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NET INCREASE (DECREASE) IN CASH

(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 \$119,740

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 is 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.

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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

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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

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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,

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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.

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

At 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

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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.

END OF FINANCIAL STATEMENTS FOR THE PERIODS ENDED DECEMBER 31, 2010 AND 2009

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We have not authorized any dealer, salesperson or other person to provide any information or make any representations about XsunX, Inc. except the information or representations contained in this Prospectus. You should not rely on any additional information or representations if made.

This Prospectus does not constitute an offer to sell, or a solicitation of an offer to buy any securities:

except the common stock offered by this Prospectus;

in any jurisdiction in which the offer or solicitation is not authorized;

in any jurisdiction where the dealer or other salesperson is not qualified to make the offer or solicitation;

to any person to whom it is unlawful to make the offer or solicitation; or

to any person who is not a United States resident or who is outside the jurisdiction of the United States.

The delivery of this Prospectus or any accompanying sale does not imply that:

there have been no changes in the affairs of XsunX, Inc. after the date of this Prospectus; or

the information contained in this Prospectus is correct after the date of this Prospectus.

All dealers effecting transactions in the registered securities, whether or not participating in this distribution, may be required to deliver a Prospectus. This is in addition to the obligation of dealers to deliver a Prospectus when acting as underwriters.

PROSPECTUS
27,500,000 Shares of Common Stock

XSUNX INC.

April 7, 2011