photovoltaic (TFPV) solar cell technologies and manufacturing processes in an attempt to address expanding global energy demands.

The net loss for the three months ending June 30, 2006 was (\$1,121,424) as compared to a net loss of (\$282,245) for the same period 2005. The increase of \$839,179 in the third quarter of this fiscal year includes (i) an increase in research and development expenditures of \$224,298 over the same period in the previous fiscal year which is anticipated to continue to increase for the foreseeable future as the Company continues the development of the Company's business plan as the developer and provider of proprietary thin film photovoltaic devices and manufacturing technologies, (ii) an increase to Depreciation expenses of \$27,647 over the same period in 2005 representing costs associated with the depreciation of fixed assets purchased for use in the research and development of Company products, (iii) an increase to Public Relations expenses of \$34,097 over the same period in 2005 associated with an increase to marketing efforts, (iv) an increase to General and Administrative expenses totaling \$66,295 representing the continued increase in costs associated with expansion of the Company's business plan, (v) \$198,889 for interest expenses associated with the issuance of convertible debentures by the Company, and (vi) \$316,666 for loan origination costs associated with the issuance of a debenture in December 2005. These expenses in the third quarter of the current fiscal year include credits for interest income totaling \$28,811 and were all incurred in preparing to commercialize innovative new thin film photovoltaic (TFPV) solar cell technologies and manufacturing processes in an attempt to address expanding global energy demands.

The Company incurred net losses of (\$1,121,424) and (\$282,245) in the three-month period ended June 30, 2006 and 2005 respectively. The associated net loss per share was \$.007 in the three-month period ended June 30, 2006 and nominal in the period in 2005. The Company the trend of losses to continue in the future until the Company achieves commercialization of its technology and significant revenues commence, of which there is no assurance.

5

RESULTS OF OPERATION FOR THE NINE-MONTH PERIOD ENDED JUNE 30, 2006 COMPARED TO THE SAME PERIOD IN 2005

The Company generated \$8,000 in revenues in the nine month period ended June 30, 2006 as compared to \$0.0 for the same period in 2005.

The Company incurred operating expenses totaling \$2,179,421 for the nine months

Edgar Filing: XSUNX INC - Form 10-Q/A

ending June 30, 2006 compared to \$652,765 for the same period in 2005, a 334% increase. The major components for the increase to operating expense of \$1,526,656 include: an increase of \$322,238 in research and development activities, an increase of \$47,392 in public relations, an increase of \$40,070 in legal & accounting expenses, an increase Depreciation expenses of \$55,294 representing costs associated with the depreciation of fixed assets purchased for use in the research and development of Company products, an increase to General and Administrative expenses totaling \$110,412 representing the continued increase in costs associated with expansion of the Company's business plan. The increase in overall expenses included a one-time expense of \$420,000 associated with the grant of in-the-money warrants as consideration for the expansion of licensing and manufacturing rights associated with a technology sharing and license agreement granted to the Company. And, there was an additional one-time expense of \$531,250 from the grant of in-the-money warrants associated with the sale by the Company of 10% secured convertible debenture in the aggregate principal amount of \$5,000,000. The \$2,179,421 operating expenses includes non-cash charges of \$18,000 for the issuance of unregistered stock for business development and advisory services in lieu of cash payment for services.

These expenses may continue to increase as the Company continues to expand the development of it's business plan as the developer and provider of proprietary thin film photovoltaic devices and manufacturing technologies.

The net loss for the nine months ending June 30, 2006 was (\$2,710,445) as compared to a net loss of (\$652,249) for the same period 2005. The loss per share was \$.021 for the period in 2006 and nominal for 2005.

LIQUIDITY AND CAPITAL RESOURCES

The Company had cash at June 30, 2006 of \$5,176,028 and prepaid expenses in the amount of \$333,429 as compared to cash of \$175,869 and prepaid expenses in the amount of \$79,984 as of September 30, 2005. The Company had a net working capital of \$2,348,838 as compared to a working capital (deficit) of (\$718,380) at September 30, 2005.

Cash flows used in operating activities during the nine-month period ended, June 30, 2006, was (\$588,859) as compared to using (\$380,894) for the same period 2005. Cash flow used in investing activities was (\$2,082,232) for the nine months ended June 30, 2006 as compared to cash used in investing activities of (\$183,000) during the nine months ended June 30, 2005. Cash flow provided by financing activities was \$7,671,250 for the nine months ended June 30, 2006 as compared to cash provided by financing activities of \$530,170 during the nine months ended June 30, 2005.

6

For the nine-months ended June 30, 2006, the Company's primary capital needs have been met from the proceeds of the sale of a secured convertible debenture made by the Company, and the exercise of warrants associated with the convertible debenture and a previous convertible debenture. In December the Company sold a 10% secured convertible debenture in the aggregate principal amount of \$5,000,000 of which the Company had received, less loan fees, the net amount of \$4,500,000 as of February 2006. The holder of the debenture has exercised 10,750,000 of the available 10,750,000 warrants associated with this debenture and a previous debenture issued to the same holder. As of June 30, 2006 XsunX had received the aggregate amount of \$3,156,250 for the exercise of all available warrants under both debentures.

The proceeds from the above sale of debentures and the exercise of warrants were used to fund research and developments efforts, pay financing fees associated

Edgar Filing: XSUNX INC - Form 10-Q/A

with issuance of debentures, and to pay liabilities associated with the development of the Company's business plan as the developer and provider of proprietary thin film photovoltaic devices and manufacturing technologies.

We had, at June 30, 2006, cash and cash equivalents of \$5,176,028 and net working capital of \$2,348,838. Although the Company has not generated any significant revenues to date, and may continue to be highly dependant upon financing to fund future operations, the Company's 2006 plan of operations requiring \$4,500,000 dollars has been adequately funded. The Company may engage in efforts to obtain additional financing from equity and debt placements to fund future operations as necessary.

ADDITIONAL FINANCING

The Company has not generated significant revenues to date and may continue to be highly dependant on financing to fund continued operations. The Company's 2006 plan of operations requiring \$4,500,000 dollars has been adequately funded. The Company may engage in efforts to obtain additional financing from equity and debt placements to fund future operations as necessary.

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 may continue to be dependent on raising additional capital necessary to meet the Company's future 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 may actively pursue additional financing in the form of loans or equity placements to cover future 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 its 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.

7

GOING CONCERN

The Company is in the development stage and as of the period ending June 30, 2006, and had not generated significant revenue from sales or other operating activities. 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.

Based on the foregoing and the Company's history of losses, the Company's financial statements for the nine-month period ended June 30, 2006 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. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Edgar Filing: XSUNX INC - Form 10-Q/A

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

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

Item 4. CONTROLS AND PROCEDURES

The management of the Company has evaluated the effectiveness of the issuer's disclosure controls and procedures as of the end of the period of the report (evaluation date) and have concluded that the disclosure controls internal controls and procedures are adequate and effective based upon their evaluation as of the evaluation date.

There were no changes in the small business issuer's internal controls over financial reporting identified in connection with the Company evaluation required by paragraph (3) of Rule 13a-15 or Rule 15d-15 under the Exchange Act that occurred during the small business issuer's fourth fiscal quarter that has materially affected or is reasonably likely to materially affect the small business issuer's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

On March 6, 2006, Ron Sentchuck filed an action against the Company in the Superior Court of California for the County of Los Angeles. The Company was dismissed from this action on August 3, 2006.

On April 19th 2006, Office Radio Network filed a lawsuit in the District Court in Colorado alleging that it has been damaged due to refusal to allow it to sell its shares under Rule 144. The Company contends that it has no liability under the complaint and intends to vigorously defend the action.

8

Item 1A. RISK FACTORS

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

RISKS RELATED TO OUR BUSINESS

Edgar Filing: XSUNX INC - Form 10-Q/A

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

We are a development stage company and, to date, have not generated any significant revenues. From inception through September 30, 2005, we had an accumulated deficit of \$6,204,284. For the years ended September 30, 2005 and 2004, we incurred net losses of \$1,400,839 and \$1,509,068, respectively. 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, and if it will achieve market acceptance. We may not achieve our business objectives and the failure to achieve such goals would have an adverse impact on us. These matters raise substantial doubt about our ability to continue as a going concern.

OUR AUDITORS HAVE INCLUDED A GOING CONCERN QUALIFICATION IN THEIR OPINION WHICH MAY MAKE IT MORE DIFFICULT FOR US TO RAISE CAPITAL

Our auditors have qualified their opinion on our financial statements because of concerns about our ability to continue as a going concern. These concerns arise from the fact that we have not generated sufficient cash flows to meet our obligations and sustain our operations. If we are unable to continue as a going concern, you could lose your entire investment in us.

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

Since July 2005, we have received \$5,850,000 in debt financing of which \$1,000,000 remains as principal balance as of August 3, 2006. We have also received an additional \$3,156,250 from the cash exercise of warrants from Cornell Capital Partners LP. In the future, we may be required to raise

9

additional funds, particularly if we exhaust the funds advanced under that agreement, are unable to generate positive cash flow as a result of our operations and are required to repay the outstanding convertible debenture as a result of Cornell Capital's failure to convert the debenture into common stock. There can be no assurance that financing will be available in amounts or on terms acceptable to us, if at all. The inability to obtain additional capital may reduce our ability to continue to conduct business operations. If we are unable to obtain additional financing, we will likely be required to curtail our research and development plans. Any additional equity financing may involve substantial dilution to our then existing shareholders.

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

While we have made progress in the development of our products, it has not generated any significant revenues and we are unable to project when we will achieve profitability, if at all. As is the case with any new technology, we expect the development process to continue. We cannot assure that our engineering resources will be able to modify the product fast enough to meet market requirements. We can also not assure that our product will gain market acceptance and that we will be able to successfully commercialize the technologies. The failure to successfully develop and commercialize the technologies would result in continued losses and may require us to curtail or

Edgar Filing: XSUNX INC - Form 10-Q/A

cease operations

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

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

WE DO NOT MAINTAIN THEFT OR CASUALTY INSURANCE, AND ONLY MAINTAIN MODEST LIABILITY AND PROPERTY INSURANCE COVERAGE AND THEREFORE WE COULD INCUR LOSSES AS A RESULT OF AN UNINSURED LOSS.

We do not maintain theft or casualty insurance and we have modest liability and property insurance coverage. We cannot assure that we will not incur uninsured liabilities and losses as a result of the conduct of our business. Any such uninsured or insured loss or liability could have a material adverse affect on our results of operations.

10

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

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

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

We have established a plan of operations under which we rely on a strategic relationship with MVSsystems, Inc, to provide general facilities, personnel, and expertise in the research and development of the technology and manufacturing process underlying the development of two of our key technology product. A loss of this relationship for any reason could cause us to experience difficulties in completing the development of these products and further implementing our business strategy. There can be no assurance that we could establish other relationships of adequate expertise in a timely manner or at all.

WE CANNOT GUARANTEE YOU THAT OUR PATENTS ARE BROAD ENOUGH TO PROVIDE ANY

Edgar Filing: XSUNX INC - Form 10-Q/A

MEANINGFUL PROTECTION NOR CAN WE ASSURE YOU THAT ONE OF OUR COMPETITORS MAY NOT DEVELOP MORE EFFECTIVE TECHNOLOGIES, DESIGNS OR METHODS WITHOUT INFRINGING OUR INTELLECTUAL PROPERTY RIGHTS OR THAT ONE OF OUR COMPETITORS MIGHT NOT DESIGN AROUND OUR PROPRIETARY TECHNOLOGIES.

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

11

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

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

RISKS RELATING TO OUR CURRENT FINANCING ARRANGEMENT:

THERE ARE A LARGE NUMBER OF SHARES UNDERLYING OUR CONVERTIBLE NOTE THAT HAS BEEN REGISTERED AND THE SALE OF THESE SHARES MAY DEPRESS THE MARKET PRICE OF OUR COMMON STOCK.

As of June 30, 2006, we had 151,267,317 shares of common stock issued and outstanding. In connection with the financing arrangement that we entered into in June 2005 and December 2005, we also had outstanding secured convertible debentures in the principal amount of \$5,850,000 that may be converted into shares of common stock. As of August 3, 2006 the Company had issued 19,026,316 shares for the conversion of \$4,850,000 of the principal balance of these debentures.

The debenture issued in June 2005 has been fully converted by the holder into shares of the Company. There is no remaining principal or interest balance on this debenture.

The debenture issued in December is convertible at \$0.38 or if the current market price for our shares is below \$.38 then the holder may convert at a floating conversion price of 95% of the lowest daily volume weighted average price of our common stock for the 30 trading days immediately preceding the date of conversion. The debentures issued in December 2005 limit the principal amount to be converted at the floating conversion price during any 30 day period to \$350,000. Nevertheless, the number of shares of common stock issuable upon conversion of the outstanding secured convertible debentures issued in December 2005 may increase if the market price of our stock declines below \$.38. The sale

Edgar Filing: XSUNX INC - Form 10-Q/A

of these shares may adversely affect the market price of our common stock.

The variable price feature of our convertible debentures issued in December 2005 could require us to issue a substantially greater number of shares, which will

12

cause dilution to our existing stockholders. The number of shares we will be required to issue upon conversion of the debentures will increase if the market price of our stock decreases. This will cause dilution to our existing stockholders.

THE LOWER THE STOCK PRICE, THE GREATER THE NUMBER OF SHARES ISSUABLE UNDER THE CONVERTIBLE DEBENTURE

The number of shares issuable upon conversion of the debenture issued in December 2005 is determined by the market price of our common stock prevailing at the time of each conversion. The debentures issued in December 2005 limit the principal amount to be converted at the floating conversion price during any 30-day period to \$350,000. Nevertheless, the lower the market price the greater the number of shares issuable under the debenture. Upon issuance of the shares, to the extent that holders of those shares will attempt to sell the shares into the market, these sales may further reduce the market price of our common stock. This in turn will increase the number of shares issuable under the debenture. This may lead to an escalation of lower market prices and an increasing number of shares to be issued. A larger number of shares issuable at a discount to a continuously declining stock price will expose our shareholders to greater dilution and a reduction of the value of their investment.

A LOWER STOCK PRICE WILL PROVIDE AN INCENTIVE TO CORNELL TO SELL ADDITIONAL SHARES INTO THE MARKET

The number of shares that Cornell, our financier, will receive under the convertible debentures is determined by dividing the amount of a conversion notice by either \$.38 or if the current market price for the Company shares is below \$.38 the holder may convert at a floating conversion price of 95% of the lowest daily volume weighted average price of our common stock for the 30 trading days immediately preceding the date of conversion. In the event of a floating price conversion, the lower the market price, the greater the number of shares issuable under the debenture. As a result, Cornell will have an incentive to sell as large a number of shares as possible to obtain a lower conversion price. This will lead to greater dilution of exiting shareholders and a reduction of the value of their investment

THE ISSUANCE OF OUR STOCK UPON CONVERSION OF THE DEBENTURES COULD ENCOURAGE SHORT SALES BY THIRD PARTIES, WHICH COULD CONTRIBUTE TO THE FUTURE DECLINE OF OUR STOCK PRICE AND MATERIALLY DILUTE EXISTING STOCKHOLDERS' EQUITY AND VOTING RIGHTS.

The debentures have the potential to cause significant downward pressure on the price of our common stock. This is particularly the case if the shares being placed into the market exceed the market's ability to absorb the increased number of shares of stock. Such an event could place further downward pressure on the price of our common stock, which presents an opportunity to short sellers and others to contribute to the future decline of our stock price. If there are significant short sales of our stock, the price decline that would result from this activity will cause the share price to decline more so, which, in turn, may cause long holders of the stock to sell their shares thereby contributing to sales of stock in the market. If there is an imbalance on the sell side of the market for the stock, our stock price will decline. If this occurs, the number of shares of our common stock that is issuable upon conversion of the debentures

Edgar Filing: XSUNX INC - Form 10-Q/A

issued in December 2005 will increase, which will materially dilute existing stockholders' equity and voting rights.

IF WE ARE REQUIRED FOR ANY REASON TO REPAY OUR OUTSTANDING SECURED CONVERTIBLE DEBENTURES, WE WOULD BE REQUIRED TO DEplete OUR WORKING CAPITAL, IF AVAILABLE, OR RAISE ADDITIONAL FUNDS. OUR FAILURE TO REPAY THE SECURED CONVERTIBLE DEBENTURES, IF REQUIRED, COULD RESULT IN LEGAL ACTION AGAINST US, WHICH COULD REQUIRE THE SALE OF SUBSTANTIAL ASSETS.

In December 2005, we entered into a Securities Purchase Agreements for the sale of an aggregate of \$5,000,000 principal amount of secured convertible debentures of which to date \$5,000,000 has been funded. The principal remaining balance of these debentures as of August 3, 2006 was \$1,000,000. These debentures are due and payable, with interest, three years from their respective dates of issuance, unless sooner converted into shares of our common stock. Any event of default such as our failure to repay the principal or interest when due, our failure to

13

issue shares of common stock upon conversion by the holder, or our failure to maintain the effectiveness of the registration statement, could require the early repayment of the convertible debentures. We anticipate that the full amount of the convertible debentures will be converted into shares of our common stock, in accordance with the terms of these debentures. If we were required to repay the convertible debentures, we would be required to use our limited working capital and raise additional funds. If we were unable to repay the debentures when required, the holders could commence legal action against us and foreclose on all of our assets to recover the amounts due. Any such action would require us to curtail or cease operations.

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

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

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

OUR STOCK PRICE MAY BE VOLATILE

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

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

Because we have a limited operating history with limited revenues to date, you may consider any one of these factors to be material. Our stock price may

Edgar Filing: XSUNX INC - Form 10-Q/A

fluctuate widely as a result of any of the above listed factors.

In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our common stock.

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

We have never paid cash dividends on our common stock and do not anticipate paying cash dividends in the foreseeable future. The payment of dividends on our common stock will depend on earnings, financial condition and other business and economic factors affecting it at such time as the board of directors may consider relevant. If we do not pay dividends, our common stock may be less valuable because a return on your investment will only occur if its stock price appreciates.

OUR COMMON STOCK IS DEEMED TO BE PENNY STOCK WITH A LIMITED TRADING MARKET

Our common stock is currently listed for trading on the OTC Bulletin Board which is generally considered to be a less efficient market than markets such as NASDAQ or other national exchanges, and which may cause difficulty in conducting trades and difficulty in obtaining future financing. Further, our securities are subject to the "penny stock rules" adopted pursuant to Section 15 (g) of the Securities Exchange Act of 1934, as amended, or Exchange Act. The penny stock

14

rules apply to non-NASDAQ companies whose common stock trades at less than \$5.00 per share or which have tangible net worth of less than \$5,000,000 (\$2,000,000 if the company has been operating for three or more years). Such rules require, among other things, that brokers who trade "penny stock" to persons other than "established customers" complete certain documentation, make suitability inquiries of investors and provide investors with certain information concerning trading in the security, including a risk disclosure document and quote information under certain circumstances. Many brokers have decided not to trade "penny stock" because of the requirements of the penny stock rules and, as a result, the number of broker-dealers willing to act as market makers in such securities is limited. In the event that we remain subject to the "penny stock rules" for any significant period, there may develop an adverse impact on the market, if any, for our securities. Because our securities are subject to the "penny stock rules," investors will find it more difficult to dispose of our securities. Further, for companies whose securities are traded in the OTC Bulletin Board, it is more difficult: (i) to obtain accurate quotations, (ii) to obtain coverage for significant news events because major wire services, such as the Dow Jones News Service, generally do not publish press releases about such companies, and (iii) to obtain needed capital.

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

Employment Incentive Warrants

In connection with the issuance of an employment agreement to Joseph Grimes in April 2006, the Company granted 500,000 warrants at the then market price of \$1.69. On July 20, 2006 the Company and Mr. Grimes mutually agreed to the cancellation of the remaining 388,000 unvested balance of this warrant and to the grant of a new warrant agreement in the amount of 500,000 warrants at the then market price of \$.51. The warrant will expire five (5) years after the date of the grant and is subject to the following vesting provisions:

Edgar Filing: XSUNX INC - Form 10-Q/A

- (1) This Option shall become exercisable at the rate of 28,000 Shares per month up to and through the first nine months of employment of Optionee by the Company.
- (2) One Hundred Thousand (100,000) Shares shall become exercisable upon the completion and delivery of a marketing plan by Optionee to the Board of Directors.
- (3) One Hundred Forty Eight Thousand (148,000) Shares shall become exercisable upon the first sale or licensure of an XsunX, Inc. technology under the marketing plan.

Sale of Shares

Debenture Conversion - On February 8, 2006 Cornell Capital Partners, LLP converted \$350,000 of the principal balance of an \$850,000 debenture issued to Cornell in July 2005. On March 1, 2006 Cornell converted the remaining principal and accrued interest balance totaling \$510,550. Upon conversion of these notes XsunX issued 8,605,500 shares of common stock to Cornell. The remaining balance of the debenture is \$0.

15

Warrant Conversion - In February 2006, a consultant exercised 100,000 of the available 1,000,000 available \$.15 cents warrants. The amount of \$15,000 dollars was paid to XsunX by the consultant.

Warrant Conversion - In March 2006 Cornell Capital Partners, LLP exercised 3,125,000 of the available 3,125,000 \$.45 warrants and 1,250,000 of the available 1,250,000 \$.55 cent warrants. The aggregate amount of \$2,093,750 dollars was paid to XsunX by Cornell. The Company issued 4,375,000 shares of common stock in association with the exercise of these warrants.

Warrant Conversion - In April 2006 Cornell Capital Partners, LLP exercised 4,250,000 of the available 4,250,000 \$.15 warrants and 2,125,000 of the available 2,125,000 \$.20 cent warrants. The aggregate amount of \$1,062,500 dollars was paid to XsunX by Cornell. The Company issued 6,375,000 shares of common stock in association with the exercise of these warrants.

Debenture Conversions - On May 10, 2006 Cornell Capital Partners, LLP converted \$2,000,000 of the principal balance of the \$5,000,000 debenture issued to Cornell in December 2005 and the Company issued 5,263,158 shares of common stock to Cornell. Subsequently, on June 12 Cornell converted another \$1,000,000 and the Company issued 2,631,579 shares of common stock to Cornell, and on July 17, 2006 another \$1,000,000 was converted by Cornell for which the Company issued 2,631,579 shares of common stock to Cornell. The conversion price for all of the above issued shares was \$.38 each. The remaining un-paid principal balance of the Debenture as of August 3, 2006 is \$1,000,000.

Issuance of Shares For Services

XSUNX has accounted for \$18,000 dollars in services rendered in accounts payable to the Company in the nine-months ended June 30, 2006, and for which XSUNX is required to issue non-registered shares in the aggregate value of \$18,000. The shares may be issued based on the then current market price for the Company's common stock at the end of each month of services. Upon issuance approximately

Edgar Filing: XSUNX INC - Form 10-Q/A

23,058 shares may be issued to this service provider.

16

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

31	Section 302 Sarbanes-Oxley Certification
32	Section 906 Sarbanes-Oxley Certification

17

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 4, 2006

XSUNX, INC.

By: /s/ Tom M. Djokovich

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.

By: /s/ Tom M. Djokovich

Dated: August 7, 2006

Director, President, CEO and acting CFO

