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XSUNX INC
Form 10QSB
February 22, 2005

FORM 10-QSB
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 December 31, 2004

Commission file number: 000-29621

XSUNX, INC.

(Exact name of registrant as specified in its charter)

Colorado 84-1384159

(State of incorporation) (I.R.S. Employer Identification No.)

65 Enterprise, Aliso Viejo, CA 92656

(Address of principal executive offices) (Zip Code)

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

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:

Title of each class: None

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of February 18, 2004 the number of shares outstanding of the registrant's only class of common stock was 120,010,139

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

Table of Contents

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PART I - FINANCIAL STATEMENTS	PAGE
Item 1. Condensed Consolidated Financial Statements.....	3
Independent Auditor's Report.....	F-1
Balance Sheets December 31, 2004 (unaudited) and September 30, 2004.....	F-2
Statements of Operations for the Three Months ended December 31, 2004 and 2003 (unaudited) and the period February 25, 1997 (inception) to December 31, 2004.....	F-3
Statements of Stockholders Equity for the period February 25, 1997 (inception) to December 31, 2004 (unaudited).....	F-4
Statements of Cash Flows for the Three Months ended December 31, 2004 and 2003 (unaudited) and the period February 27, 1997 (inception) to December 31, 2004.....	F-5
Notes to Condensed Consolidated Financial Statements (Unaudited).....	F-6
Item 2. Management's Discussion and Analysis or Plan of Operation.....	4
Item 3. Controls and Procedures.....	7
PART II - OTHER INFORMATION	
Item 1. Legal Proceedings	7
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.....	7
Item 3. Defaults upon Senior Securities.....	8
Item 4. Submission of Matters to a Vote of Security Holders.....	8
Item 5. Other Information.....	8
Item 6. Exhibits.....	8
Signatures.....	9

2

PART I. FINANCIAL STATEMENTS

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

XSUNX
(A DEVELOPMENT STAGE COMPANY)

FINANCIAL STATEMENTS

December 31, 2004
(UNAUDITED)

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

ACCOUNTANTS' REVIEW REPORT

Board of Directors
XSUNX, Inc.
Denver, CO

We have reviewed the accompanying balance sheet of XSUNX, Inc. (A Development Stage Company) as of December 31, 2004 and the related statements of operations for the three-months ended December 31, 2004 and 2003 and the period February 27, 1997 (inception) to December 31, 2004 and cash flows and stockholders' equity for the three-months ended December 31, 2004 and 2003 and for February 25, 1997 (inception) to December 31, 2004 included in the accompanying Securities and Exchange Commission Form 10-QSB for the period ended December 31, 2004. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of person responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States and standards of the PCAOB, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements for them to be in conformity with accounting principles generally accepted in the United States.

We have previously audited, in accordance with auditing standards generally accepted in the United States, the balance sheet as of September 30, 2004, and

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the related statements of operations, stockholders' equity and cash flows for the year then ended (not presented herein). In our report dated December 13, 2003, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying balance sheets as of December 31, 2004 is fairly stated in all material respects in relation to the balance sheet from which it has been derived.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, conditions exist which raise substantial doubt about the Company's ability to continue as a going concern unless it is able to generate sufficient cash flows to meet its obligations and sustain its operations. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Michael Johnson & Co., LLC
Michael Johnson & Co., LLC
Denver, CO
February 16, 2005

F-1

XSUNX, INC.
(A Development Stage Company)
Balance Sheets
(Unaudited)

	December 31, 2004

ASSETS:	
Current assets:	
Cash	\$ 329,323
Prepaid Expenses	20,000

Total current assets	349,323

Fixed assets:	
Office Equipment	2,270

Total fixed assets	2,270

Other assets:	
Patents	10,000
Deposit - Lease	2,500

Total other assets	12,500

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TOTAL ASSETS	\$ 364,093
=====	
LIABILITIES AND STOCKHOLDERS' EQUITY:	
Current Liabilities:	
Accounts Payable	\$ 76,210
Accrued Expenses	5,753
Notes Payable	-

Total current liabilities	81,963

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; 119,943,649 shares issued and outstanding at December 31, 2004 and 111,298,148 outstanding at December 31, 2003	3,575,464
Common Stock Warrants	1,200,000
Deficit accumulated during the exploratory stage	(4,493,334)

Total stockholders' profit (deficit)	282,130

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 364,093
=====	

See Accountants Review Report

F-2

XSUNX, INC.
(A Development Stage Company)
Statements of Operations
(Unaudited)

	Three-Months Ended December 31,		Feb. 25, 1997 (Inception) to December 31, 2004
	2004	2003	2004
	-----	-----	-----
Revenue	\$ -	\$ -	\$ -
Sales	-	-	-
-----		-----	
Total Revenue	-	-	-
-----		-----	
Expenses:			
Abandoned Equipment	-	-	808
Advertising	1,860	-	1,860

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Bank Charges	190	-	2,303
Consulting	-	-	1,024,039
Depreciation	-	-	3,178
Directors' Fees	-	-	11,983
Due Diligence	-	-	45,832
Equipment Rental	-	-	1,733
Impairment loss	-	-	923,834
Legal & Accounting	9,124	5,346	197,484
Licenses & Fees	-	-	6,410
Meals & Entertainment	-	112	4,119
Office Expenses	1,405	2,621	20,604
Officer's Salaries	40,885	27,500	540,971
Postage & Shipping	174	144	3,391
Printing	39	129	5,619
Public Relations	7,189	465	118,155
Research & Development	98,897	-	228,390
Rent	1,500	2,905	18,463
Taxes	-	-	4,657
Telephone	1,004	641	35,819
Transfer Agent Expense	1,759	1,550	18,084
Travel	961	222	63,894
Warrant Option Expense	-	-	1,200,000
	-----	-----	-----
Total Operating Expenses	164,987	41,635	4,481,630
	-----	-----	-----
Other Income (Expense)			
Interest Expense	-	-	71,597
Interest Income	-	-	(22)
Returned Merchandise	(98)	-	(98)
Forgiveness of Debt	-	-	(59,773)
	-----	-----	-----
Total Other Income/Expense	(98)	-	11,704
	-----	-----	-----
Net (Loss)	\$ (164,889)	\$ (41,635)	\$ (4,493,334)
	-----	-----	-----
Per Share Information:			
Weighted average number of common shares outstanding	115,497,996	111,248,148	
	-----	-----	
Net Loss per Common Share	*	*	
	-----	-----	
* Less than \$.01			

See Accountants Review Report

F-3

XSUNX, INC.
(A Development Stage Company)
Statements of Cash Flows
(Unaudited)

Indirect Method

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	Three-Months Ended December 31,	
	2004	2003
	-----	-----
Cash Flows from Operating Activities:		
Net Loss	\$ (164,889)	\$ (41,000)
Adjustments to reconcile net loss to cash used in operating activities:		
Issuance of Common Stock for Services	-	
Issuance of Common Stock Warrants	-	
(Increase) Decrease in Deposits	-	(1,000)
Decrease in Prepaid Expense	-	
Increase (Decrease) in Accrued Expenses	(155)	27,000
Increase (Decrease) in Accounts Payable	(14,045)	10,000
	-----	-----
Net Cash Flows Used for Operating Activities	(179,089)	(4,000)
	-----	-----
Cash Flows from Investing Activities:		
Purchase of Equipment	-	
Purchase of Intangible Assets	-	
	-----	-----
Net Cash Flows Used for Investing Activities	-	
	-----	-----
Cash Flows from Financing Activities:		
Proceeds from Notes Payable	-	5,000
Issuance of Common Stock	471,068	
	-----	-----
Net Cash Flows Provided by Financing Activities	471,068	5,000
	-----	-----
Net Increase (Decrease) in Cash	291,979	
	-----	-----
Cash and cash equivalents - Beginning of period	37,344	
	-----	-----
Cash and cash equivalents - End of period	\$ 329,323	\$
	=====	=====
 Supplemental Disclosure of Cash Flow Information		
Cash Paid During the Year for:		
Interest	\$ -	\$
	=====	=====
Income Taxes	\$ -	\$
	=====	=====
 NON-CASH TRANSACTIONS		
Common stock issued in exchange for services	\$ -	\$
	=====	=====

See Accountants Review Report

F-4

XSUNX, INC.
(A Development Stage Company)

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Statement of Stockholders' Equity (Deficit) December 31, 2004

(Unaudited)

	Common Stock # of Shares	Amount	Common Stock Warrants
	-----	-----	-----
Balance - September 30, 1999	753,148	1,894,419	-
Issuance of stock for cash 9/00	15,000	27,000	-
Net Loss for year	-	-	-
Balance - September 30, 2000	768,148	1,921,419	-
Extinguishment of debt	-	337,887	-
Net Loss for year	-	-	-
Balance - September 30, 2001	768,148	2,259,306	-
Net Loss for year	-	-	-
Balance - September 30, 2002	768,148	2,259,306	-
Issuance of stock for Assets 7/03	70,000,000	3	-
Issuance of stock for Cash 8/03	9,000,000	225,450	-
Issuance of stock for Debt 9/03	115,000	121,828	-
Issuance of stock for Accruals 9/03	115,000	89,939	-
Issuance of stock for Services 9/03	31,300,000	125,200	-
Net Loss for year	-	-	-
Balance - September 30, 2003	111,298,148	2,821,726	-
Issuance of stock for cash 3/04	181,750	21,071	-
Issuance of stock for cash 4/04	217,450	22,598	-
Issuance of stock for cash 5/04	254,956	34,669	-
Issuance of stock for cash 6/04	694,659	96,306	-
Issuance of stock for cash 7/04	157,649	21,421	-
Issuance of stock for cash 8/04	57,000	5,133	-
Issuance of stock for cash 9/04	1,174,500	81,472	-
Issuance of Common Stock Warranties	-	-	1,200,000
Net Loss for Year	-	-	-
Balance - September 30, 2004	114,036,112	3,104,396	1,200,000
Issuance of stock for cash	5,907,537	471,068	-
Net Loss for Period	-	-	-
Balance - December 31, 2004	119,943,649	\$ 3,575,464	\$ 1,200,000
	=====	=====	=====

See Accountants Review Report

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XSUNX, INC.
(A Development Stage Company)
Notes to Financial Statements
December 31, 2004
(Unaudited)

Note 1 - Presentation of Interim Information:

In the opinion of the management of XSUNX, Inc., the accompanying unaudited financial statements include all normal adjustments considered necessary to present fairly the financial position as of December 31, 2004 and the results of operations for the three-months ended December 31, 2004 and 2003 and for the period February 25, 1997 (inception) to December 31, 2004, and cash flows for the three-months ended December 31, 2004 and 2003 and the for the period February 25, 1997 (inception) to December 31, 2004. Interim results are not necessarily indicative of results for a full year.

The financial statements and notes are presented as permitted by Form 10-Q, and do not contain certain information included in the Company's audited financial statements and notes for the fiscal year ended September 30, 2004.

Note 2 - Going Concern:

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

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

The Company has made substantial investments this last year in the development of intellectual property assets as part of a business-restructuring plan. The purpose of these investments was to acquire patented solar electric glass technology. The Company believes that its patented solar electric technology has a number of marketing opportunities in the multi-billion dollar worldwide architectural glass markets.

F-6

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

CAUTIONARY AND FORWARD LOOKING STATEMENTS

In addition to statements of historical fact, this Form 10-KSB contains forward-looking statements. The presentation of future aspects of XsunX, Inc. ("XsunX", the "Company" or "issuer") found in these statements is subject to a number of risks and uncertainties that could cause actual results to differ materially from those reflected in such statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. Without limiting the

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generality of the foregoing, words such as "may", "will", "expect", "believe", "anticipate", "intend", or "could" or the negative variations thereof or comparable terminology are intended to identify forward-looking statements.

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

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

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

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

The Company undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date hereof. Readers should carefully review the factors described in other documents the Company files from time to time with the Securities and Exchange Commission, including the Quarterly Reports on Form 10-QSB and Annual Report on Form 10-KSB filed by the Company in 2004 and any Current Reports on Form 8-K filed by the Company.

CURRENT OVERVIEW

XsunX, Inc. is developing Power Glass(TM) - an innovative solar technology that allows glass windows to produce electricity from the power of the sun. This process for producing electricity is known as Photovoltaics. Photovoltaic ("PV") is the science of capturing and converting solar energy into electricity.

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Using patented solar cell design and manufacturing processes, the Company is focused on the development of very thin semi-transparent coatings on thin-film flexible plastics that create large area monolithic solar cell structures that you can see through. This semi-transparency makes Power Glass(TM) glazing desirable for placing over glass, plastics, and other see-through structures.

The Company's strategy is to complete the development and commercialization of its Power Glass(TM) process and enter into licensing agreements with channel partners who will manufacture and distribute products made with the XsunX solar electric glass technology. In this manner, it is anticipated that glass manufacturers will incorporate the Power Glass(TM) technology into their manufacturing process as an "original equipment manufacturer" (OEM) and sell the finished product to their consumers.

For the period ended December 31, 2004, the Company had and continues to focus on the development and refinement of commercially appealing solar cell designs, proprietary manufacturing processes and facilities design that could be provided to our future licensees as turn-key solutions for the mass production of Power Glass(TM) films. A large part of the Company's investment capital is used for product development. However, this may begin to shift towards marketing, sales, and business development in this new fiscal year ending September 30, 2005.

The Company intends to continue to make investments in the commercial development of its patents and evolving technologies through the course of the next year. To finance these development efforts we are currently engaged in on going capital formation efforts to fund the Company's projected deficits for development costs in the current year. The Company intends to continue to fulfill its working capital requirements through the sale of Common Stock. A majority of the investment proceeds will be allocated for the commercial development of its Power Glass(TM) product line.

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.

RESULTS OF OPERATIONS FOR THE THREE-MONTH PERIOD ENDED DECEMBER 31, 2004 COMPARED TO THE SAME PERIOD IN 2003

The Company generated no revenues in the period ended December 31, 2004 as well as for the same period in 2003.

5

The Company incurred operating expenses totaling \$164,987 for the three months ending December 31, 2004 compared to \$41,635 for the same period in 2003. Primary sources for the increase to operating expense of \$123,352 include: an increase of \$98,897 in Research and Development activities, and an increase of \$24,455 in General and Administrative expenses which include new expenses associated with an expansion of costs related to the change in operations necessary for the development of the Company's new business plan as a developer and provider of semi-transparent solar electric glazing technologies.

The net loss for the three months ending December 31, 2004 was (\$164,889) as compared to a net loss of (\$41,635) for the same period 2003. The large increase of \$123,245 was substantially due to an increase in research and development expenditures of \$98,897 which is anticipated to continue to increase for the foreseeable future as the Company furthers efforts to complete the

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commercial development of a licensable process for the manufacture of semi-transparent solar electric glazing technologies.

LIQUIDITY AND CAPITAL RESOURCES

The Company had cash at December 31, 2004 of \$329,323 and prepaid expenses in the amount of \$20,000 as compared to cash of \$37,344 and prepaid expenses in the amount of \$20,000 as of September 30, 2004. The Company had net working capital of \$267,360 as compared to a working capital (deficit) of \$(39,286) at December 31, 2003 and a working capital (deficit) of \$(38,819) at September 30, 2004. Cash flow used in operating activities during the three-month period ended, December 31, 2004, was \$179,089 as compared to using \$4,693 for the same period 2003. This increase of cash used in operations of \$174,396 was entirely a result of an increase in research and development, general and administrative expenses in the commercial development of its new business objectives.

For the three-months ended December 31, 2004, the Company's capital needs have been met from the proceeds of a series of private placements of Common Stock made by the Company. The Company completed private placements of its common stock pursuant to Regulation S totaling \$471,068 in the quarter ended December 31, 2004 as compared to \$0.00 for the same period 2003.

We had, at December 31, 2004, cash and cash equivalents of \$329,323 and net working capital of \$267,360. We anticipate that there will not be sufficient cash generated from operations in the current year necessary to fund our current and anticipated cash requirements. We plan to obtain additional financing from equity and debt placements.

NEED FOR ADDITIONAL FINANCING

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

6

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

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

GOING CONCERN

The Company is in the development stage and as of the period ending December 31, 2004, did not have any products for sale, and had not generated any revenue from sales or other operating activities. To date the Company's

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principal source of liquidity has been the private placement of equity securities and the issuance of notes payable. As such, the Company's ability to secure additional financing on a timely basis is critical to its ability to stay in business and to pursue planned operational activities.

Based on the foregoing and the Company's history of losses, the Company's financial statements for the three-month period ended December 31, 2004 include a going concern opinion from its outside auditors, which stated there "is substantial doubt" about our ability to continue operating as a "going concern."

ITEM 3. CONTROLS AND PROCEDURES

The Company's Chief Executive Officer and Chairman have evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this quarterly report and, based on this evaluation, have concluded that the disclosure controls and procedures are effective.

There have been no changes in the Company's internal control over financial reporting that occurred during the Company's first fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS - None.

ITEM 2. CHANGES IN SECURITIES -

In a private placement of the Company's common stock pursuant to Regulation S of the Act on November 8, 2004, the Company accepted an offer for the sale of 1,543,500 shares at a price of \$.11 per share, which raised gross proceeds of \$169,785.00. This offer and sale was completed on November 8, 2004.

7

In a private placement of the Company's common stock made by the Company that began on December 19, 2003 pursuant to Regulation S of the Act at a variable price equal to 27% of the five (5) day average closing bid price, the Company raised gross proceeds of \$108,518.77 from the sale of 1,636,800 shares during the quarter ending December 31, 2004. The total gross proceeds raised in this placement as of December 31, 2004 total \$210,905.47 from the sale of 2,620,550 shares. The Company is offering a total of 3,000,000 shares pursuant to this private placement, which has not been terminated and can be terminated at the discretion of the Company with three (3) days prior written notice to the purchaser.

In a private placement of the Company's common stock pursuant to Regulation S of the Act that began on August 26, 2004 at a variable price equal to 25% of the previous days closing bid price on the date of the purchase, the Company raised gross proceeds of \$192,764.35 from the sale 2,727,237 shares during the period ending December 31, 2004. The total gross proceeds raised in this offering as of December 31, 2004, total \$262,764.35 from the sale of 3,727,237 shares. This offering was terminated on December 1, 2004.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES - None.

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ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS - None.

ITEM 5. OTHER INFORMATION - None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K -

A. Exhibits:

31 Sarbanes-Oxley Certification
32 Sarbanes-Oxley Certification

B. Reports on Form 8-K: None.

8

SIGNATURES

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

Dated: February 18, 2004

XSUNX, INC.

By: /s/ Tom M. Djokovich

Tom M. Djokovich, Chief Executive
Officer, President, and acting Chief
Financial Officer

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

Directors

By: /s/ Tom Djokovich

Dated: February 18, 2004

Director, President, CEO and acting CFO

By: /s/ Thomas Anderson

Dated: February 18, 2004

Director

