XSUNX INC
Form 10-K
January 13, 2010
UNITED STATES

SECURITIES EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO
THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended September 30, 2009

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)

(949) 330-8060
(Registrant's Telephone Number)

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: Common Stock, no par value per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o NO x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o NO x

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), (2) has been subject to the filing requirements for at least the past 90 days. Yes x NO o

Check if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

(Check one):

o Large accelerated filer oAccelerated filer o Non-accelerated filer x Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) (Check one): Yes o NO x

As of September 30, 2009, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately $26,983,741 million based on the closing price as reported on the OTCBB.

As of January 12, 2010, there were 200,095,217 shares of the registrant's company stock outstanding.

XSUNX, INC.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and the Securities Act of 1933, as amended (the "Securities Act") which are subject to risks, uncertainties and assumptions that are difficult to predict. All statements in this Annual Report on Form 10-K, other than statements of historical fact, are forward-looking statements. These forward-looking statements are made pursuant to safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The forward-looking statements include statements, among other things, concerning our business strategy, including anticipated trends and developments in and management plans for, our business and the markets in which we operate; future financial results, operating results, revenues, gross margin, operating expenses, products, projected costs and capital expenditures; research and development programs; sales and marketing initiatives; and competition. In some cases, you can identify these statements by forward-looking words, such as "estimate", "expect", "anticipate", "project", "plan", "intend", "believe", "forecast", "foresee", "likely", "may", "should", "goal", "target", "might", and "continue", the negative or plural of these words and other comparable terminology. The forward-looking statements are only predictions based on our current expectations and our projections about future events. All forward-looking statements included in this Annual Report on Form 10-K are based upon information available to us as of the filing date of this Annual Report on Form 10-K. You should not place undue reliance on these forward-looking statements. We undertake no obligation to update any of these forward-looking statements for any reason. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance, or achievements to differ materially from those expressed or implied by these statements. These factors include the matters discussed in the section entitled "Item 1A: Risk Factors" and elsewhere in this Form 10-K. You should carefully consider the risks and uncertainties described under this section.

For further information about these and other risks, uncertainties and factors, please review the disclosure included in this report under Item 1A "Risk Factors."

PART I

Item 1. Business.

In this Report, we use the terms "Company," "XsunX," "we," "us," and "our," unless otherwise indicated, or the context otherwise requires, to refer to XsunX, Inc.

Organization

XsunX, Inc. ("XsunX," the "Company" or the "issuer") is a Colorado corporation formerly known as Sun River Mining Inc. ("Sun River"). The Company was originally incorporated in Colorado on February 25, 1997. Effective September 24, 2003, the Company completed a plan of reorganization and name change to XsunX, Inc.

Business Overview

In the fiscal year ended September 30, 2009 XsunX modified its previous plans to directly establish solar module manufacturing infrastructure. We have re-focused operations on the development of a cross-industry thin film solar manufacturing concept that we believe provides an opportunity for XsunX to establish a competitive advantage within the solar industry. Our current efforts are focused on the combination of highly developed thin film solar processes with state-of-the-art mature magnetic media thin film manufacturing technologies derived from the hard disc drive (HDD) industry to improve manufacturing output, increase cell efficiency and production yields, and lower the costs for the production of high efficiency Copper Indium Gallium (di) Selenide (CIGS) thin film solar cells.

It is our belief that by leveraging the manufacturing processes from the HDD industry and adapting them to thin-film CIGS solar technologies, we can reduce the cost per watt for solar to well below $1 per watt, thereby making solar a viable alternative in the energy field. Furthermore, it is our belief that our expertise, experience and the proprietary technology we are developing in this area will allow us to seek joint ventures with larger companies thereby generating revenue streams through licensing fees and manufacturing royalties.

Re-Focus Plan of Operations

In late 2008, XsunX began investigating the viability of small area CIGS thin film solar manufacturing technology that would employ the use of high rate thin film manufacturing techniques successfully used within the magnetic media industry to produce hard disc drives (HDD). For decades, the HDD industry has had to continually improve manufacturing output, and production yields, to lower the costs for the production of high efficiency magnetic media. In January 2009, XsunX began working directly with the HDD industry to validate the possibility of transitioning this manufacturing technology to the thin film photovoltaic (TFPV) industry and more specifically for the manufacture of CIGS solar cells.

In February, 2009, XsunX and Intevac, Inc., a leading provider of magnetic media deposition equipment to the hard disk drive (HDD) industry, began to collaborate in the development of techniques and equipment for the production of commercially marketable processes and equipment for the manufacture of CIGS thin-film solar cells on small area wafers similar in size to traditional crystalline silicon wafers of approximately 5" squares. Through the successful combination of cross-industry specialties, XsunX plans to develop a new breed of thin film photovoltaic (TFPV) manufacturing techniques to produce CIGS based thin-film solar cells.

CIGS Thin Film Solar Devices

Copper Indium Gallium (di) Selenide (CIGS) exceeds all other thin film solar cell performance to date delivering nearly 20% conversions in laboratory environments. The Nation Renewable Energy Laboratories (NREL) believes that CIGS solar module efficiencies could easily match silicon performance while costing less to produce. It is this high efficiency low cost potential for CIGS, and its wide array of uses and applications, that provides the basis to drive the cost of energy production for alternative sources to unprecedented new lows. For this reason NREL views CIGS as a significant solar technology and supports continuous development and research efforts related to CIGS thin films. XsunX has found interest in its CIGS program at NREL and is working with NREL to establish a Cooperative Research and Development Agreement to assist in the commercialization process.

We believe that through the successful combination of small area processing techniques with the high rate processing techniques developed within the hard disc media industry , overall factory yields (total watts of production per day) can be increased thereby resulting in lower production costs while still delivering the full energy and low cost potential that CIGS based devices can offer.

CIGS: Current Manufacturing Limitations

Current techniques for the production of CIGS thin films do not leverage stationary small area, high rate, production technologies which allow for the precise control of thin film properties. Development and production of CIGS, and many other thin films like amorphous silicon (a-Si), have focused on the use of large area substrates or continuous moving roll-to-roll deposition methods. While CIGS holds the record for best thin film cell performance at nearly 20% in smaller area devices, scaling these laboratory results to large area devices have proved costly and difficult, resulting in much lower product efficiencies.

A number of manufacturers of CIGS today use large area or continuously moving roll-to- roll substrates in an effort to mass produce and then cut these large areas up into smaller wafer sized pieces for use in solar module assemblies. They sacrifice quality for quantity and the net results are products that deliver only fractions of the CIGS potential. Others employ manufacturing techniques that to date have yet to deliver the potential for low cost and high efficiency CIGS solar cells. Typically most commercially produced CIGS solar cells provide between 8% to 10% conversion efficiencies which leaves virtually 100% of the potential efficiencies untapped.

Rapid Small Area Processing vs. Large Panel Processing

Traditional economies-of-scale theory dictates that large panel processing decreases costs. Large volumes or output are achieved with each batch or panel that comes off a line. This is particularly true for amorphous silicon (a-Si) where 10 to 50 panels can be simultaneously processed is a single large batch system. However, the goal of single cell processing is to achieve similar production volumes but through speed. We believe that the benefits of rapid single cell processing over large panel processing include.

- Factory Floor Print: Large format panels require floor space and while real estate is less expensive than in the past the cost is still significant. In contrast single cell processing can be conducted in a facility that is significantly

smaller. Additionally much of the cost of a large facility is the recurring monthly utility bill which amplifies the problem. The cost of a large facility becomes even larger if clean rooms are required.

- Product Acceptability: CIGS is deposited in a substrate configuration and must have a top glass to achieve UL, IEC, and TUV certifications. Without a top glass the product will not meet the 20-30 year lifetime typical for the solar industry. As a result the final product panel weight will be significant. In contrast the single cells that are strung together can use a single tempered top glass and a thin moisture barrier back sheet (similar to a silicon solar cell panel). Not only is handling of the back sheet easier in production the resulting module can be up to ~1/2 the weight.
- Scrap: With large format processing, if there is a problem during processing the entire panel is scrapped leading to significant loss of production potential. As a result scraping is a significant problem for large format monolithically integrated solar panels. For a single cell with an area of approximately twenty five square inches (for the 125mm pseudo square), a processing problem results in scraping only about 1.45 Watts of product.
- Breakage: Silicon solar cells are very thin and fragile. This leads to losses resulting from breakage during manufacture and assembly. Our proposed CIGS cell deposition is done on stainless steel wafers. Stainless does not break.
- Large Defects: A large defect for large area deposition anywhere on the panel will require the entire panel to be scrapped because that defect will ‘drag’ the rest of the panel to virtually zero output. For single cell production the cell that encountered the defect can simply be removed during cell testing and performance sorting.
- Small Defects or Composition Variation: For a large area substrate, statistically there are more small area defects and compositional variations. These defects and compositional variations can cause slightly different performance from cell to cell across the large format monolithically integrated panel. The result is the entire panel is ‘drug’ down to the lowest current cell. For single cell processing, each cell is tested and binned (or sorted) according to efficiency and current prior to assembly thereby resulting in a more efficient use of a factories potential production capacities.

- Process Control: While all of the above are significant factors to consider when comparing large area to small area production, large area process control quite possibly could be the biggest differentiating feature between large monolithically integrated panels. Control of the manufacturing process over a large area, even with well controlled process such as sputtering has shown significant challenges.

CIGS Experience

Our staff experience includes nearly 15 years of thin film and CIGS experience in successful technology development, equipment design, and production of several million square feet CIGS products in a commercial production setting. Our Chief Technology Officer has worked side by side with leading researchers at NREL and in fact shares an R&D 100 award with NREL staff for efforts related to CIGS technology development.

Our resident XsunX thin film CIGS technologists and manufacturing experts are working jointly with a leading producer of manufacturing equipment utilized in the hard disc market to create a unique process of coupling small area deposition (approximately 5X5 inch squares), material control, and material transport technologies from the disk drive industry for use in the production of thin film CIGS solar cells. We are combining the expertise and years of technological improvements derived from the sophisticated hard disc drive manufacturing industry with XsunX staff experience in the thin film industry.

CIGS: Strategy and Differentiation

The XsunX approach is to capitalize on past commercialization experience of CIGS and to combine this experience with smaller area deposition within high rate hard disk drive (HDD) equipment. It is anticipated that the combination of these two principals will lead to solar conversion efficiency approaching that achieved in laboratories as well as achieving high yield and high throughput, similar to the HDD industry.

We are adapting sophisticated high rate production tools from the disk drive industry with process knowledge from the CIGS and thin film industry. By maintaining a relatively small deposition area, we believe reduces a significant challenge that has faced the CIGS industry in the past: maintaining cell performance while scaling production.

We believe that key advantages to the adaptation of high rate HDD technologies to CIGS thin film manufacture include:

The Ability to Leverage Previous Commercialization Experience Developed for CIGS Thin Films and the HDD Industry

- Not Starting from “Scratch”
- Lower Cost Re-Tooling of Existing Systems
- Maximizing:
  - ü Pre-existing Equipment Designs to Speed Development
  - ü Proven High Rate Hard Disk Drive Mass Material and Process Control Techniques
  - ü Small Area Process Controls to Improve Thin Film Quality
  - ü Reducing Time to Market Through the Use of Development Systems Sized to Match Commercial Production Systems – No Need to Scale System Architecture to Achieve Commercial Production

Applications for Thin Film CIGS Solar Cells

We believe that high efficiency flexible CIGS solar cells provide an immense opportunity for use in multiple market segments. The modular format of single thin film CIGS solar cells offers an opportunity to become the solar building blocks for a wide variety of applications including:

- Replacing Existing Silicon Wafers: A virtual drop in replacement for expensive and unpredictable silicon wafer costs. We believe this is a vast market opportunity to replace aging technology.
- Utility Scale Solar Fields: Due to the modular building block aspect of using wafers solar module size and power output can be tailored to deliver the needs of any size solar farm or application. The constraints of monolithic thin film technology no longer limit panel size.
- BIPV Products: High performance thin film flexible CIGS wafers can be designed into an array of building products including roofing materials, building facades, and glass.
- Residential Markets: Unlike lower performance thin film solutions, high performance CIGS modules deliver the energy density necessary to make residential applications economical.
- Consumer Products: A growing array of consumer products from hand held devices to vehicles and gadgets of all types have begun to integrate solar. Thin film CIGS wafers can be sized to meet the needs of these rapidly growing market segments.

Sales and Marketing

We have developed and have begun to implement a plan to offer joint venture manufacturing opportunities for regional well funded, manufacturing partners in a number of industry sectors. To date we have focused primarily on semiconductor and solar companies. Although XsunX focuses on the development of solar technology and products, we are not a systems or a machine manufacturer. Our plan is to license technology we develop that provides for a complete front end CIGS solar cell manufacturing process coupled with a back end process to convert the CIGS solar cells into solar modules. We have and intend to continue to develop relationships with equipment manufacturers that can build systems to our specifications thereby allowing us to offer turn-key manufacturing solutions to enable our joint venture companies to manufacturer CIGS small area cells quickly and inexpensively.

We anticipate that at the conclusion of the development of our CIGS technology, that we will generate revenue from an array of services and license fees from manufacturers that utilize our technologies. These revenue fees may include inception license fees and royalty streams based upon the efficiencies our unique CIGS technology, guidance for the conversion of new or existing facilities, production line equipment and systems design and markups, training and implementation, as well as R&D support, and product reliability expertise.

Intellectual Property

We plan to market license opportunities for our technology and not directly manufacture the solar technologies and related products that may employ the use of our thin film technologies. This business model requires that we develop and maintain intellectual property that includes both patented and proprietary technologies. We have licensed certain patented and patent pending technologies, and we are developing with the intent to file for patent protection certain other thin film manufacturing technologies. The following is an outline of certain patents and technologies we have acquired, licensed, or are developing:

In September 2003 the Company was assigned the rights to three patents as part of an Asset Purchase Agreement with Xoptix Inc., a California corporation. The patents acquired were No. 6,180,871 for Transparent Solar Cell and Method of Fabrication (Device), granted on January 30, 2001; No. 6,320,117 for Transparent Solar Cell and Method of Fabrication (Method of Fabrication), granted on November 20, 2001; and No. 6,509,204 for Transparent Solar Cell and Method of Fabrication (formed with a Schottky barrier diode and method of its manufacture), granted on January 21, 2003.

In May 2008 XsunX licensed certain patented and patent-pending technologies from MVSystems, Inc. providing XsunX a worldwide, non-exclusive, royalty-free, irrevocable, fully-paid up right and license, with the right to sublicense the following patents and patent application and any reissues, re-examinations, divisionals, continuations and extensions thereof: (a) U.S. Patent No. 6,488,777 B2; (b) U.S. Patent No. 6,258,408 B1; and (c) U.S. Patent App. No. 10/905,545 (Pub. No. US 2005/0150542 A1) (together, the “Patents”). The license limits XsunX to the use of the Patents for the development by XsunX of commercial-grade (i.e. ., web width 30 cm or more and nominal output exceeding 1 megawatt/year based on 1 shift operation) solar cells, photovoltaic technologies, solar cell panels and methods of manufacture. The license grants XsunX exclusive ownership of any improvements made by XsunX to the licensed patents. In April 2009 the Company received notice from MVSystems that U.S. Patent App. No. 10/905,545 (Pub. No. US 2005/0150542 A1) application referenced above had been rejected by the US Patent Office for various deficiencies. In August 2009 MVSystems notified the Company that it had amended its application and re-filed the amended patent application with the U.S Patent Office.

In the fiscal year ended September 30, 2009 we have begun the development of process technology and engineering efforts to adapt certain manufacturing technologies and systems utilized in the production of magnetic media for use to manufacture discreet (individual) thin film solar cells. As we continue to develop these new technologies, we may

actively seek patent protection for certain aspects related to methods and apparatus we develop. We can give no assurance that any such patent(s) will be granted for any process and manufacturing technology that we may develop individually or in conjunction with third parties.

We rely on trademark and copyright law, trade secret protection and confidentiality or license agreements with our employees, customers, partners and others to protect our proprietary rights. We have not been subject to any intellectual property claims.

Company History

XsunX is a Colorado corporation formerly known as Sun River Mining Inc. (“Sun River”). The Company was originally incorporated in Colorado on February 25, 1997. Effective September 24, 2003, the Company completed a Plan of Reorganization and Asset Purchase Agreement (the “Plan”).

Pursuant to the Plan, the Company acquired the following three patents from Xoptix, Inc., a California corporation for Seventy Million (70,000,000) shares of common stock (post reverse split one for twenty): No. 6,180,871 for Transparent Solar Cell and Method of Fabrication (Device), granted on January 30, 2001; No. 6,320,117 for Transparent Solar Cell and Method of Fabrication (Method of Fabrication), granted on November 20, 2001; and No. 6,509,204 for Transparent Solar Cell and Method of Fabrication (formed with a Schottky barrier diode and method of its manufacture), granted on January 21, 2003.

Pursuant to the Plan, the Company authorized the issuance of 110,530,000 (post reverse split) common shares. Prior to the Plan, the Company had no tangible assets and insignificant liabilities. Subsequent to the Plan, the Company completed its name change from Sun River Mining, Inc. to XsunX, Inc. The transaction was completed on September 30, 2003.

Government Contracts

There are no government contracts at this time.

Competitive Conditions

A number of thin film solar cell technologies have and are being developed by other companies. Such technologies include amorphous silicon, cadmium telluride, copper-indium-gallium-selenide (CIGS), and copper indium diselenide as well as advanced concepts in thin film crystalline silicon, and the use of organic materials. Given the benefit of time, investment, and advances in manufacturing technologies any of these competing technologies may be offered in formats delivering power similar or greater to technologies developed that may be developed by us, and they may also achieve manufacturing costs per watt lower than cost per watt to manufacture technologies developed by us.

In accessing the principal competitive factors in the market for solar electric power products, we use price per watt, stability and reliability, conversion efficiency, diversity in use applications, and other performance metrics such as scalability of manufacturing processes and the ability to adapt new technologies into cell designs and the manufacturing process without antiquation of existing infrastructure. If we do not compete successfully with respect to these or other factors, it could materially and adversely affect our business, results of operations, and financial condition.

A number of large companies are actively engaged in the development, manufacturing and marketing of solar electric power products. The seven largest TFPV cell suppliers are Q-Cells, Shell Solar, Sharp Corporation, BP Solar, Kyocera Corporation, First Solar, and Energy Conversion Devices, which together supply the significant portion of the current TFPV market. All of these companies have greater resources to devote to research, development, manufacturing and marketing than we do.

Other competitive factors lie in the current use of other clean, renewable energy technologies such as wind, ocean thermal, ocean tidal, and geo-thermal power sources and conventional fossil fuel based technologies for the production of electricity. We expect our primary competition will be within the solar cell marketplace itself. Barriers to entering the solar cell manufacturing industry include the technical know-how required to produce solar cells that maintain acceptable efficiency rates, the design of efficient and scalable manufacturing processes, and access to necessary manufacturing infrastructure.

Compliance with Environmental Laws and Regulations

The operations of the Company are subject to local, state and federal laws and regulations governing environmental quality and pollution control. Compliance with these regulations by the Company has required that we retain the use of consulting firms to assist in the engineering and design of systems related to equipment operations, management of industrial gas storage and delivery systems, and occupancy fire and safety construction standards to deal with emergency conditions. We do not anticipate that these costs will have a material effect on the Company’s operations or competitive position, and the cost of such compliance has not been material. The Company is unable to assess or predict at this time what effect additional regulations or legislation could have on its activities.

Employees and Consultants

As of the fiscal year ended September 30, 2009 we had 5 salaried employees. This represents a decrease of 5 employees over the same period ended 2008. The Company also engages consultants to perform specific functions that otherwise would require an employee. We have not experienced any work stoppages and we consider relations with our employees to be good.

Available Information

Our website address is www.xsunx.com. We make available on our website access to our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports that we have filed with the U.S. Securities and Exchange Commission ("SEC"). The information found on our website is not part of this or any other report we file with, or furnish to, the SEC.

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 Annual Report on Form 10-K, 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 years ended September 30, 2009 and 2008 was $10,634,133 million and $4,058,952 million, respectively. Net cash used for operations was $2,862,327 and $2,695,476 for the years ended September 30, 2009 and 2008, respectively. From inception through September 30, 2009, we had an accumulated deficit of $31,709,202.

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 expect that we will need to obtain additional financing to continue to operate our business, including capital expenditures to complete the development of marketable thin film manufacturing technologies, 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 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. 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, complete the development of marketable technologies, develop a 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 our business plan, including, without limitation, all aspects of our operations, 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 will 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.

If future products based on technologies we are developing 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