XSUNX INC
Form 10-Q
February 14, 2011

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

FORM 10-Q

x Quarterly Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934

For The Quarterly Period Ended: December 31, 2010

¨ Transition Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934

For The Transition Period From ___________ to _______________

Commission File Number: 000-29621

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

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company x

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

The number of shares of common stock issued and outstanding as of February 14, 2011 was 214,931,522.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

XSUNX, INC.
(A Development Stage Company)
BALANCE SHEETS

	December 31, 2010 (Unaudited)	September 30, 2010
ASSETS		
CURRENT ASSETS		
Cash & cash equivalents	$ 47,439	$ 200,422
Other receivable	2,500	2,500
Prepaid expenses	7,966	14,061
Total Current Assets	57,905	216,983
PROPERTY & EQUIPMENT		
Office & miscellaneous equipment	29,841	28,942
Machinery & equipment	354,541	354,541
	384,382	383,483
Less accumulated depreciation	(318,614)	(307,995)
Net Property & Equipment	65,768	75,488
OTHER ASSETS		
Manufacturing equipment in progress	230,000	230,000
Security deposit	3,200	3,200
Total Other Assets	233,200	233,200
TOTAL ASSETS	$ 356,873	$ 525,671
LIABILITIES AND SHAREHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable	$ 400,945	$ 418,288
Accrued expenses	16,947	8,945
Credit card payable	4,292	10,728
Accrued interest on note payable	61,372	49,949
Note payable, landlord	456,921	456,921
Total Current Liabilities	940,477	944,831
TOTAL LIABILITIES	940,477	944,831
SHAREHOLDERS' DEFICIT		
Preferred stock, $0.01 par value; 50,000,000 authorized preferred shares	-	-
	24,988,369	24,813,369

Common stock, no par value; 500,000,000 authorized common shares 211,067,886 and 209,055,337 shares issued and outstanding, respectively				
Paid in capital, common stock warrants		5,238,213		5,238,213
Additional paid in capital		3,497,292		3,449,063
Deficit accumulated during the development stage		(34,307,478)		(33,919,805)
TOTAL SHAREHOLDERS' DEFICIT		(583,604)		(419,160)
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT	$	356,873	$	525,671

The accompanying notes are an integral part of these financial statements

XSUNX, INC.

(A Development Stage Company)

STATEMENTS OF OPERATIONS
(Unaudited)

	For the Three Months Ended December 31, 2010	For the Three Months Ended December 31, 2009	From Inception February 25, 1997 through December 31, 2010
REVENUE	$ -	$ -	$ 14,880
OPERATING EXPENSES			
Selling, general and administrative expenses	245,433	463,385	17,175,774
Research and development	120,161	44,891	3,001,623
Depreciation and amortization expense	10,619	23,477	659,973
TOTAL OPERATING EXPENSES	376,213	531,753	20,837,370
LOSS FROM OPERATIONS BEFORE OTHER INCOME/(EXPENSE)	(376,213)	(531,753)	(20,822,490)
OTHER INCOME/(EXPENSES)			
Interest income	$ -	44	445,537
Gain/(Loss) on sale of asset	-	-	(577)
Impairment of assets	-	-	(7,285,120)
Write down of inventory asset	-	-	(1,177,000)
Legal settlement	-	-	1,100,000
Loan fees	-	-	(7,001,990)
Forgiveness of debt	-	-	592,154
Other, non-operating	-	-	(5,215)
Interest expense	(11,460)	(11,435)	(152,777)
TOTAL OTHER INCOME/(EXPENSES)	(11,460)	(11,391)	(13,484,988)
NET LOSS	$ (387,673)	$ (543,144)	$ (34,307,478)
BASIC AND DILUTED LOSS PER SHARE	$ 0.00	$ 0.00	
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING BASIC AND DILUTED	210,201,552	198,662,320	

The accompanying notes are an integral part of these financial statements

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

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Stock Options/ Warrants Paid-in-Capital	Deficit Accumulated during the Development Stage	Total
Balance at Septemer 30, 2010	-	-	209,055,337	$ 24,813,369	$ 5,238,213	$ 3,449,063	$ (33,919,805)	$ (419,160)
Issuance of common shares in Oct 2010 for cash (281,669 common shares issued at $0.091 per share) (unaudited)	-	-	281,669	25,000	-	-	-	25,000
Issuance of common shares in Oct 2010 for cash (563,340 common shares issued at $0.089864 per share) (unaudited)	-	-	563,340	50,000	-	-	-	50,000
Issuance of common shares in Nov 2010 for cash (569,444 common shares issued at $0.08888 per share) (unaudited)	-	-	569,444	50,000	-	-	-	50,000
Issuance of common shares in Nov 2010 for cash (286,274 common shares	-	-	286,274	25,000	-	-	-	25,000

issued at $0.089467 per share) (unaudited)								
Issuance of common shares in Dec 2010 for cash (311,822 common shares issued at $0.082 per share) (unaudited)	-	-	311,822	25,000	-	-	-	25,000
Stock compensation costs	-	-	-	-	-	48,229	-	48,229
Net loss for the period ended December 31, 2010 (unaudited)	-	-	-	-	-	-	(387,673)	(387,673)
Balance at December 31, 2010 (unaudited)	-	-	211,067,886	$ 24,988,369	$ 5,238,213	$ 3,497,292	$ (34,307,478)	$ (583,604)

The accompanying notes are an integral part of these financial statements

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

	For the Three Months Ended December 31, 2010	For the Three Months Ended December 31, 2009	From Inception February 25,1997 through December 31, 2010
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$ (387,673)	$ (543,144)	$ (34,307,478)
Adjustment to reconcile net loss to net cash used in operating activities			
Depreciation & amortization	10,619	23,477	659,973
Common stock issued for services and interest	-	10,000	1,996,634
Stock option and warrant expense	48,229	74,368	3,771,482
Beneficial conversion and commitment fees	-	-	5,685,573
Asset impairment	-	-	7,285,120
Write down of inventory asset	-	-	1,177,000
Gain on settlement of debt	-	-	(287,381)
Loss on sale of asset	-	-	577
Settlement of lease	-	-	59,784
Change in Assets and Liabilities:			
(Increase) Decrease in:			
Prepaid expenses	6,095	55,108	(7,966)
Inventory held for sale	-	-	(1,417,000)
Other receivable	-	-	(2,500)
Other assets	-	-	(3,200)
Increase (Decrease) in:			
Accounts payable	(23,779)	127,696	2,427,238
Accrued expenses	19,425	2,742	89,048
NET CASH USED IN OPERATING ACTIVITIES	(327,084)	(249,753)	(12,873,096)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of manufacturing equipment and facilities in process	-	(230,000)	(6,054,629)
Payments on note receivable	-	-	(1,500,000)
Proceeds from sale of assets	-	-	244,100
Receipts on note receivable	-	-	1,500,000
Purchase of marketable prototype	-	-	(1,780,396)
Purchase of fixed assets	(899)	-	(592,818)
NET CASH USED IN INVESTING ACTIVITIES	(899)	(230,000)	(8,183,743)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from warrant conversion	-	-	3,306,250
Proceeds from debentures	-	-	5,850,000

Proceeds for issuance of common stock, net		175,000		225,000	11,948,028
NET CASH PROVIDED BY FINANCING ACTIVITIES		175,000		225,000	21,104,278
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS		(152,983)		(254,753)	47,439
CASH & CASH EQUIVALENTS, BEGINNING OF PERIOD		200,422		530,717	-
CASH & CASH EQUIVALENTS, END OF PERIOD		47,439		275,964	47,439
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION					
Interest paid	$	37	$	12	119,728
Taxes paid	$	-	$	-	$ -

The accompanying notes are an integral part of these financial statements

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

1. Basis of Presentation

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all normal recurring adjustments considered necessary for a fair presentation have been included. Operating results for the three months ended December 31, 2010 are not necessarily indicative of the results that may be expected for the year ending September 30, 2011. For further information refer to the financial statements and footnotes thereto included in the Company's Form 10-K for the year ended September 30, 2010.

Going Concern

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Development Stage Activities and Operations

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

Use of Estimates

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

Cash and Cash Equivalents

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

Fair Value of Financial Instruments

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

3. CAPITAL STOCK

During the three months ended December 31, 2010, pursuant to an S-1 Registration Statement declared effective by the SEC on June 30, 2010, the Company sold to Lincoln Park Capital Group, LLC (LPC) a total of approximately 1,963,940 shares for a total investment of $175,000. These shares were sold at various pricing between $0.08 and $0.09 per share. An additional 48,609 of the remaining pool of 1,250,000 commitment shares were issued on a pro rata basis to LPC as LPC has purchased additional shares pursuant to the effective S-1 Registration Statement.

During the three months ended December 31, 2009, the Company issued 2,556,818 shares of common stock at a price of $0.088 per share for cash of $225,000; 1,000,000 shares of common stock issued at a price of $0.088 per share for a subscription receivable of $88,000; 53,789 shares of common stock issued at a price of $0.1859 per share for services at a fair value of $10,000.

4. STOCK OPTIONS AND WARRANTS

The Company adopted a Stock Option Plan for the purposes of granting stock options to its employees and others providing services to the Company, which reserves and sets aside for the granting of Options for Twenty Million (20,000,000) shares of Common Stock. Options granted under the Plan may be either Incentive Options or Nonqualified Options and shall be administered by the Company's Board of Directors ("Board"). Each Option shall be exercisable to the nearest whole share, in installments or otherwise, as the respective Option agreements may provide. Notwithstanding any other provision of the Plan or of any Option agreement, each Option shall expire on the date specified in the Option agreement. During the period ended December 31, 2010, the Company granted 11,000,000 incentive stock options to employees that will vest upon completion of various milestones. 1,000,000 of the shares were part of the Company's 2007 Stock Option Plan.

	For the period ended 12/31/2010
Risk free interest rate	1.14% to 2.77%
Stock volatility factor	90.56% to 104.73%
Weighted average expected option life	5 years
Expected dividend yield	None

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

4. STOCK OPTIONS AND WARRANTS (Continued)

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

	For the period ended 12/31/2010		
	Number of Options		Weighted average exercise price
Outstanding, beginning of the period	10,180,000	$	0.27
Granted	1,000,000	$	0.10
Exercised	-	$	-
Expired	-	$	-
Outstanding, end of the period	11,180,000	$	0.27
Exercisable at the end of the period	7,294,160	$	0.28
Weighted average fair value of options granted during the period		$	0.10

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

	Exercisable Prices	Stock Options Outstanding	Stock Options Exercisable	Weighted Average Remaining Contractual Life (years)
$	0.46	1,150,000	950,000	1.06 years
$	0.53	100,000	100,000	1.15 years
$	0.45	100,000	100,000	1.31 years
$	0.41	100,000	100,000	1.66 years
$	0.36	2,500,000	1,500,000	1.82 years
$	0.36	500,000	500,000	1.87 years
$	0.36	500,000	500,000	1.91 years
$	0.36	115,000	105,416	1.78 years
$	0.16	5,115,000	3,438,744	3.25 years
$	0.10	1,000,000	-	4.80 years
		11,180,000	7,294,160	

Stock-based compensation expense recognized during the period is based on the value of the portion of stock-based payment awards that is ultimately expected to vest. Stock-based compensation expense recognized in the financial statements of operations during the three months ended December 31, 2010, included compensation expense for the stock-based payment awards granted prior to, but not yet vested, as of December 31, 2010 based on the grant date fair value estimated, and compensation expense for the stock-based payment awards granted subsequent to December 31, 2010, based on the grant date fair value estimated. We account for forfeitures as they occur. The stock-based compensation expense recognized in the statement of operations during the three months ended December 31, 2010 and 2009 was $48,229 and $74,368, respectively.

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

4. STOCK OPTIONS AND WARRANTS (Continued)

Warrants

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

	For the period ended 12/31/2010	
	Number of Options	Weighted average exercise price
Outstanding, beginning of the period	4,195,332	$ 0.61
Granted	-	$ -
Exercised	-	$ -
Expired	-	$ -
Outstanding, end of the period	4,195,332	$ 0.61
Exercisable at the end of period	4,047,332	$ 0.64
Weighted average fair value of warrants granted during the period		$ -

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

Exercisable Prices	Warrants Outstanding	Warrants Exercisable	Weighted Average Remaining Contractual Life (years)
$ 1.69	112,000	112,000	0.26 years
$ 0.51	500,000	352,000	0.55 years
$ 0.20	250,000	250,000	1.00 years
$ 0.50	1,666,666	1,666,666	1.84 years
$ 0.75	1,666,666	1,666,666	1.84 years
	4,195,332	4,047,332	

5. PROMISSORY NOTE

During the year ended September 30, 2009, the Company converted an account payable to a promissory note in the amount of $456,921. The note accrues interest at 10% per annum. The note, including all principal and interest is due September 1, 2011. The interest expense for the three months ended December 31, 2010 and 2009 was $11,423.

6. SUBSEQUENT EVENTS

The following are items management has evaluated as subsequent events pursuant to the requirement of ASC Topic 855.

During January 2011, the Company accepted offers for the sale of 2,500,000 units of its restricted Common Stock in a private placement for cash proceeds of $100,000. Each unit is composed of one share of restricted common stock and a five year warrant exercisable to purchase two shares of Common Stock at $0.04 per share.The shares were issued in a transaction exempt from registration pursuant to Section 4(2) of the Securities Act.

In January 2011, a holder of a warrant exercised all available 2,500,000 warrants utilizing a cashless exercise provision resulting in the net issuance of 1,363,636 shares of the Company’s restricted common stock.

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

CAUTIONARY AND FORWARD LOOKING STATEMENTS

In addition to statements of historical fact, this Quarterly Report on Form 10-Q contains forward-looking statements. The presentation of future aspects of XsunX, Inc. ("XsunX", the "Company" or "issuer") found in these statements is subject to a number of risks and uncertainties that could cause actual results to differ materially from those reflected in such statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. Without limiting the generality of the foregoing, words such as "may", "will", "expect", "believe", "anticipate", "intend", or "could" or the negative variations thereof or comparable terminology are intended to identify forward-looking statements. Our actual results could differ materially from those anticipated by these forward-looking statements as a result of many factors, including those discussed under "Item 1A: Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q.

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

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

(a) volatility or decline of the Company's stock price;

(b) potential fluctuation in quarterly results;

(c) failure of the Company to earn revenues or profits;

(d) inadequate capital to continue or expand its business, inability to raise additional capital or financing to implement its business plans;

(e) failure to commercialize its technology or to make sales;

(f) rapid and significant changes in markets;

(g) litigation with or legal claims and allegations by outside parties;

(h) insufficient revenues to cover operating costs.

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

The Company undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date hereof. Readers should carefully review the factors described in other documents the Company files from time to time with the Securities and Exchange Commission, including the Quarterly Reports on Form 10-Q and Annual Reports on Form 10-K filed by the Company and any Current Reports on Form 8-K filed by the Company.

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

Business Overview

XsunX, Inc. is developing and has begun to market a hybrid manufacturing solution to produce high performance Copper Indium Gallium (di) Selenide (CIGS) thin film solar cells. Our patent pending system and processing technology, which we call CIGSolar™, focuses on the mass production of individual thin-film CIGS solar cells that match silicon solar cell dimensions and can be offered as a non-toxic, high-efficiency and lowest-cost alternative to the use of silicon solar cells. We intend to offer licenses for the use of the CIGSolar™ process technology thereby generating revenue streams through licensing fees and manufacturing royalties for the use of the technology.

Our efforts have been focused on the development and customization of a series of specialized processing tools that when combined provide a turn-key high-throughput manufacturing system to produce CIGS solar cells.

Core attributes to our process method are the use of small area thermal co-evaporation techniques coupled with state-of-the-art sputter deposition technologies derived from the hard disc drive (HDD) industry to improve manufacturing output, increase cell efficiency, production yields, and lower the costs for the production of high efficiency CIGS cells.

There are five (5) core process tools that when combined will initially produce 125mm format (about 5” square) solar cells, scaling to 156mm formats (about 6” square). We believe that it will be the ability of our system to minimize processing defects while maintaining exceptional per hour production rates that will provide superior commercial opportunities. CIGSolar™ cells will be manufactured on stainless steel squares sized to match silicon solar cells currently used in nearly 75% of all solar modules manufactured today.

This innovative approach bridges the gap between inexpensive thin-film and costly high efficiency silicon wafer technologies to produce a new breed of solar cell combining what we believe are the best attributes of each technology. The mass production of individual, high performance CIGS solar cells – like solar building blocks – we believe will allow solar power to finally compete effectively against other sources of electrical energy.

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

Revenue:

The Company generated no revenues for the periods ended December 31, 2010 and 2009 respectively. Additionally, there was no associated cost of sales. The Company to date has had minimal revenue and cost of sales, and is still in the development stage.

Selling, General and Administrative Expenses:

Selling, general and administrative expenses for the three month period ending December 31, 2010 were $245,433 as compared to $463,385 during the same period in 2009. The decrease of $217,952 was related primarily to a general reduction to salaries and operating expenses under the Company’s re-focused plan of operations for the development of a new cross-industry thin film solar manufacturing technology. We anticipate that expenditures associated with the development and sales of our thin-film solar manufacturing technologies will increase SG&A expenditures in the future. However, we plan to offer our technology as a licensable process to existing solar product manufacturers which we anticipate will mitigate future expenditures that would normally be associated with our need to establish direct large scale manufacturing capabilities and the associated facility infrastructure.

Research and Development:

Research and development expenses for the three month period ended December 31, 2010 were $120,161 as compared to $44,891 during the same period in 2009. The increase of $75,270 was due to an increase in expenditures for the development of the Company's new cross-industry thin film solar manufacturing technology CIGSolar™. Our current research and development plans include the use of third party equipment vendors whose equipment we plan to use as part of our integrated CIGSolar™ manufacturing system. These vendors assist with access to equipment and technologies that we are working to customize for use in our manufacturing processes. We anticipate that future R&D expense will continue to increase as we establish each of the various system capabilities within our own facilities for use in continued process improvement, marketing efforts, and systems support.

Net Loss:

The net loss for the three months ended December 31, 2010 was $(387,673) as compared to a net loss of $(543,144) for the same period 2009. The decreased net loss of $(155,471) includes the operating expense changes discussed above, and the net change in non-cash expenses of $38,997, which includes depreciation and stock option expense. The Company anticipates the trend of losses to continue in future quarters until the Company can recognize sales of significance of which there is no assurance.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2010, we had a working capital deficit of $(882,572) as compared to $(727,848) for the same period 2009. This increase in working capital deficit of $154,724 was due primarily to a decrease in equity financing.

During the three months ended December 31, 2010, the Company used $(327,084) of cash for operating activities, as compared to cash used of $(249,753) for the same period 2009. The increase in cash used of $77,331 for operating activities was primarily due to a decrease in accounts payable expenses as the Company ceased efforts to establish manufacturing facilities and re-focused its plan of operations on the development of a new cross-industry thin film solar manufacturing technology.

Cash used by investing activities for the three months ended December 31, 2010 was $(899), as compared to cash use of $(230,000) for the same period 2009. The net decrease of cash used in investing activities was primarily due to a decrease in the purchase of manufacturing equipment and facilities in process under the Company's revised plan of operations.

Cash provided by financing activities for the three months ended December 31, 2010 was $175,000, as compared to $225,000 for the same period 2009. Our capital needs have primarily been met from the proceeds of private placements, as we are currently in the development stage and had no revenues.

Our financial statements as of December 31, 2010 have been prepared under the assumption that we will continue as a going concern from inception (February 25, 1997) through December 31, 2010. Our independent registered public accounting firm has issued their report dated December 29, 2010 that included an explanatory paragraph expressing substantial doubt in our ability to continue as a going concern without additional capital becoming available. Our ability to continue as a going concern ultimately is dependent on our ability to generate a profit which is dependent upon our ability to obtain additional equity or debt financing, attain further operating efficiencies and, ultimately, to achieve profitable operations. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

For the three months ended December 31, 2010, the Company's capital needs have been met from the use of working capital provided by the proceeds of (i) the Company's working capital and (ii) the sale of registered common stock for proceeds totaling $175,000 dollars.

Lincoln Park Capital Fund, LLC Transaction

On March 30, 2010, XsunX signed a $5 million stock purchase agreement with Lincoln Park Capital Fund, LLC ("LPC"), an Illinois limited liability company. Upon signing the agreement, XsunX received $500,000 from LPC as an initial purchase under the $5 million dollar commitment in exchange for 5,000,000 shares of our common stock. We also entered into a registration rights agreement with LPC whereby we agreed to file a registration statement related to the transaction with the U.S. Securities & Exchange Commission ("SEC") covering the shares that have been issued or may be issued to LPC under the purchase agreement. On April 30, 2010, XsunX, Inc. filed a Form S-1 with the

Securities and Exchange Commission seeking to register 27,500,000 shares related to our financing agreements with LPC. The registration was declared effective by the Securities and Exchange Commission on June 30, 2010. Subject to the effective registration statement related to the transaction, we have the right over a 25-month period to sell our shares of common stock to LPC in amounts up to $500,000 per sale, depending on certain conditions as set forth in the purchase agreement, up to the aggregate commitment of $5 million.

There are no upper limits to the price LPC may pay to purchase our common stock, and the purchase price of the shares related to the $4.5 million of future funding will be based on the prevailing market prices of the Company's shares at the time of sales without any fixed discount. The Company will control the timing and amount of any sales of shares to LPC. LPC shall not have the right or the obligation to purchase any shares of our common stock on any business day that the price of our common stock is below $0.08.

In consideration for entering into the $5 million agreement which provides for an additional $4.5 million of future funding, we issued to LPC 1,250,000 shares of our common stock as a financing inception commitment and shall issue an equivalent amount of shares pro rata as LPC purchases the additional $4.5 million. The common stock purchase agreement may be terminated by us at any time at our discretion without any cost to us. Except for a limitation on variable priced financings, there are no negative covenants, restrictions on future funding's, penalties or liquidated damages in the agreement. The proceeds received by the Company under the common stock purchase agreement are expected to be used in the development of thin film manufacturing equipment and technologies, general and administrative costs, and general working capital.

Pursuant to the stock purchase agreement with LPC and the S-1 Registration Statement declared effective by the SEC on June 30, 2010, the Company has sold to Lincoln Park Capital Fund, LLC through December 31, 2010, approximately 7,520,748 shares for a total investment of $725,000 including the initial $500,000 and 5,000,000 shares. These shares were sold at various pricing between $0.08 and $0.10 per share. Including 1,250,000 shares provided to LPC as financing inception commitment shares, and an additional 62,497 commitment shares issued pro rata as LPC has purchased additional shares this leaves 18,666,755 registered shares available for future sales pursuant to the effective S-1 Registration Statement.

DEVELOPMENT STAGE COMPANY

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

While we have been able to raise capital in a series of equity and debt offerings in the past there can be no assurances that we will be able to obtain such additional financing, on terms acceptable to us and at the times required, or at all.

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

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any off balance sheet arrangements that are reasonably likely to have a current or future effect on our financial condition, revenues, results of operations, liquidity or capital expenditures.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

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

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer, principal financial officer, and principal operating officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

As required by SEC Rule 15d-15(e), our management carried out an evaluation, under the supervision and with the participation of our principal executive officer, principal financial officer, and principal operating officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our principal executive officer, principal financial officer, and principal accounting officer concluded that our disclosure controls and procedures were effective at a reasonable assurance level as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting

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

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

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

On September 21, 2010 we received notice of a claim filed by Billco manufacturing Inc. in the State of California, Orange County Superior Court, requesting that the court award $340,567.50 for an open book account balance purportedly owed to the manufacturer by XsunX. The vendor allegations stem from a demand for payment made in the amount of $340,567.50 for the order of certain equipment by XsunX in 2008. XsunX refused to pay this amount as we had cancelled the order placed with the vendor, the vendor was in possession of its own un-used standard systems that it could market to other buyers in the course of its normal business, and that XsunX's prior payment in the amount of $130,987.50 to the vendor represented, in the judgment of management, a fair and final re-stocking fee. We dispute any additional amounts claimed by the vendor and have retained counsel to defend this matter.

In February 2010, we elected to negotiate a settlement related to a dispute over certain equipment with Airgas Corp. agreeing to pay $114,641 in 12 equal monthly payments of $9,553 commencing March 1, 2010. As of December 31, 2010 the Company has made payments totaling $95,530 leaving a principal balance in the amount of $19,111. No default currently exists under this agreement.

Item 1A. Risk Factors

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

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. (Removed and Reserved)

Item 5. Other information

None

Item 6. Exhibits

Exhibit No.	Description
3.1	Articles of Incorporation. (Incorporated by reference to Registration Statement Form 10SB12G #000-29621dated February 18, 2000 and by reference to exhibits included with the Company's prior

	Report on Form 8-K/A filed with the Securities and Exchange Commission dated October 29, 2003)
3.2	Bylaws. (Incorporated by reference to Registration Statement Form 10SB12G #000-29621 filed with the Securities and Exchange Commission dated February 18, 2000)
10.1	XsunX Plan of Reorganization and Asset Purchase Agreement, dated September 23, 2003. (Incorporated by reference to exhibits included with the Company's prior Report on Form 8-K/A filed with the Securities and Exchange Commission dated October 29, 2003)
31.1	Certifications of the Chief Executive and Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Certification Act of 2002 (1)
32.1	Certification Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of the Sarbanes-Oxley Certification Act Of 2002(1)

(1) Provided herewith

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SIGNATURES

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

XSUNX, INC.

Dated: February 14, 2011	By:	/s/ Tom M. Djokovich Tom M. Djokovich, Principal Executive and Financial Officer

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