

XSUNX INC
Form 10-Q
May 18, 2009

FORM 10-Q

SECURITIES EXCHANGE COMMISSION
Washington, D.C. 20549

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

For Quarter Ended March 31, 2009

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class: None Name of each exchange on which registered: N/A

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, no par value per share

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

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

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

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

The number of shares of common stock issued and outstanding as of May 18, 2009 was 189,342,437.

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XsunX, Inc.
(A Development Stage Company)
Balance Sheets

| | March 31, 2009 (Unaudited) | September 30, 2008 |
|--|----------------------------------|-----------------------|
| ASSETS: | | |
| Current assets: | | |
| Cash | \$ 957,387 | \$ 2,389,218 |
| Inventory Held for Sale | 1,417,000 | 1,417,000 |
| Prepaid Expenses | 27,370 | 11,986 |
| Total current assets | 2,401,757 | 3,818,204 |
| Fixed assets: | | |
| Office & Other Equipment | 51,708 | 50,010 |
| Research and Development Equipment | 469,382 | 435,910 |
| Leasehold Improvements | 122,680 | 89,825 |
| Total Fixed Assets | 643,770 | 575,745 |
| Less: Accumulated Depreciation | (376,948) | (299,559) |
| Net fixed assets | 266,822 | 276,186 |
| Other assets: | | |
| Manufacturing Equipment in Progress | 7,225,501 | 5,824,630 |
| Security Deposit | 5,815 | 5,815 |
| Total other assets | 7,231,316 | 5,830,445 |
| TOTAL ASSETS | \$ 9,899,895 | \$ 9,924,835 |
| LIABILITIES AND STOCKHOLDERS' EQUITY: | | |
| Current Liabilities: | | |
| Accounts Payable | \$ 1,604,597 | \$ 465,953 |
| Accrued Expenses | 20,509 | 30,957 |
| Total current liabilities | 1,625,106 | 496,910 |
| Stockholders' Equity: | | |
| 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; 189,342,437 shares issued and outstanding at March 31, 2009 and 186,292,437 shares issued and outstanding at September 30, 2008 | 23,224,369 | 22,613,369 |
| Paid in Capital - Common Stock Warrants | 2,795,912 | 2,641,412 |
| Additional Paid in Capital | 5,248,213 | 5,248,213 |
| (Deficit) accumulated during the development stage | (22,993,705) | (21,075,069) |
| Total stockholders' equity | 8,274,789 | 9,427,925 |

| | | |
|--|--------------|--------------|
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 9,899,895 | \$ 9,924,835 |
|--|--------------|--------------|

The Accompanying Notes are an Integral Part of These Financial Statements

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XsunX, Inc.
(A Development Stage Company)
Statements of Operations
(UNAUDITED)

| | Three Months Ended March 31, | | Six Months Ended March 31, | | Feb. 25, 1997 (Inception) to March 31, |
|---|---------------------------------|--------------|-------------------------------|----------------|--|
| | 2009 | 2008 | 2009 | 2008 | 2009 |
| Revenue | | | | | |
| Service Income | \$ - | \$ - | \$ - | \$ - | \$ 14,880 |
| Total Revenue | - | - | - | - | 14,880 |
| Expenses: | | | | | |
| Selling, General and Administrative | | | | | |
| Expense | 849,805 | 863,816 | 1,986,119 | 1,312,714 | 13,252,040 |
| Depreciation | 40,337 | (18,078) | 77,389 | 23,630 | 512,502 |
| Option / Warrant Expense | 77,251 | 168,322 | 154,501 | 336,644 | 3,070,103 |
| Total Operating Expenses | 967,393 | 1,014,060 | 2,218,009 | 1,672,988 | 16,834,645 |
| Other (Income) Expense | | | | | |
| Interest Expense | - | 395 | - | 790 | 91,293 |
| Interest Income | (1,094) | (55,527) | (4,509) | (114,114) | (444,560) |
| Legal Settlement | - | - | - | - | (1,100,000) |
| Loan Fees | - | - | - | - | 7,001,990 |
| Impairment of Asset | - | - | - | - | 1,204,459 |
| Other - Non Operating | 108 | 194 | (7,481) | 195 | 12,913 |
| Forgiveness of Debt | (287,381) | - | (287,381) | - | (592,154) |
| Total Other (Income) Expense | (288,367) | (54,938) | (299,371) | (113,129) | 6,173,941 |
| Net (Loss) | \$ (679,026) | \$ (959,122) | \$ (1,918,638) | \$ (1,559,859) | \$ (22,993,705) |
| Per Share Information: | | | | | |
| Basic and Diluted | | | | | |
| Weighted average number of common shares outstanding | 188,868,536 | 164,724,263 | 188,868,536 | 164,724,263 | |
| Net (Loss) per Common Share | \$ (0.00) | \$ (0.01) | \$ (0.01) | \$ (0.01) | |

The Accompanying Notes are an Integral Part of These Financial Statements

XsunX, Inc.
(A Development Stage Company)
Statement of Cash Flows
(UNAUDITED)

| | Six Months Ended March 31, | | Feb. 25, 1997 (Inception) to March 31, 2009 |
|---|----------------------------|------------------|--|
| | 2009 | 2008 | |
| Cash Flows from Operating Activities: | | | |
| Net (Loss) | \$ (1,918,637) | \$ (1,559,861) | \$ (22,993,705) |
| Issuance of Common Stock for Interest | - | - | 241,383 |
| Issuance of Common Stock for Services | 11,000 | (50,000) | 1,599,251 |
| Amortization of Cornell financing warrants, commitment fees and beneficial conversion | - | (500,000) | 5,685,573 |
| Option / Warrant Expense | 154,500 | 336,644 | 3,070,102 |
| Asset Impairment | - | - | 1,204,459 |
| Depreciation | 77,389 | 165,699 | 512,502 |
| Adjustments to reconcile net loss to cash used in operating activities: | | | |
| (Increase) in Inventory Held for Sale | - | | (1,417,000) |
| (Increase) in Prepaid Expense | (15,384) | 287,071 | (27,370) |
| Decrease in Other Assets | - | - | (5,815) |
| Increase (Decrease) in Accounts Payable | 1,138,645 | 484,717 | 3,210,887 |
| Increase (Decrease) in Accrued Expenses | (10,449) | 29,240 | 20,508 |
| Net Cash Flows Provided by (Used in) Operating Activities | (562,935) | (806,490) | (8,899,225) |
| Cash Flows from Investing Activities: | | | |
| Purchase of Fixed Assets | (68,025) | (104,607) | (643,770) |
| Purchase of Marketable Prototype and Patent | - | - | (1,780,396) |
| Purchase of Manufacturing Equipment and Facilities - In process | (1,400,871) | (811,855) | (7,225,500) |
| Payments on Note Receivable | - | - | (1,500,000) |
| Receipts on Note Receivable | - | - | 1,500,000 |
| Accrued Interest Earned on Notes Receivable | - | (75,067) | - |
| Net Cash Flows (Used in) Investing Activities | (1,468,896) | (991,529) | (9,649,666) |
| Cash Flows from Financing Activities: | | | |
| Proceeds from Warrant Conversion | - | - | 3,306,250 |
| Proceeds from Debentures | - | - | 5,850,000 |
| Net Proceeds from Sale of Common Stock | 600,000 | 3,500,000 | 10,350,028 |
| Net Cash Flows Provided by Financing Activities | 600,000 | 3,500,000 | 19,506,278 |
| Net Increase (Decrease) in Cash | (1,431,831) | 1,701,981 | 957,387 |

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| | | | |
|---|------------|--------------|------------|
| Cash and cash equivalents - Beginning of period | 2,389,218 | 1,768,616 | - |
| Cash and cash equivalents - End of period | \$ 957,387 | \$ 3,470,597 | \$ 957,387 |
| Supplemental Disclosure of Cash Flow Information | | | |
| Cash Paid During the Period for: | | | |
| Interest | \$ - | \$ 790 | \$ 119,617 |
| Income Taxes | \$ - | \$ - | \$ - |

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
March 31, 2009
(Unaudited)

Note 1 — Presentation of Interim Information:

The unaudited interim consolidated financial statements of the Company included herein have been prepared in accordance with generally accepted accounting principles for interim financial information and in accordance with the instructions for Form 10-Q under Article 8.03 of Regulation S-X. These statements do not include all of the information and notes to the financial statements required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included.

Operating results for the six month period ended March 31, 2009, are not necessarily indicative of the results that may be expected for the year ending September 30, 2009. The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the fiscal year ended September 30, 2008, included in the Company's Annual Report on Form 10-K, as filed with Securities and Exchange Commission.

Note 2 – Restatement of Financial Statements for the Fiscal Periods 2007 and 2006:

As a result of the suspension of our prior auditor, Jasper – Hall PC, by the Public Company Accounting Oversight Board (PCAOB) on October 28, 2008, the Company engaged new auditors and was required to re-audit the financial statements for the years ended September 30, 2006 and September 30, 2007. The financial statements for the fiscal periods 2006 and 2007 have been restated to reflect the adjustments to accounting estimates in those periods. In fiscal year 2007, the total impact of these changes was to increase net loss by \$679,349. \$447,012 of this additional loss was related to a change in estimate for option and warrant expenses and did not impact cash. There was also an increase to non-cash depreciation expense of \$62,354, and a decrease to accrued interest income of approximately \$77,882 that resulted from adjustments in interest calculations corrected in the 2008 fiscal period. Additionally, there was a \$65,000 asset impairment charge and a \$27,111 impact to cash expenses as a result of the audit adjustments. There was no impact to loss per share as it remained \$0.01 loss per share for the period.

In fiscal year ended September 30, 2006, there were audit adjustments totaling \$5,671,048 as reduction to net income resulting in minimal impact to cash expenses. The largest adjustment relates to the amortization of loan fees associated with convertible debentures issued in the 2005 and 2006 fiscal years. We took a \$6,373,156 additional charge for the amortization of expenses associated with debenture structuring fees, debenture commitment fees, and expenses attributable to the beneficial conversion costs for in the money stock and warrant conversion under the debentures. Of this total, \$47,216 was paid in cash, the remainder in common stock. Depreciation expense was reduced by \$66,265 and warrant and option expenses were reduced by \$486,250 for the period. This resulted in additional non-cash net income of \$552,519 that partially offset the amortization of the loan fees associated with the convertible debentures. Interest expense was also reduced by \$111,117 and there were \$38,472 of other expense adjustments made. There was an increased loss per share associated with these restatements of \$0.05 per share bringing the total to \$0.07 loss per share.

In the three months ended March 31, 2008, the total impact of the restatement was an increase in net loss of \$158,063. \$168,322 resulted from increased option and warrant expense, \$88,250 from decreased depreciation expense offset by a decrease in interest income of \$23,696 and \$56,376 of other expense adjustments.

In the six months ended March 31, 2008, the total impact of the restatement was a decreased net loss of \$735,416. \$972,221 resulted from decreased option and warrant expense, \$85,894 increase in interest income and \$150,911 of Selling, General and Administrative Expense adjustments.

Reclassification: Certain amounts in the prior year financials have been reclassified to conform to the current year presentation.

Note 3 — Going Concern:

We are a development stage company and, to date, have not generated any significant revenues. The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate our continuation as a going concern. Net loss for the six months ended March 31, 2009 was \$1,918,638. In addition, the Company has an accumulated deficit of \$22,993,705 since inception.

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

The Company is currently working to transition from the development stage to the implementation phase and as of the period ended March 31, 2009, 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, including capital expenditures to install our planned production capacity. The Company needs to raise additional capital to complete its operational plan.

The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result from the possible inability of the Company to continue as a going concern.

Note 4 — Common Stock Transactions:

The authorized common stock of the Company was established at 500,000,000 shares with no par value.

Financing

There were no shares issued for financing during the quarter ended March 31, 2009

In the six months ended March 31, 2009, there was a placement of the Company's common stock pursuant to an S-1 Registration declared effective by the U.S. Securities and Exchange Commission on April 10, 2008, the Company has sold 3,000,000 shares of common stock at a price of \$0.20 each, for total proceeds of \$600,000 to Fusion Capital Fund II, LLC during the three months ending December 31, 2008.

Pursuant to the S-1 Registration Statement declared effective by the SEC on April 10, 2008, the Company has sold to Fusion Capital Fund II, LLC through December 31, 2008, approximately 18,347,581 shares for a total investment of \$5,800,000. These shares were sold at various pricing between \$0.405 and \$0.20 per share. Including 3,500,000 shares issued to Fusion as financing commitment shares leaving 18,152,419 registered shares available for future sales pursuant to the effective S-1 Registration Statement.

Issuance of Shares for Services

There were no shares issued for services during the quarter ended March 31, 2009

For the Six months ended March 31, 2009, the Company issued 50,000 shares of its restricted common stock in connection with a services agreement to provide marketing and financing service to the Company. The shares were valued at \$0.22 per share, the share price on the date the agreement was reached. The agreement ended on December 31, 2008.

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Employee Incentive Option Grants

During the period ended March 31, 2009, and in connection with the Company's policy to incentivize employees whose contribution is deemed to influence the Company's efforts to prepare, install, and operate solar module manufacturing capabilities, and as part of reductions to salaries the Company authorized employment incentive option grants to the following employees at an exercise price per share of \$0.16. The options have a 5 year exercise terms and vest in conjunction with employment and performance milestones based vesting schedule as described below:

| Name | Date of Grant | Amount | Type of Grant | Exercise Price | Term |
|-----------------|----------------|-----------|---------------|----------------|-------|
| Vanessa Watkins | March 31, 2009 | 115,000 | Incentive | \$ 0.16 | 5 yr. |
| Joseph Grimes | March 31, 2009 | 2,500,000 | Incentive | \$ 0.16 | 5 yr. |
| Robert G. Wendt | March 31, 2009 | 2,500,000 | Incentive | \$ 0.16 | 5 yr. |

The vesting schedule for Vanessa Watkins is as follows:

The option shall become exercisable in the following amounts upon the delivery and/or achievement by the optionee of the following performance milestones as they may relate to the Company's phased build out plan for a solar module manufacturing facility:

- (a) 38,333 shares shall vest on April 1, 2009 and thereafter 38,333 shall vest and become exercisable at the rate of 38,333 shares per year of continuous employment.

The vesting schedule for Mr. Grimes and Mr. Wendt is as follows:

The option shall become exercisable in the following amounts upon the delivery and/or achievement by the optionee(s) of the following employment and performance milestones:

- (a) 208,333 shares shall vest on April 1, 2009 and thereafter 208,333 shall vest per each XsunX fiscal calendar quarter of continuous employment from the date of grant.
- (b) In the event of a sale or merger of all or substantially all of the Company's assets to an acquiring party following which the Company would not be a surviving operating entity, the Company will provide Optionee a fifteen (15) day prior notice of such proposed event providing for immediate vesting of all remaining unvested Options.
- (c) All remaining unvested Options shall vest and become exercisable upon the assembly and third party validation of a functioning XsunX manufactured solar module producing a 10% frame to frame average DC power conversion rating under standard test conditions (STC), and the subsequent sale and delivery of a solar module manufactured by XsunX meeting similar specifications.

A summary of warrant activity for the period ended March 31, 2009 is as follows:

| Number of Options / Warrants | Weighted-Average Exercise Price | Accrued Options / Warrants Vested | Weighted-Average Exercise Price |
|------------------------------|---------------------------------|-----------------------------------|---------------------------------|
|------------------------------|---------------------------------|-----------------------------------|---------------------------------|

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| | | | | | | |
|---------------------------------|--------------|----|------|--------------|----|------|
| Outstanding, September 30, 2005 | 15,125,000 | \$ | 0.16 | 13,408,334 | \$ | 0.16 |
| Granted 2006 | 11,987,000 | \$ | 0.36 | 5,543,000 | \$ | 0.46 |
| Exercised | (10,850,000) | \$ | 0.48 | (10,850,000) | \$ | 0.33 |
| Vested | | | | 600,000 | \$ | 0.18 |
| Outstanding, September 30, 2006 | 16,262,000 | \$ | 0.42 | 8,701,334 | \$ | 0.37 |
| Granted 2007 | 1,950,000 | \$ | 0.46 | | \$ | 0.46 |
| Exercised | (900,000) | \$ | 0.15 | (900,000) | \$ | 0.15 |
| Vested | - | | | 412,666 | \$ | 0.42 |
| Outstanding, September 30, 2007 | 17,312,000 | \$ | 0.33 | 8,214,000 | \$ | 0.38 |
| Granted 2008 | 3,800,000 | \$ | 0.36 | 5,083,332 | \$ | 0.36 |
| Exercised/Cancelled | (11,166,668) | \$ | 0.19 | (6,802,000) | \$ | 0.19 |
| Vested | | | | 825,000 | \$ | 0.46 |
| Outstanding, September 30, 2008 | 9,945,332 | \$ | 0.23 | 7,320,332 | \$ | 0.27 |
| Granted 2009 | 5,350,000 | \$ | 0.17 | 0 | \$ | - |
| Exercised/Cancelled | - | \$ | - | - | \$ | - |
| Vested | | | | 431,250 | \$ | 0.23 |
| Outstanding, March 31, 2009 | 15,295,332 | \$ | 0.23 | 7,751,582 | \$ | 0.27 |

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At March 31, 2009 the range of warrant/option prices for shares under warrants/options not exercised and the weighted-average remaining contractual life is as follows:

| Range of Option/ Warrant Prices | Options/Warrants Outstanding | | | Options/Warrants Exercisable | |
|------------------------------------|--------------------------------|---------------------------------|--|--------------------------------|---------------------------------|
| | Number of Options/ Warrants | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Life (yr) | Number of Options/ Warrants | Weighted-Average Exercise Price |
| \$ 0.16 | 5,115,000 | \$ 0.16 | 5.0 | 0 | \$ 0.16 |
| \$ 0.20 | 250,000 | \$ 0.20 | 4.3 | 250,000 | \$ 0.20 |
| \$0.36 | 4,035,000 | \$ 0.36 | 4.0 | 1,750,000 | \$ 0.36 |
| \$ 0.41 | 100,000 | \$ 0.41 | 3.9 | 94,250 | \$ 0.41 |
| \$ 0.45 | 100,000 | \$ 0.45 | 3.6 | 100,000 | \$ 0.45 |
| \$ 0.46 | 1,650,000 | \$ 0.46 | 3.3 | 1,512,500 | \$ 0.46 |
| \$0.50 | 1,666,666 | \$ 0.50 | 4.1 | 1,666,666 | \$ 0.50 |
| \$ 0.51 | 500,000 | \$ 0.51 | 2.8 | 500,000 | \$ 0.51 |
| \$ 0.53 | 100,000 | \$ 0.53 | 3.4 | 100,000 | \$ 0.53 |
| \$0.75 | 1,666,666 | \$ 0.75 | 4.1 | 1,666,666 | \$ 0.75 |
| \$ 1.69 | 112,000 | \$ 1.69 | 2.5 | 112,000 | \$ 1.69 |
| | 15,295,332 | | | 7,751,582 | |

Note 5 - Stock-Based Compensation:

The Company follows SFAS No. 123(R), (“Share-Based Payment” (SFAS No. 123(R)). This statement requires that all stock-based compensation be recognized as an expense in the financial statements and that such cost be measured at the fair value of the grant. This statement was adopted using the modified prospective method of application, which requires us to recognize compensation expense on a prospective basis. Therefore, prior period financial statements have not been restated. Under this method, in addition to reflecting compensation expense for new share-based grants, expense is also recognized to reflect the remaining service period of grants that had been included in pro-forma disclosures in prior periods.

XsunX records the fair value of stock-based compensation grants as an expense. In order to determine the fair value of stock options on the date of grant, XsunX applies the Black-Scholes option-pricing model. Inherent in this model are assumptions related to expected stock-price volatility, option life, risk-free interest rate and dividend yield. While the risk-free interest rate and dividend yield are less subjective assumptions, typically based on factual data derived from public sources, the expected stock-price volatility and option life assumptions require a greater level of judgment.

XsunX uses an expected stock-price volatility assumption that is based on historical implied volatilities of the underlying stock which is obtained from public data sources. With regard to the weighted-average option life assumption, XsunX considers the exercise behavior of past grants and models the pattern of aggregate exercises. Patterns are determined on specific criteria of the aggregate pool of optionees.

Forfeiture rates are based on the Company's historical data and future estimates for stock option forfeitures. There are 15,295,332 options and warrants issued of which 7,751,582 are vested. The exercise price range for the Company's options and warrants are \$0.15 to \$1.69. The weighted average remaining life of the option and warrant grants range from 2.7 years to 5 years. We have based our expected volatility on the historical performance of our stock adjusted for extreme period of volatility that resulted from unusual events. The range of volatility for our options and warrants is 53% to 122% based on the specific grant. The risk free interest rate used in our calculation was 3.54%. Total net stock-based compensation expense is attributable to the granting of and the remaining requisite service periods of stock options previously granted. We have recorded \$77,250 of option and warrant expense in the quarter ended March 31, 2009 and \$164,500 for the six months ending March 31, 2009 relating to current vesting of historically granted stock options.

Note 6 — Notes, Commitments, and Contingencies:

Contractual Obligations as of the period ended March 31, 2009, are shown in the following table -

Contractual Obligations

| | Total | Less than 1 Year | 1 - 3 Years | Thereafter |
|-------------------------|---------------|---------------------|----------------|------------|
| Operating Lease(1) | \$ 1,865,007 | \$ 662,713 | \$ 1,202,294 | \$ — |
| Purchase Obligations(2) | 32,814,587 | 32,814,587 | — | — |
| To | \$ 34,679,594 | \$ 33,477,300 | \$ 1,202,294 | \$ — |

(1) Operating Lease Obligations consist of the lease on the Company's Manufacturing facility in Wood Village, OR and an Administrative facility in Golden, CO.

(2) Represents the total contractual purchase obligations represented by purchase orders for manufacturing equipment. The total obligations under these agreements is \$38,264,635 of which, \$5,450,048 has been paid on the obligations. Future scheduled payments are tied to progress made on the delivery of the associated equipment. There is an additional \$624,857 of accounts payable currently due on these obligations. The timing of these payments may vary due to the progress actually made by the vendors.

The estimated contract cost in item (2) above may be higher or lower based on final costs. The Company has not booked any contingency for cost overruns.

Note 7 — Subsequent Events:

Marketable Production Prototype Machine:

Under the terms of an Expanded Use License Agreement dated October 12, 2005 between XsunX and MVSystems, Inc. the parties had agreed to build a machine to prove technology for intended resale and split any associated profits from the sale of the machine 50/50. This production machine was never brought operational due to the failure to meet contractual requirements of the machine by MVSystems, and as of the date of this report XsunX has never taken possession of the machine. Under the terms of a Separation Agreement between the parties dated May 30, 2008 MVSystems continues to have possession of the machine but advised the Company in April 2009 that it will not elect to exercise its purchase option for the machine which expired May 1, 2009. MVSystems further notified the Company that it would like to terminate its sub-lease rights of the Company's facilities and its possession of the machine under the Separation Agreement effective April 30, 2009. An inspection of the machine by the Company on April 30 resulted in the determination that the machine continues to fail to meet contractual requirements and XsunX refused to accept the termination of the sub-lease and handover of the machine to XsunX. On May 4, 2009 XsunX provided MVSystems a notice asserting that MVSystems is in material default of the terms of the Separation Agreement. The parties are discussing options to rectify the contractual obligation deficiencies, the handover of the machine to XsunX, the termination of the sub-lease, and continued cooperation by the parties in the marketing and sale of the machine.

Marketable Production Prototype Machine Sales Efforts

The Company received notice from MVSystems, Inc. in April 2009 that MVSystems was electing to not exercise its purchase rights under a Separation Agreement between the parties dated May 30, 2008 for the marketable prototype built by the parties for resale. Upon receipt of the notice the XsunX began efforts to market and sell the machine for its booked value of \$1,417,000. We are engaged in efforts to solicit buyers which have resulted in purchase inquiries. The Company is scheduling on-site demonstrations with interested parties in efforts to sell the machine. While we believe that under these efforts the sale of the machine may occur we cannot be assured that a sale of the machine will be finalized.

Marketable Production Prototype Sales Tax Dispute

Under a notice of default provided to XsunX in November 2008 by MVSystems, Inc., MVSystems has claimed that a sale of the production prototype machine to XsunX by MVSystems had occurred, and that state sales tax in the amount of approximately \$60,000 is due. XsunX disputes this claim. MVSystems subsequently filed a request with the State of Colorado Department of Revenue for a determination on this matter without the consent of XsunX and for what the Company believes are strategic purposes related to the parties' ongoing dispute over the machine. In March 2009 XsunX received notice from the State of Colorado offering determination that a sale had occurred and that sales tax and penalties in the amount of approximately \$91,000 were due on what XsunX believes to be an incorrect basis cost for the machine of \$1,775,000. The Company believes that the tax auditor's findings contain material faults related to the interpretation of the transaction as a result of the information provided by MVSystems in their determination request. On April 10, 2009 the Company filed a protest and hearing request disputing the findings of the tax auditor and requested that the total tax liability determination be reversed. As of the date of this report we have not received a response from the Colorado State tax auditor office. While we believe that the material facts outlined within the auditor's determination were based on information interpreted incorrectly and is likely to be reversed upon appeal, we have a potential contingent liability in the amount of \$72,800 for tax on the actual basis cost of the machine of \$1,417,000 for payment of this tax.

Reversal of Accounts Payable Invoice

In October 2008 the Company received an invoice in the amount of \$2,500,000 related to the design and construction of thin film deposition equipment under a purchase order between a vendor and the Company. While the Company worked with the vendor to verify and approve the contractual compliance of the deliverables associated with the invoice the Company reported this invoice as a liability in its quarterly report for the period ended December 31, 2008 on Form 10Q. We have completed a review of the deliverables and the vendor's compliance with contractual requirements and have determined that the deliverables under the invoice do not meet the required contractual specifications. For the period ended March 31, 2009 the Company has reversed the \$2,500,000 accounts payable liability. Manufacturing Equipment in Progress has been reduced by \$2,500,000. The Company may re-book this liability subject to the receipt of deliverables meeting the requirements under the purchase agreement.

Leased Facility Transactions

Effective April 1, 2009 the Company reduced its leased facilities at its Aliso Viejo, CA offices by approximately 50%. This resulted in associated reductions to monthly lease and facility expenses totaling approximately \$2,000 leaving a monthly lease and facility liability of approximately \$1,400.

The Company and Merix Corp., its landlord for the Company's facilities located at its 23365 Halsey, Wood Village Oregon have agreed to the application of approximately \$99,000 in monthly lease and facility over-payments made by XsunX to Merix under monthly lease and facility billings that over stated actual insurance and property tax liabilities. This credit was applied to accrued monthly facility lease obligation in the period ended March 31, 2009.

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.

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 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.

Business Overview

XsunX, Inc. is a thin-film photovoltaic ("TFPV") Company which is currently developing the infrastructure to manufacture high performance TFPV solar modules to address growth in demand for solar modules within the electrical power production markets, and to satisfy contractual commitments for the sale and delivery of approximately 19 megawatts of solar modules in 2010 and 2011 calendar periods. To accomplish this we are working to complete the execution of a plan to build a thin film solar module manufacturing facility located in the Portland Oregon, USA area. We are working to complete the installation of our base production infrastructure and develop initial production capacities necessary to satisfy our contractual sales commitments.

Upon completion and operation of our initial manufacturing system we anticipate that our per watt production costs will decrease over the next several years of operation as we work to further optimize solar module output per line, validate and then utilize newer and less costly packaging materials, increase the sellable watts per solar module, expand production capacities, and leverage economies of scale to better absorb certain fixed costs. Our goal is to drive our per watt solar module production costs to or below \$1.00 per watt as rapidly as possible, a price point that may allow us to offer a solar electricity production solution that can generate electricity on a non-subsidized basis at a cost equal to the price of retail electricity within certain domestic and foreign markets conducive to solar power production.

RESULTS OF OPERATIONS FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2009 COMPARED TO THE SAME PERIOD IN 2008

Revenue:

The Company generated no revenues in the three month period ended March 31, 2009 and 2008. Additionally, there was no associated cost of sales

Sales, General and Administrative Expenses:

Sales, General and Administrative Expenses for the three month period ended March 31, 2009 totaled \$849,806. This represents a decrease of \$14,010 as compared to the same period in 2008 which totaled \$863,816. The decreased operating expenses between the periods is primarily attributable to increased consulting expenses relating to the planning and preparation for our manufacturing facility, increased legal fees associated with the conclusion of several matters, an increase in rent expense for the manufacturing facility in Oregon, an increase in sales and property taxes related to equipment in Colorado and property taxes in Oregon, and higher wages and salaries cost. These increased costs were more than offset by reductions in travel expense, public relations expenses, research and development expenses, a refund of sales taxes charged in California that were not owed.. A comparative analysis of the period to period performance is provided below.

Salaries and Wages:

Salaries and wages for the three month period ended March 31, 2009 were \$314,232 as compared to \$283,575 during the same period in 2008. The increase of \$30,656 was driven by an increase to salaries related to retention of key employees and the addition of new employee's necessary for the launch of our plans to build and establish thin film solar module manufacturing infrastructure. There were six full and part time employees at March 31, 2009 as compared to seven full time employees at December 31, 2008. In March 2009, several employees were placed on furlough pending continued build out of the manufacturing facility, were changed from an employee to contract status or were placed on part time in an effort to conserve capital.

Professional Services:

Public relations and marketing expense for the three month period ended March 31, 2009 totaled \$40,377 as compared to \$134,230 during this same period in 2008. The decrease of \$93,853 represents decreased utilization of public relations during the period after several quarters of intensive public relations efforts working on building brand and market awareness.

Consulting expenses for the three month period ended March 31, 2009 totaled \$204,764 as compared to \$108,803 during the same period in 2008, an increase of \$95,961. This increase is largely due to higher utilization of consulting services associated with the planning and preparation for our manufacturing facility and for the payment of board of director fees as well as the hiring of a contract HR manager to facilitate hiring in Oregon. Payments to the Board of Directors and the scientific advisory committee have been suspended late in the period to conserve available cash.

Legal and accounting fees for the three month period ended March 31, 2009 totaled \$77,096 as compared to \$47,181 during the same period in 2008. This represents an increase of \$29,915 largely driven by increased expenditures for legal services related to equipment and materials contract review and the efforts to defend claims by a third party for payment of fees for claimed services and higher review fees.

Travel and Entertainment:

Expenses for travel and entertainment were \$21,071 for the three month period ended March 31, 2009. This compared to \$62,386 for the same period in 2008. This decrease of \$41,315 was a cost containment move to conserve cash by limited travel and entertainment expenses to high priority travel only.

Depreciation Expense:

Depreciation expense for the three months period ending March 31, 2009 has a non-cash impact of \$40,337. \$643,770 of total fixed assets placed in service is depreciated using the straight line method of depreciation over periods ranging from three to five years. Lease hold improvements are depreciated on a straight line basis over the life of the lease.

Forgiveness of Debt:

During the three months ended March 31, 2008, the Company wrote off the remainder of the accounts payable associated with the settlement agreement with MVSsystems for a non-cash total of \$287,381. This represents potential liabilities that were eliminated as a result of the settlement agreement.

Option and Warrant Expenses:

Option and Warrant expense for the three month period ending March 31, 2009 was \$77,250 as compared to \$168,321 during the same period in 2008. This reduction of \$91,072 was related primarily to the vesting of current options and the cancellation of options that had vesting expenses in previous periods.

The net loss for the three months ended March 31, 2009 was \$(679,026) as compared to a net loss of (\$959,123) for the same period 2008. The decreased net loss of \$280,097 includes (i) The operating expense changes discussed above, (ii) a decrease in interest income of \$54,433 relating to the repayment of the Sencera note and associated interest income and (iii) a further write off of accounts payable associated with the settlement agreement with MVS of \$287,381 which is no longer payable.

The associated net loss per share was less than one cent for the three month period ended March 31, 2009 and \$(0.01) for the same period in 2008. The Company anticipates the trend of losses to continue in future quarters until the Company can recognize sales of significance of which there is no assurance.

RESULTS OF OPERATIONS FOR THE SIX-MONTH PERIOD ENDED MARCH 31, 2009 COMPARED TO THE SAME PERIOD IN 2008

Revenue:

The Company generated no revenues in the six-month period ended March 31, 2009 and 2008. Additionally, there was no associated cost of sales.

Sales, General and Administrative Expenses:

Sales, General and Administrative Expenses for the six month period ended March 31, 2009 totaled \$1,986,119. This represents an increase of \$673,405 as compared to the same period in 2008 which totaled \$1,312,714. The increase in operating expenses between the periods is primarily attributable to increased consulting expenses relating to the planning and preparation for our manufacturing facility, increased legal fees associated with the conclusion of several matters, an increase in rent expense for the manufacturing facility in Oregon, an increase in sales and property taxes related to equipment in Colorado and property taxes in Oregon., and higher wages and salaries cost. These increased costs were partially offset by reductions in research and development, public relations and travel expense. A comparative analysis of the period to period performance is provided below.

Salaries and Wages:

Salaries and wages for the six month period ended March 31, 2009 were \$694,440 as compared to \$519,091 during the same period in 2008. The increase of \$175,349 was driven by an increase to salaries related to retention of key employees and the addition of new employee's necessary for the launch of our plans to build and establish thin film solar module manufacturing infrastructure. There were six full and part time employees at March 31, 2009 as compared to seven full time employees at December 31, 2008. In March 2009, several employees were placed on furlough pending continued build out of the manufacturing facility, were changed from an employee to contract status or were placed on part time in an effort to conserve capital.

Professional Services:

Public relations and marketing expense for the six month period ended March 31, 2009 totaled \$137,742 as compared to \$202,904 during this same period in 2008. The decrease of \$65,162 represents decreased utilization of public relations during the period after several quarters of intensive public relations efforts working on building brand and market awareness.

Consulting expenses for the six month period ended March 31, 2009 totaled \$263,241 as compared to \$139,789 during the same period in 2008, an increase of \$123,452. This increase is largely due to higher utilization of consulting services associated with the planning and preparation for our manufacturing facility and for the payment of board of director fees as well as the hiring of a contract HR manager to facilitate hiring in Oregon. Payments to the

Board of Directors and the scientific advisory committee have been suspended late in the period to conserve available cash.

Legal and accounting fees for the six month period ended March 31, 2009 totaled \$201,936 as compared to \$57,509 during the same period in 2008. This represents an increase of \$144,427 largely driven by increased expenditures for legal services related to equipment and materials contract review and the efforts to defend claims by a third party for payment of fees for claimed services and higher audit fees related to the re-audit of the September 30, 2006 and 2008 financial statements.

Travel and Entertainment:

Expenses for travel and entertainment were \$50,908 for the six month period ended March 31, 2009. This compared to \$94,339 for the same period in 2008. This decrease of \$43,431 was a cost containment move to conserve cash by limited travel and entertainment expenses to high priority travel only.

Depreciation Expense:

Depreciation expense for the six months period ending March 31, 2009 has a non-cash impact of \$77,389. \$643,770 of total fixed assets placed in service is depreciated using the straight line method of depreciation over periods ranging from three to five years. Lease hold improvements are depreciated on a straight line basis over the life of the lease.

Forgiveness of Debt:

During the six months ended March 31, 2008, the Company wrote off the remainder of the accounts payable associated with the settlement agreement with MVSystems for a non-cash total of \$287,381. This represents potential liabilities that were eliminated as a result of the settlement agreement.

Option and Warrant Expenses:

Option and Warrant expense for the six month period ending March 31, 2009 was \$154,500 as compared to \$336,644 during the same period in 2008. This reduction of \$182,143 was related primarily to the vesting of current options and the cancellation of options that had vesting expenses in previous periods.

The net loss for the six months ended March 31, 2009 was \$(1,918,638) as compared to a net loss of \$(1,559,859) for the same period 2008. The increased net loss of \$358,779 includes (i) The operating expense changes discussed above, (ii) a decrease in interest income of \$109,605 relating to the repayment of the Sencera note and associated interest income, and (iii) a further write off of accounts payable associated with the settlement agreement with MVS of \$287,381 which is no longer payable.

The associated net loss per share was \$(0.01) for the six month period ended March 31, 2009 and \$(0.01) for the same period in 2008. 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

The Company had cash at March 31, 2009 of \$957,387, a as compared to cash of \$2,389,218 as of September 30, 2008. The Company had net working capital of \$776,650 as compared to a net working capital of \$3,321,294 at September 30, 2008. Cash flow used in operating activities during the six-month period ended, March 31, 2009, was \$562,935 as compared to a use of cash of \$806,490 for the same period 2008. The primary driver of this change was an increase in accounts payable.

Contractual Obligations as of the period ended March 31, 2009 are shown in the following table -

Contractual Obligations

| | Total | Less than 1 Year | 1 - 3 Years | Thereafter |
|-------------------------|---------------|---------------------|----------------|------------|
| Operating Lease(1) | \$ 1,865,007 | \$ 662,713 | \$ 1,202,294 | \$ — |
| Purchase Obligations(2) | 32,814,587 | 32,814,587 | — | — |
| To | \$ 34,679,594 | \$ 33,477,300 | \$ 1,202,294 | \$ — |

- (1) Operating Lease Obligations consist of the lease on the Company's Manufacturing facility in Wood Village, OR and an Administrative facility in Golden, CO.
- (2) Represents the total contractual purchase obligations represented by purchase orders for manufacturing equipment. The total obligations under these agreements is \$38,264,635 of which, \$5,450,048 has been paid on the obligations. Future scheduled payments are tied to progress made on the delivery of the associated equipment. There is an additional \$624,857 of accounts payable currently due on these obligations. The timing of these payments may vary due to the progress actually made by the vendors.

The estimated contract cost in item (2) above may be higher or lower based on final costs. The Company has not booked any contingency for cost overruns.

For the six months ended March 31, 2009, 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) an additional \$600,000 cash from the issuance of common stock to Fusion Capital.

DEVELOPMENT STAGE COMPANY

The Company is currently working to transition from the development stage to the implementation phase and as of the period ended March 31, 2009, 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, including capital expenditures to install our planned production capacity. Although the Company entered into a financing arrangement with Fusion Capital Fund II, LLC pursuant to which the Company has the right over a 25-month period to receive \$80,000 every two business days under such financing arrangement unless our stock price equals or exceeds \$0.30, in which case we can sell greater amounts to Fusion Capital as the price of our common stock increases, Fusion Capital shall not have the right or the obligation to purchase any shares of our common stock on any business day that the market price of our common stock is less than \$0.20. As of May 15, 2009, the Company's stock was trading at approximately \$0.15 and therefore, the Company is not presently able to draw down on this financing arrangement. Furthermore, there can be no assurance that additional financing will be available or that the terms of such additional financing, if available, will be acceptable to us. If additional financing is not available or not available on terms acceptable to us, our ability to fund our operations, develop and install or expand our manufacturing operations and sales network, maintain our research and development efforts or otherwise respond to competitive pressures may be significantly impaired. We could also be forced to curtail our business operations, reduce our investments, decrease or eliminate capital expenditures and delay the execution of its business plan, including, without limitation, the installation of our planned production in Oregon, 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.

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

Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during our second fiscal quarter 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 are subject to periodic lawsuits, investigations and claims, including, but not limited to, routine employment matters. Although we cannot predict with certainty the ultimate resolution of lawsuits, investigations and claims asserted against us, we are currently not aware of nor have any knowledge of any legal proceedings or claims that we believe will have, individually or in the aggregate, a material adverse affect on our business, financial condition or operating results.

Item 1A. Risk Factors

An investment in our common stock involves a high degree of risk. You should carefully consider the following risk factors, as well as the other information in this Quarterly Report on Form 10-Q, in evaluating XsunX and our business. If any of the following risks occur, our business, financial condition and results of operations could be materially and adversely affected. Accordingly, the trading price of our common stock could decline and you may lose all or part of your investment in our common stock. The risks and uncertainties described below are not the only ones we face. Additional risks that we currently do not know about or that we currently believe to be immaterial may also impair our business operations.

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

We are a development stage company and, to date, have not generated any significant revenues. The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate our continuation as a going concern. Net loss for the periods ended March 31, 2009 and 2008 was \$679,026 and \$959,122, respectively. Net loss for the six months ended March 31, 2009 and 2008 was \$ 1,918,637 and \$1,559,859, respectively. Net cash used in operations was \$562,935 and net cash used in operations was \$(806,490) for the six months ended March 31, 2009 and 2008, respectively. From inception through March 31, 2009, we had an accumulated deficit of \$22,993,705.

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

We will require significant financing in order to execute our operating plan and continue as a going concern. We cannot predict whether this additional financing, if available, will be in the form of equity, debt, or another form. We may not be able to obtain the necessary additional capital on a timely basis, on acceptable terms, or at all. In any of these events, we may be unable to implement our current plans for expansion, repay our debt obligations as they become due or respond to competitive pressures, any of which circumstances would have a material adverse effect on our business, prospects, financial condition and results of operations. The financial statements do not include any adjustments relating to the recoverability and reclassification of recorded asset amounts or amounts and reclassification of liabilities that might be necessary, should we be unable to continue as a going concern.

Should financing sources fail to materialize, management would seek alternate funding sources such as the sale of common and/or preferred stock, the issuance of debt, or the sale of our marketable assets.

In the event that these financing sources do not materialize, or that we are unsuccessful in increasing our revenues and profits, we will be forced to further reduce our costs, may be unable to repay our debt obligations as they become due, or respond to competitive pressures, any of which circumstances would have a material adverse effect on our business, prospects, financial condition and results of operations. Additionally, if these funding sources or increased revenues and profits do not materialize, and we are unable to secure additional financing, we could be forced to reduce or cease our business operations.

We will need to obtain significant additional financing to continue to operate our business, including significant capital expenditures to complete the installation of our planned annum production capacity, and financing may be unavailable or available only on disadvantageous terms which could cause the Company to curtail its business operations and delay the execution of its business plan

We have in the past experienced substantial losses and negative cash flow from operations during our development stage 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, including capital expenditures to install our planned production capacity. Although the Company entered into a financing arrangement with Fusion Capital Fund II, LLC pursuant to which the Company has the right over a 25-month period to receive \$80,000 every two business days under such financing arrangement unless our stock price equals or exceeds \$0.30, in which case we can sell greater amounts to Fusion Capital as the price of our common stock increases, Fusion Capital shall not have the right or the obligation to purchase any shares of our common stock on any business day that the market price of our common stock is less than \$0.20. As of May 15, 2009, the Company's stock was trading at approximately \$0.15 and therefore, the Company is not presently able to draw down on this financing arrangement. Furthermore, there can be no assurance that additional financing will be available or that the terms of such additional financing, if available, will be acceptable to us. If additional financing is not available or not available on terms acceptable to us, our ability to fund our operations, develop and install or expand our manufacturing operations and sales network, maintain our research and development efforts or otherwise respond to competitive pressures may be significantly impaired. We could also be forced to curtail our business operations, reduce our investments, decrease or eliminate capital expenditures and delay the execution of its business plan, including, without limitation, the installation of our planned production in Oregon, which would have a material adverse affect on our business.

We May Be Required To Raise Additional Financing By Issuing New Securities With Terms Or Rights Superior To Those Of Our Shares Of Common Stock, Which Could Adversely Affect The Market Price Of Our Shares Of Common Stock and Our Business

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

We are working to establish our manufacturing capacity for TFPV products in order to meet anticipated demand, and our revenues and profits may decrease if we are unable to successfully complete our planned manufacturing capacity and then sell our TFPV products at volumes to match our available production capacity.

We are working to establish initial manufacturing capacity and plan to expand manufacturing capacity as rapidly as possible. This plan includes adding a new facility in Oregon. We will be installing and testing the equipment for this manufacturing facility internally and through third parties. We may experience delays, additional or unexpected costs and other adverse events in connection with our projects, including those associated with the equipment we purchase from third parties. Additionally, there can be no assurance that market demand will absorb our manufacturing capacity or that our marketing capabilities will be successful. As a result, we may not be able to realize revenues and profits based upon the expected capacity, or we may experience delays or reductions in these revenues and profits, and our business could be materially adversely affected.

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

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

There is no assurance that the market will accept our products once commercial-scale manufacturing has been achieved which could have an adverse affect on our business

There can be no assurance that products based on our technologies will be perceived as being superior to existing products or new products being developed by competing companies or that such products will otherwise be accepted by consumers. The market prices for products based on our technologies may exceed the prices of competitive

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

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

We will be competing with firms, both domestic and foreign, that perform research and development, as well as firms that manufacture and sell solar products. In addition, we expect additional potential competitors to enter the markets for solar products in the future. Some of these current and potential competitors are among the largest industrial companies in the world with longer operating histories, greater name recognition, access to larger customer bases, well-established business organizations and product lines and significantly greater resources and research and development staff and facilities. There can be no assurance that one or more such companies will not succeed in developing technologies or products that will become available for commercial sale prior to our products, that will have performance superior to products based on our technologies or that would otherwise render our products noncompetitive. If we fail to compete successfully, our business would suffer and we may lose or be unable to gain market share.

The loss of strategic relationships used in the development of our products and the systems and components to our planned manufacturing system could impede our ability to complete and produce our product and/or our initial manufacturing system and may have a material adverse affect on our business

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

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

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

Higher raw material costs could negatively impact our cost of goods and our ability to successfully develop our products and technologies which could have a material adverse affect on our business

Higher costs for certain raw materials and commodities, principally glass, resin-based polymers and industrial gases, as well as higher energy costs, could negatively impact our cost of operations. While we have developed strategies to mitigate or partially offset the impact of higher raw material, commodity and energy costs, there can be no assurances such measures will be successful. In addition, no assurances can be given that the magnitude and duration of these cost increases or any future cost increases will not have a larger adverse impact on our profitability and consolidated financial position than currently anticipated. As part of our planned research and development activities, we are attempting to reduce costs through improved automation and substitution strategies. There can be no assurances that we will succeed in these future cost-reduction efforts, which may be essential for the continued development of our competitive presence.

Standards For Compliance With Section 404 Of The Sarbanes-Oxley Act Of 2002 Are Uncertain, And If We Fail To Comply In A Timely Manner, Our Business Could Be Harmed And Our Stock Price Could Decline

Rules adopted by the SEC, pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 require annual assessment of our internal control over financial reporting, and attestation of our assessment by our independent registered public accountants. The standards that must be met for management to assess the internal control over financial reporting as effective are new and complex, and require significant documentation, testing and possible remediation to meet the detailed standards and will impose significant additional expenses on us. We may encounter problems or delays in completing activities necessary to make an assessment of our internal control over financial reporting. In addition, the attestation process by our independent registered public accountants is new and we may encounter problems or delays in completing the implementation of any requested improvements and receiving an attestation of our assessment by our independent registered public accountants. If we cannot assess our internal control over financial reporting as effective, or our independent registered public accountants are unable to provide an unqualified attestation report on such assessment, investor confidence and share value may be negatively impacted.

Our Common Stock Is Considered A “Penny Stock” And As A Result, Related Broker-Dealer Requirements Affect It’s Trading And Liquidity.

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

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

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

The Trading Market In our Common Stock Is Limited And May Cause Volatility In The Market Price.

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

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

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

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

We May Have Difficulty Raising Necessary Capital To Fund Operations As A Result Of Market Price Volatility For Our Shares Of Common Stock.

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

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

Because we have a limited operating history with limited revenues to date, you may consider any one of these factors to be material. Our stock price may fluctuate widely as a result of any of the above listed factors. In recent years, the securities markets in the United States have experienced a high level of price and volume volatility, and the market price of securities of many companies have experienced wide fluctuations that have not necessarily been related to the operations, performances, underlying asset values or prospects of such companies. For these reasons, our shares of common stock can also be expected to be subject to volatility resulting from purely market forces over which we will have no control. If our business development plans are successful, we may require additional financing to continue to develop and exploit existing and new technologies and to expand into new markets. The exploitation of our technologies may, therefore, be dependent upon our ability to obtain financing through debt and equity or other means.

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

None

Item 3. Defaults Upon Senior Securities

None.

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

None.

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Item 5. Other information

Changes to Plan of Operations

In response to the slowdown in the global economy affecting the credit and equities markets which has limited the Company's access to financing, in the period ended March 31, 2009, the Company began working to prepare an alternate plan of operations to better address these limitations. In an effort to reduce initial business development capital requirements the Company has worked to re-size planned manufacturing capacities to more closely match existing solar module sales agreements for product deliveries in 2010 and 2011. Through the implementation of revised plans the Company believes that initial production capacities could be reduced by approximately 50% from 25MW to approximately 13MW which the Company then anticipates could be scaled to approximately 20MW of production once fully optimized. While the Company continues to work to secure additional financing for its planned operations, it has implemented cost reductions to salaries, facility costs, and day to day operations which have resulted in a reduction in monthly operating costs by approximately 30% and the use of cash by approximately 45% compared to average monthly operating costs in the January and February periods 2009.

Marketable Production Prototype Machine and Facilities Sublease

Under the terms of an Expanded Use License Agreement dated October 12, 2005 between XsunX and MVSystems, Inc. the parties had agreed to build a machine to prove technology for intended resale and split any associated profits from the sale of the machine 50/50. This production machine was never brought operational due to the failure to meet contractual requirements of the machine by MVSystems, and as of the date of this report XsunX has never taken possession of the machine. Under the terms of a Separation Agreement between the parties dated May 30, 2008 MVSystems continues to have possession of the machine but advised the Company in April 2009 that it will not elect to exercise its purchase option for the machine which expired May 1, 2009. MVSystems further notified the Company that it would like to terminate its sub-lease rights of the Company's facilities and its possession of the machine under the Separation Agreement effective April 30, 2009. An inspection of the machine by the Company on April 30 resulted in the determination that the machine continues to fail to meet contractual requirements and XsunX refused to accept the termination of the sub-lease and handover of the machine to XsunX. On May 4, 2009 XsunX provided MVSystems a notice asserting that MVSystems is in material default of the terms of the Separation Agreement. The parties are discussing options to rectify the contractual obligation deficiencies, the handover of the machine to XsunX, the termination of the sub-lease, and continued cooperation by the parties in the marketing and sale of the machine.

Marketable Production Prototype Machine Sales Efforts

The Company received notice from MVSystems, Inc. in April 2009 that MVSystems was electing to not exercise its purchase rights under a Separation Agreement between the parties dated May 30, 2008 for the marketable prototype built by the parties for resale. Upon receipt of the notice the XsunX began efforts to market and sell the machine for its booked value of \$1,417,000. We are engaged in efforts to solicit buyers which have resulted in purchase inquires. The Company is scheduling on-site demonstrations with interested parties in efforts to sell the machine. While we believe that under these efforts the sale of the machine may occur we can not be assured that a sale of the machine will be finalized.

Marketable Production Prototype Sales Tax Dispute

Under a notice of default provided to XsunX in November 2008 by MVSystems, Inc., MVSystems has claimed that a sale of the production prototype machine to XsunX by MVSystems had occurred, and that state sales tax in the amount of approximately \$60,000 is due. XsunX disputes this claim. MVSystems subsequently filed a request with the State of Colorado Department of Revenue for a determination on this matter without the consent of XsunX and for

what the Company believes are strategic purposes related to the parties' ongoing dispute over the machine. In March 2009 XsunX received notice from the State of Colorado offering determination that a sale had occurred and that sales tax and penalties in the amount of approximately \$91,000 were due on what XsunX believes to be an incorrect basis cost for the machine of \$1,775,000. The Company believes that the tax auditor's findings contain material faults related to the interpretation of the transaction as a result of the information provided by MVSystems in their determination request. On April 10, 2009 the Company filed a protest and hearing request disputing the findings of the tax auditor and requested that the total tax liability determination be reversed. As of the date of this report we have not received a response from the Colorado State tax auditor office. While we believe that the material facts outlined within the auditor's determination were based on information interpreted incorrectly we have assigned a contingency in the amount of \$72,800 for tax on the actual basis cost of the machine of \$1,417,000 for payment of this tax.

Reversal of Accounts Payable Invoice

In October 2008 the Company received an invoice in the amount of \$2,500,000 related to the design and construction of thin film deposition equipment under a purchase order between a vendor and the Company. While the Company worked with the vendor to verify and approve the contractual compliance of the deliverables associated with the invoice the Company reported this invoice as a liability in its quarterly report for the period ended December 31, 2008 on Form 10Q. We have completed a review of the deliverables and the vendor's compliance with contractual requirements and have determined that the deliverables under the invoice do not meet the required contractual specifications. For the period ended March 31, 2009 the Company has reversed the \$2,500,000 accounts payable liability. Manufacturing Equipment in Progress has been reduced by \$2,500,000. The Company may re-book this liability subject to the receipt of deliverables meeting the requirements under the purchase agreement.

Facility Transactions

Effective April 1, 2009 the Company reduced its leased facilities at its Aliso Viejo, CA offices by approximately 50%. This resulted in associated reductions to monthly lease and facility expenses totaling approximately \$2,000 leaving a monthly lease and facility liability of approximately \$1,400.

The Company and Merix Corp., its landlord for the Company's facilities located at its 23365 Halsey, Wood Village Oregon have agreed to the application of approximately \$99,000 in monthly lease and facility over-payments made by XsunX to Merix under monthly lease and facility billings that over stated actual insurance and property tax liabilities. This credit was applied to accrued monthly facility lease obligation in the period ended March 31, 2009.

Adjustments to Sales Agreements

The Company has previously disclosed that it had entered into sales agreements valued at approximately \$47 million dollars for the delivery of 19 megawatts of solar modules spanning the 2009 and 2010 calendar periods. As of the date of this report these agreements have been modified to provide for a change in delivery periods and pricing. The revised agreements now have an aggregate value of approximately \$43 million and provide for the delivery of solar modules to spanning the 2010 and 2011 calendar periods.

Employee Incentive Option Grants

During the period ended March 31, 2009, and in connection with the Company's policy to incentivize employees whose contribution is deemed to influence the Company's efforts to prepare, install, and operate solar module manufacturing capabilities, and as part of reductions to salaries the Company authorized employment incentive option grants to the following employees at an exercise price per share of \$0.16. The options have a 5 year exercise terms and vest in conjunction with employment and performance milestones based vesting schedule as described below:

| Name | Date of Grant | Amount | Type of Grant | Exercise Price | Term |
|-----------------|----------------|-----------|---------------|----------------|-------|
| Vanessa Watkins | March 31, 2009 | 115,000 | Incentive | \$ 0.16 | 5 yr. |
| Joseph Grimes | March 31, 2009 | 2,500,000 | Incentive | \$ 0.16 | 5 yr. |
| Robert G. Wendt | March 31, 2009 | 2,500,000 | Incentive | \$ 0.16 | 5 yr. |

The vesting schedule for Vanessa Watkins is as follows:

The option shall become exercisable in the following amounts upon the delivery and/or achievement by the optionee of the following performance milestones as they may relate to the Company's phased build out plan for a solar module manufacturing facility:

- (a) 38,333 shares shall vest on April 1, 2009 and thereafter 38,333 shall vest and become exercisable at the rate of 38,333 shares per year of continuous employment.

The vesting schedule for Mr. Grimes and Mr. Wendt is as follows:

The option shall become exercisable in the following amounts upon the delivery and/or achievement by the optionee(s) of the following employment and performance milestones:

- (a) 208,333 shares shall vest on April 1, 2009 and thereafter 208,333 shall vest per each XsunX fiscal calendar quarter of continuous employment from the date of grant.
- (b) In the event of a sale or merger of all or substantially all of the Company's assets to an acquiring party following which the Company would not be a surviving operating entity, the Company will provide Optionee a fifteen (15) day prior notice of such proposed event providing for immediate vesting of all remaining unvested Options.
- (c) All remaining unvested Options shall vest and become exercisable upon the assembly and third party validation of a functioning XsunX manufactured solar module producing a 10% frame to frame average DC power conversion rating under standard test conditions (STC), and the subsequent sale and delivery of a solar module manufactured by XsunX meeting similar specifications.

The vesting schedule for Vanessa Watkins is as follows:

The option shall become exercisable in the following amounts upon the delivery and/or achievement by the optionee of the following performance milestones as they may relate to the Company's phased build out plan for a solar module manufacturing facility:

- (a) 38,333 shares shall vest on April 1, 2009 and thereafter 38,333 shall vest and become exercisable at the rate of 38,333 shares per year of continuous employment.

Item 6. Exhibits and reports on Form 8-K -

1. The following is a list of Current Reports filed by the Company in the period ended March 31, 2009. These reports are filed as part of this report:

| Reports on Form 8-K: | Date Filed |
|--|---------------|
| Report on Form 8-K related to a letter to shareholders explaining filing issuer status. | 1/7/2009 |
| Report on Form 8-K related to a press release announcing a 4MW sales order. | 1/15/2009 |
| Report on Form 8-K related to a press release letter to shareholders providing an overview of the topics discussed in an open call conference with shareholders by management. | 2/19/2009 |

The following is a list of Current Reports on Form 8-K filed by the Company subsequent to the period ended March 31, 2009. These reports are filed as part of this report:

| | |
|--|-----------|
| Report on Form 8-K related to the appointment by the Company's board of principal officers. | 4/21/2009 |
| Amended Report on Form 8-K/A related to the appointment by the Company's board of principal officers amended to include press release exhibit announcing appointments. | 4/21/2009 |

2. Exhibits:

| EXHIBIT | DESCRIPTION |
|---------|---|
| 10.1 | Press release announcing 4MW sales order. (1) |
| 10.2 | Press release letter to shareholders regarding conference call with shareholders. (2) |
| 10.3 | Press release announcing appointment of principal officers. (3) |
| 31.1 | Sarbanes-Oxley Certification |
| 31.2 | Sarbanes-Oxley Certification |
| 32.1 | Sarbanes-Oxley Certification |
| 32.2 | Sarbanes-Oxley Certification |

(1) Incorporated by reference to exhibits included with the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission dated January 15, 2009.

(2) Incorporated by reference to exhibits included with the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission dated February 19, 2009.

(3) Incorporated by reference to exhibits included with the Company's Current Report on Form 8-K/A filed with the Securities and Exchange Commission

dated April 21, 2009.

| EXHIBIT | DESCRIPTION | LOCATION |
|---------|--|-------------------|
| 31.1 | Certifications of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Certification Act of 2002 | Provided herewith |
| 31.2 | Certifications of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Certification Act of 2002 | Provided herewith |
| 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 | Provided herewith |
| 32.2 | Certification Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of the Sarbanes-Oxley Certification Act Of 2002 | Provided herewith |

SIGNATURES

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

XSUNX, INC.

Dated: May 18, 2009

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

Dated: May 18, 2009

By: /s/ Jeff Huitt
Jeff Huitt
Chief Financial Officer and Principal
Financial and Accounting Officer