

XSUNX INC
Form 10-Q
May 13, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For The Quarterly Period Ended: March 31, 2013

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

For The Transition Period From _____ to _____

Commission File Number: 000-29621

XSUNX, INC.

(Exact name of registrant as specified in its charter)

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

65 Enterprise, Aliso Viejo, CA 92656

Edgar Filing: XSUNX INC - Form 10-Q

(Address of principal executive offices) (Zip Code)

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

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

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

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

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

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 13, 2013 was 356,362,351.

Table of Contents

TABLE OF CONTENTS

	PAGE
<u>PART I - FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	3
<u>Balance Sheets March 31, 2013 (unaudited) and September 30, 2012 (audited)</u>	3
<u>Statements of Operations for the Three Months and Six Months ended March 31, 2013 and 2012 (unaudited) and the period February 25, 1997 (inception) to March 31, 2013 (unaudited)</u>	4
<u>Statements of Shareholders' Deficit for the Six Months ended March 31, 2013 (unaudited)</u>	5
<u>Statements of Cash Flows for the Six Months ended March 31, 2013 and 2012 (unaudited) and the period February 25, 1997 (inception) to March 31, 2013 (unaudited)</u>	6
<u>Notes to Financial Statements (unaudited)</u>	7
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	13
<u>Item 3 Qualitative and Quantitative Disclosures About Market Risk</u>	16
<u>Item 4. Controls and Procedures</u>	17
<u>PART II - OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	18
<u>Item 1A. Risk Factors</u>	18
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	18
<u>Item 3. Defaults upon Senior Securities</u>	19
<u>Item 4. (Removed and Reserved)</u>	19
<u>Item 5. Other Information</u>	19
<u>Item 6. Exhibits</u>	21
<u>Signatures</u>	22

PART I – FINANCIAL INFORMATION**Item 1. Financial Statements.**

XSUNX, INC.

(A Development Stage Company)

BALANCE SHEETS

	March 31, 2013 (Unaudited)	September 30, 2012
ASSETS		
CURRENT ASSETS		
Cash	\$ 38,608	\$ 44,527
Prepaid expenses	41,088	162,186
Total Current Assets	79,696	206,713
PROPERTY & EQUIPMENT		
Office & miscellaneous equipment	35,853	35,853
Machinery & equipment	232,084	232,084
Leasehold improvements	17,500	17,500
Total Property & Equipment	285,437	285,437
Less accumulated depreciation	(229,999)	(206,178)
Net Property & Equipment	55,438	79,259
OTHER ASSETS		
Manufacturing equipment in progress	417,476	309,082
Security deposit	5,700	5,700
Total Other Assets	423,176	314,782
TOTAL ASSETS	\$ 558,310	\$ 600,754
LIABILITIES AND SHAREHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable	\$ 151,362	\$ 143,555
Credit card payable	1,566	2,623
Accrued expenses	200	840
Accrued interest on notes payable	23,063	40,243
Derivative liability	590,427	150,926
Convertible promissory notes, net of \$337,167 and \$104,035 in discounts	237,807	63,465

Edgar Filing: XSUNX INC - Form 10-Q

Unsecured promissory note	—	350,000
Total Current Liabilities	1,004,425	751,652
TOTAL LIABILITIES	1,004,425	751,652
SHAREHOLDERS' DEFICIT		
Preferred stock, \$0.01 par value; 50,000,000 authorized preferred shares	—	—
Common stock, no par value; 500,000,000 authorized common shares 348,442,652 and 281,233,150 shares issued and outstanding, respectively	28,531,794	27,341,594
Additional paid in capital	5,335,248	5,335,248
Paid in capital, common stock warrants	3,808,053	3,764,913
Deficit accumulated during the development stage	(38,121,210)	(36,592,653)
TOTAL SHAREHOLDERS' DEFICIT	(446,115)	(150,898)
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT	\$558,310	\$600,754

The accompanying notes are an integral part of these financial statements

XSUNX, INC.

(A Development Stage Company)

STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended		Six Months Ended		From
	March 31,	March 31,	March 31,	March 31,	Inception
	2013	2012	2013	2012	February 25,
					1997
					through
					March 31,
					2013
REVENUE	\$—	\$—	\$—	\$—	\$14,880
OPERATING EXPENSES					
Selling, general and administrative expenses	160,799	167,666	289,805	371,927	18,812,151
Research and development	15,676	27,692	30,676	59,970	3,317,303
Depreciation and amortization expense	9,169	8,737	23,821	17,825	753,353
TOTAL OPERATING EXPENSES	185,644	204,095	344,302	449,722	22,882,807
LOSS FROM OPERATIONS BEFORE OTHER INCOME/(EXPENSES)	(185,644)	(204,095)	(344,302)	(449,722)	(22,867,927)
OTHER INCOME/(EXPENSES)					
Interest income	—	—	—	—	445,537
Gain on sale of asset	—	—	—	—	16,423
Impairment of assets	—	—	—	—	(7,285,120)
Write down of inventory asset	—	—	—	—	(1,177,000)
Gain on legal settlement	—	—	—	—	1,279,580
Loan and commitment fees	—	—	(8,966)	—	(7,096,690)
Forgiveness of debt	—	—	—	—	592,154
Loss on conversion of debt	(544,379)	1,500	(670,850)	(212,935)	(1,112,372)
Gain/(loss) on change in derivative	(106,178)	(31,035)	(198,645)	6,599	(158,676)
Other, non-operating	—	—	—	—	(5,215)
Penalties	—	—	—	(22)	(619)
Interest expense	(157,725)	(55,055)	(305,794)	(81,058)	(751,285)

Edgar Filing: XSUNX INC - Form 10-Q

TOTAL OTHER INCOME/(EXPENSES)	(808,282)	(84,590)	(1,184,255)	(287,416)	(15,253,283)
NET LOSS	\$(993,926)	\$(288,685)	\$(1,528,557)	\$(737,138)	\$(38,316,848)
BASIC AND DILUTED LOSS PER SHARE	\$(0.00)	\$(0.00)	\$(0.00)	\$(0.00)	
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING					
BASIC AND DILUTED	331,618,588	235,446,943	309,237,827	234,528,910	

The accompanying notes are an integral part of these financial statements

XSUNX, INC.

(A Development Stage Company)

STATEMENT OF SHAREHOLDERS' DEFICIT

(Unaudited)

	Preferred Stock	Common Stock		Additional Paid-in	Stock Options/ Warrants	Deficit Accumulated during the Development	Total
Balance at September 30, 2012 (Audited)	— \$ —	281,233,150	\$27,341,594	\$5,335,248	\$3,764,913	\$(36,592,653)	\$(150,898)
Issuance of common stock for conversion of notes and interest	—	28,437,711	254,538	—	—	—	254,538
Write down of fair value of notes converted	—	—	160,226	—	—	—	160,226
Issuance of common stock for debt	—	38,271,791	765,436	—	—	—	765,436
Issuance of common stock for commitment fees	—	500,000	10,000	—	—	—	10,000
Stock compensation cost	—	—	—	—	43,140	—	43,140
Net loss for the six months ended March 31, 2013	—	—	—	—	—	(1,528,557)	(1,528,557)
Balance at March 31, 2013	— \$ —	348,442,652	\$28,531,794	\$5,335,248	\$3,808,053	\$(38,121,210)	\$(446,115)

The accompanying notes are an integral part of these financial statements

XSUNX, INC.

(A Development Stage Company)

STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended March 31, 2013	March 31, 2012	February 25,1997 through March 31, 2013
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	\$ (1,528,557) \$(737,138)	\$(38,121,210)
Adjustment to reconcile net loss to net cash			
used in operating activities			
Depreciation & amortization	23,821	17,825	753,353
Common stock issued for services and other expenses	—	16,000	2,160,232
Common stock issued for rent	—	—	13,750
Stock option and warrant expense	43,140	129,834	4,082,243
Commitment fees	8,966	—	5,780,273
Asset impairment	—	—	7,285,120
Write down of inventory asset	—	—	1,177,000
(Gain)/loss on conversion and settlement of debt	670,850	212,935	645,411
Gain on sale of asset	—	—	(16,423)
Contributed capital and services	—	80,770	97,035
Settlement of lease	—	—	59,784
Change in derivative liability	198,645	(6,599)	158,676

&nbRIGHT: black
1px solid;

BORDER-TOP: black
 1px solid;
 BORDER-LEFT:
 black 1px solid;
 BORDER-BOTTOM:
 black 1px solid">
 SP (create account)

		SSP	SSP
	Active	SP and SSP	
		SP	SP
Bargained Employee		Neither Plan	SSP (create account)
		SSP	
	Inactive	SP and SSP	SSP
		SP	SP
		Neither Plan	SSP (create account)

Following the transfer of the participant balances and assets of the Plan, participants are able to withdraw their transferred balances, transfer those investments from the AT&T Shares Fund to other plan investment options (subject to normal fund transfer rules) or take loans against the balances.

Participants can invest their contributions in one or more of the following funds in either five dollar or 1% increments (depending upon applicable collective bargaining agreements): the AT&T Shares Fund, the Bond Fund, the Large Cap Stock Fund, the Interest Income Fund, the Global Equity Fund, the Mid and Small Cap Stock Fund and the International Stock Fund, altogether referred to as the Trust. The trustee is Mellon Trust of New England, National Association.

Company matching contributions are made solely in the form of shares of AT&T's common stock held in an Employee Stock Ownership Plan (ESOP) which is a separate investment account of this Plan.

Dividends on shares in the AT&T Shares Fund and the ESOP can either be reinvested in the AT&T Shares Fund on a quarterly basis, or paid into a separate fund known as a Dividend Fund Account (DFA) for distribution at the end of the year. At the end of the year, dividends held in the DFA are paid out to the participant. Interest earned on dividends held in the DFA is paid into the AT&T Shares Fund. During 2007, Plan participants elected to receive \$28,047 in dividend distributions. This amount is included in distributions on the statement of changes in net assets.

Although it has not expressed any intent to do so, AT&T has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA and collective bargaining obligations. In the event that the Plan is terminated, subject to the conditions set forth by ERISA, the account balances of all participants shall be 100% vested.

2. Accounting Policies - The accompanying financial statements were prepared in conformity with U.S. generally accepted accounting principles, which require management to make estimates that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Investments are stated at fair value. Investments in securities traded on a national securities exchange are valued at the last reported sales price on the last business day of the year. If no sale was reported on that date, they are valued at the last reported bid price. Over-the-counter securities and government obligations are valued at the bid price or the average of the bid and asked price on the last business day of the year from published sources where available and, if not available, from other sources considered reliable. Cash and temporary assets are stated at fair value.

Common/collective trust funds are valued at quoted redemption values that represent the net asset values of units held at year-end which management has determined approximates fair value. Participant loans are reported at cost, which approximates fair value.

As required by Financial Accounting Standards Board Staff Position AAG INV-1 and SOP 94-4-1, "Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans" (the FSP), investment contracts held by a defined contribution plan are required to be reported at fair value. However, contract value is the relevant measurement attribute for that portion of the net assets available for benefits of a defined contribution plan attributable to fully benefit-responsive investment contracts because contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the Plan. The Plan invests in fully benefit-responsive synthetic investment contracts (Synthetic GICs). The underlying investments of the Synthetic GICs are valued at quoted redemption values on the last business day of the Plan's year-end. The fair value of the wrap contracts for the Synthetic GICs is determined using the market approach discounting methodology that incorporates the difference between current market level rates for contract level wrap fees and the wrap fee being charged. The difference is calculated as a dollar value and discounted by the prevailing interpolated swap rate as of period end. The contract value of the fully benefit-responsive investment contracts represents contributions plus earnings, less participant withdrawals and administrative expenses.

Purchases and sales of securities are reflected as of the trade date. Dividend income is recognized on the ex-dividend date. Interest earned on investments is recognized on the accrual basis.

The reasonable expenses of plan administration may be charged to the Trust in accordance with procedures adopted by the plan administrator (as defined by the Plan). Brokerage fees, transfer taxes and other expenses incident to the purchase of sale or securities by the Trustee shall be deemed to be part of the cost of such securities, or deducted in computing the proceeds, as the case may be. Taxes, if any, on any assets held or income received by the Trustee will be charged appropriately against the accounts of Plan participants as determined by the plan administrator. All expenses of administering the Plan that are not charged to the Trust will be borne by the respective participating companies in the Plan as determined by the plan administrator.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" (FAS 157). This standard clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosures about the use of fair value measurements. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. Plan management is currently evaluating the impact of FAS 157.

AT&T SAVINGS AND SECURITY PLAN
NOTES TO FINANCIAL STATEMENTS (continued)
(Dollars in Thousands)

3. Investments - Investments representing 5% or more of Plan net assets at December 31 were:

	2007	2006
Employee Stock Ownership Plan *		
AT&T common shares	\$ 1,909,818	\$ 1,644,967
AT&T Shares Fund		
AT&T common shares	2,000,334	1,746,210
Large Cap Stock Fund		
Barclays Global Investors Equity Index Fund F	898,683	704,811
Mid and Small Cap Stock Fund		
Barclays Global Investors EAFE Equity Extended Equity Market Fund F	365,035	346,715
International Fund		
Barclays Global Investors EAFE Equity Index Fund F	402,308	325,450

* Nonparticipant-directed

During 2007, the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated in value as follows:

Common Stock	\$ 551,047
Common Collective Trusts	143,121
Total	\$ 694,168

Fully Benefit-Responsive Investment Contracts

The Interest Income Fund consists of fully benefit-responsive investment contracts with various financial institutions and insurance companies that promise to repay principal plus accrued income at contract maturity, subject to the creditworthiness of the issuer. Interest crediting rates are generally established when the contract is purchased and are periodically reset. The Interest Income Fund invests in Synthetic GICs, also referred to as wrapper contracts. The assets supporting the Synthetic GICs are owned by the Plan and generally consist of high quality fixed income securities. At December 31, 2007 the underlying assets had a fair value of \$846,296 and a contract value of \$842,083. At December 31, 2006 the underlying assets had a fair value of and a contract value of \$800,096 and \$809,667. For the years ended December 31, 2007 and 2006, the average yield earned by the Plan on these contracts was 4.31% and 5.21%, and, the average yield earned by the Plan adjusted to reflect actual interest rate credited to participants, was 4.73% and 4.24%. No valuation reserves were recorded to adjust contract amounts as of December 31, 2007 or 2006.

A bank or insurance company issues a wrapper contract that provides preservation of principal, maintains a stable interest rate and provides daily liquidity at contract value for participant directed transactions, in accordance with the provisions of the Plan. Wrapper contracts amortize the realized and unrealized gains and losses on the underlying fixed income investments through adjustments to the future interest crediting rate. The issuer of the wrapper contract provides assurance that the adjustments to the interest crediting rate do not result in a future interest crediting rate that is less than zero, which would result in a loss of principal or accrued interest. The fair value of the wrapper contracts

were \$0 at December 31, 2007 and \$32 at December 31, 2006.

Wrapper contracts' interest crediting rates are typically reset on a monthly or quarterly basis and are based on the characteristics of the underlying fixed income securities. Other key factors that influence the interest crediting rates are market interest rates, the amount and timing of participant transactions into and out of the wrapper contract, investment returns on the underlying fixed income securities and the duration of those investments. All wrapper contracts provide for minimum interest crediting rate of zero percent. In the event that the interest crediting rate should fall to zero and the requirements of the wrapper contract are satisfied, the wrapper issuer will pay the Plan the shortfall needed to maintain the rate at zero, ensuring participants' principal and accrued interest is protected.

6

AT&T SAVINGS AND SECURITY PLAN
NOTES TO FINANCIAL STATEMENTS (continued)
(Dollars in Thousands)

Changes in market interest rates can affect the yield to maturity and the market value of the underlying investment, and can have a material impact on the wrapper contract's interest crediting rate. Additionally, participant withdrawals and transfers from the Interest Income Fund are paid at contract value but funded through the market value liquidation of the underlying investments, which also impacts the interest crediting rate. The resulting gains and losses in the market value of the underlying investments relative to the wrapper contract value are represented on the Plan's Statements of Net Assets Available for Benefits as the "Adjustment from fair value to contract value for fully-benefit responsive investment contracts," and totaled \$(4,213) at December 31, 2007 and \$9,571 at December 31, 2006. If this adjustment is positive, it indicates that the wrapper contract value is greater than the market value of the underlying investments and the embedded market value losses will be amortized in the future through a lower interest crediting rate. If the adjustment is negative, the embedded market gains would cause the future interest crediting rate to be higher.

In certain circumstances, the amount withdrawn from the wrapper contract could be payable at fair value rather than at contract value. These events include termination of the Plan, a material adverse change to the provisions of the Plan, if AT&T elects to withdraw from a wrapper contract in order to switch to a different investment provider or, in the event of a spin-off or sale of a division, if the terms of the successor plan do not meet the contract issuers' underwriting criteria for issuance of a clone wrapper contract. Events that would permit a wrapper contract issuer to terminate a wrapper contract upon short notice include the Plan's loss of its qualified status, un-cured material breaches of responsibilities or material and adverse changes to the provisions of the Plan. The Company does not believe any of the events are probable of occurring in the foreseeable future.

Securities Lending

The Plan is authorized to engage in the lending of certain Interest Income Fund assets. Securities lending is an investment management enhancement that utilizes the existing securities (fixed income investments) of the Plan to earn additional income. Securities lending involves the loaning of securities to a selected group of approved banks and broker-dealers. In return for the loaned securities, the trustee, prior to or simultaneous with delivery of the loaned securities to the borrower, receives collateral in the form of cash or U.S. Government securities as a safeguard against possible default of any borrower on the return of the loan. Each loan is initially collateralized, in the case of: (a) loaned securities denominated in U.S. dollars or whose primary trading market is located in the U.S., or (b) loaned securities not denominated in U.S. dollars or whose primary trading market is not located in the U.S. to the extent of 105% of the market value of the loaned securities. The collateral is marked to market on a daily basis. Securities on loan and collateral held under this program at December 31, 2007 and 2006 are reported on the accompanying statements of net assets available for benefits. The reported collateral includes noncash holdings of \$8,534 and \$23,775 at December 31, 2007 and 2006. Income earned on securities lending is used to offset the administrative expenses of the Plan and was \$512 for the year ended December 31, 2007.

Investment Risk

Investments held by the Plan are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments could occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statements of net assets available for benefit. Plan participants' accounts that are invested in the Company stock fund option are exposed to market risk in the event of a significant decline in the value of AT&T stock.

Additionally, the Plan invests in securities with contractual cash flows, such as asset backed securities, collateralized mortgage obligations and commercial mortgage backed securities, including securities backed by subprime mortgage loans. The value, liquidity and related income of these securities are sensitive to changes in economic conditions, including real estate value, delinquencies or defaults, or both, and may be adversely affected by shifts in the market's perception of the issuers and changes in interest rates.

AT&T SAVINGS AND SECURITY PLAN
 NOTES TO FINANCIAL STATEMENTS (continued)
 (Dollars in Thousands)

4. Nonparticipant-Directed Investments - Information about the net assets and the significant components of the changes in net assets relating to the nonparticipant-directed investments as of December 31 is as follows:

	2007	2006
Assets		
AT&T common shares	\$ 1,909,818	\$ 1,644,967
Temporary cash investments	1,766	395
Dividends and interest receivable	10	6
Receivable for investments sold	869	863
Total Assets	1,912,463	1,646,231
Liabilities		
Overdrafts	503	-
Administrative expenses payable	418	1,119
Payables for securities purchased	2,416	-
Total Liabilities	3,337	1,119
Net Assets Available for Benefits	\$ 1,909,126	\$ 1,645,112

	2007
Net Assets Available for Benefits, December 31, 2006	\$ 1,645,112
Employer contributions 1	165,031
Interest income	69
Dividends	17
Net appreciation in fair value of investments	267,425
Administrative expenses	(2,494)
Distributions	(134,473)
Transfers to other fund(s)	(31,561)
	264,014
Net Assets Available for Benefits, December 31, 2007	\$ 1,909,126

1 Employer contributions includes forfeitures allocated from the AT&T Shares Fund.

AT&T SAVINGS AND SECURITY PLAN
NOTES TO FINANCIAL STATEMENTS (continued)
(Dollars in Thousands)

5. Tax Status - The Plan has received a determination letter from the Internal Revenue Service (IRS) dated March 25, 2004, stating that the Plan is qualified under Section 401(a) of the Internal Revenue Code (IRC) and, therefore, the related trust is exempt from taxation. Subsequent to this determination by the IRS, the Plan was amended. Once qualified, the Plan is required to operate in conformity with the IRC to maintain its qualification. The Company has indicated that it will take the necessary steps, if any, to maintain the Plan's qualified status.

6. Reconciliation of Financial Statements to Form 5500 - The following is a reconciliation of Net Assets Available for Benefits per the financial statements to the Form 5500 as of December 31:

	2007	2006
Net Assets Available for Benefits per the financial statements	\$ 7,267,545	\$ 6,519,420
Adjustment from contract value to fair value for fully benefit-responsive investment contracts	4,213	(9,571)
Distribution payable to participants	(196)	(123)
Net Assets Available for Benefits per the Form 5500	\$ 7,271,562	\$ 6,509,726

The following is a reconciliation of benefits paid to participants per the financial statements to the Form 5500 for the year ended December 31, 2007:

Distributions to participants per the financial statements	\$ 702,365
Distributions payable to participants at December 31, 2007	196
Distributions payable to participants at December 31, 2006	(123)
Distributions to participants per the Form 5500	\$ 702,438

Distributions payable to participants are recorded on the Form 5500 for benefit claims that have been processed and approved for payment prior to December 31, but not yet paid as of that date.

The following is a reconciliation of total additions per the financial statements to total income per the Form 5500 for the year ended December 31, 2007:

Total additions per the financial statements	\$ 1,460,194
Adjustment from contract value to fair value for fully benefit-responsive investment contracts at December 31, 2006	9,571
Adjustment from contract value to fair value for fully benefit-responsive investment contracts at December 31, 2007	4,213
Total income per the Form 5500	\$ 1,473,978

Fully benefit-responsive contracts are recorded on the Form 5500 at fair value versus contract value on the financial statements.

9

AT&T SAVINGS AND SECURITY PLAN
EIN 43-1301883, PLAN NO. 004

SCHEDULE H, LINE 4(i) - SCHEDULE OF ASSETS (HELD AT END OF YEAR)

December 31, 2007
(Dollars in Thousands)

Identity of Issue	Description of Investment	Cost	Current Value
Employee Stock Ownership Plan			
*	AT&T common shares	45,953,278 shares	\$ 1,145,216 \$ 1,909,818
*	Mellon Trust of New England, National Association Total Employee Stock Ownership Plan	Temporary cash investment	1,766 1,766
	Total Employee Stock Ownership Plan		1,146,982 1,911,584
AT&T Shares Fund			
*	AT&T common shares	48,131,231 shares	2,000,334
*	Mellon Trust of New England, National Association	Temporary cash investment	6,077
	Total Shares Fund		** 2,006,411
Bond Fund			
*	Barclays Global Investors Intermediate Government/Credit Bond Index Fund F	13,896,027 units	** 268,193
Large Cap Stock Fund			
*	Barclays Global Investors Equity Index Fund F	41,073,273 units	** 898,683
Interest Income Fund			
	Bank of America Wrapper	Synthetic GIC #99-086, IR, ***	-
	Cabellas Credit Card Master Trust	Monoline Credit Card	7,222
	Chase Insurance Trust	Bank Credit Card	8,058
	Credit Suisse First Boston	Collateralized Mtg Obligation	5,988
	Countrywide Home Loans	Home Equity SrSub	5,567
	Countrywide Asset-backed Certificates	Home Equity SrSub	3,542
	Federal Home Loan Mortgage Company	Agency CMO	4,367
****	Federal Home Loan Mortgage Company	Agency CMO	7,547
	Federal National Mtg Assn. - Adj Rate Mtg.	Agency Hybrid	2,752
		Agency MF Fix	8,636

Edgar Filing: XSUNX INC - Form 10-Q

Federal National Mtg Assn. - GTD REMIC.		
Federal National Mtg Assn. - GTD REMIC.	Agency MF Fix	4,558
Federal National Mtg Assn. - GTD REMIC.	Home Equity Agency	1,835
Federal National Mtg Assn. - GTD REMIC.	Agency PAC	6,897
Federal National Mtg Assn. - GTD REMIC.	Agency PAC	4,811
MBNA Master Credit Card Trust	Monoline Credit Card	1,700
MBNA Master Credit Card Trust	Monoline Credit Card	6,021
Marriot Vacation Club Owner	Collateralized Mtg Obligation	
	Commercial/Corporate	851
Residential Funding Mtg Sec	Home Equity 2nd Monoline	4,385

10

AT&T SAVINGS AND SECURITY PLAN
EIN 43-1301883, PLAN NO. 004

SCHEDULE H, LINE 4(i) - SCHEDULE OF ASSETS (HELD AT END OF YEAR) - (continued)
December 31, 2007
(Dollars in Thousands)

Identity of Issue	Description of Investment	Cost	Current Value
-------------------	------------------------------	------	------------------

Edgar Filing: XSUNX INC - Form 10-Q

Sierra Timeshare Receivables Funding, LLC	Collateralized Mtg Obligation	
	Commercial/Corporate	3,351
**** United States Treasury	Treasury Note	4,200
**** United States Treasury	Treasury Note	8,465
**** United States Treasury	Treasury Note	19,932
TBC Inc PooledEmpDailyLiquidity	STIF	5,613
Cash on Hand	Cash	-
		126,298
ING Life & Annuity	Synthetic GIC	
	#60127, IR, ***	-
Amex Optima CC MT	Monoline Credit Card	5,492
Capital One Master Trust	Monoline Credit Card	7,931
Federal Home Loan Mtg Multiclass	Agency	3,220
Federal Home Loan Mtg Multiclass	Agency NAS	6,545
Federal Home Loan Mtg Multiclass	Agency	5,412
Federal National Mtg. Assn.	Agency MF BLN	4,837
Federal National Mtg Assn GTD Remic	Home Equity Agency	3,769
GSAA	Home Equity SrSub	4,328
Household Auto Trust	SubPrime Auto	7,140
Household Auto Trust	SubPrime Auto	3,949
Nomura Asset Securities Corporation	Conduit	5,075
United States Treasury	Treasury Note	3,482
**** United States Treasury	Treasury Note	4,003
**** United States Treasury	Treasury Note	8,015
**** United States Treasury	Treasury Note	4,200
**** United States Treasury	Treasury Note	8,392
**** United States Treasury	Treasury Note	6,497
Bear Stearns Commercial Mortgage	Non-Agency Comm Mort	
	Backed	8,515
General Electric Capital Corp Sr Unsec	Corporate Bond	2,066
TBC Inc PooledEmpDailyLiquidity	STIF	8,804
Cash on Hand	Cash	(8,511)
		103,161
JP Morgan Chase Wrapper	Synthetic GIC	
	#426424-T, IR, ***	-
Carmax Auto Owner Trust	NonPrime Auto	3,595
Daimler Chrysler NA hldg	Prime Auto	4,237
FHR	Agency NAS	4,100
Federal National Mtge Assn	Agency Hybrid	2,287
Federal National Mtge Assn	Agency Hybrid	6,499
Federal National Mtge Assn GTD Remic	Agency Fix	3,890
Federal National Mtge Assn	Agency Fix	8,238
**** Federal National Mtge Assn	Agency Debenture	15,076

SCHEDULE H, LINE 4(i) - SCHEDULE OF ASSETS (HELD AT END OF YEAR) - (continued)
December 31, 2007
(Dollars in Thousands)

Identity of Issue	Description of Investment	Cost	Current Value
-------------------	------------------------------	------	------------------

Edgar Filing: XSUNX INC - Form 10-Q

Federal National Mtge Assn Whole Loan	Agency RP ARM	1,250
GE Commercial Mortgage Corp.	Conduit	8,305
Navistar Financial	NonPrime Auto	4,008
Sallie Mae Student Loan Trust	Agency Student Loan	3,970
**** United States Treasury	Treasury Note	2,015
**** United States Treasury	Treasury Note	6,254
**** United States Treasury	Treasury Note	7,090
WFS Financial Owner Trust	Non-Agency MBS Floating	4,420
**** United States Treasury	Treasury Note	4,233
**** United States Treasury	Treasury Note	12,588
Federal Home Loan Mtg - Adj Rate Mtg.	US Agency Pass-Through	7,556
Greenwich Capital Commercial Funding Corp.	Non-Agency Comm Mort Bkd	6,948
TBC Inc PooledEmpDailyLiquidity	STIF	7,624
Cash on Hand	Cash	(6,815)
		117,368
Monumental Wrapper	Synthetic GIC	
	#MDA00292TR, IR, ***	-
Citibank Credit Card IT	Bank Credit Card	5,950
Capital One Master Trust	Monoline Credit Card	8,256
Countrywide Asset-backed Certificates	Home Equity SrSub	1,952
FGCI	Agency Fix	5,026
Federal Home Loan Mtg - Adj Rate Mtg.	Agency Hybrid	1,096
FHR	Agency Seq	5,795
Federal National Mtg Assn	Agency MF BLN	4,594
Federal National Mtg Assn - Adj Rate Mtg.	Agency Hybrid	916
Federal National Mtg Assn. - GTD REMIC.	Agency PAC	4,052
Federal National Mtg Assn. - GTD REMIC.	Agency PAC	6,166
Federal National Mtg Assn Whole Loan	Home Equity Agency	4,104
FSPC	Home Equity Agency	1,161
Household Auto Trust	Subprime Auto	5,576
MBNA Master Trust	Monoline Credit Card	5,577
Morgan Stanley Auto Loan Trust	Prime Auto	7,311
New Century Home Equity Loan	Home Equity Monoline	3,581
Pinnacle CBO Ltd	Corp Fin Other	72
Res Asset Mtg Products	Home Equity Monoline	2,724
USAA Auto Owners Trust	Prime Auto	6,017
**** United States Treasury	Treasury Note	1,017
**** United States Treasury	Treasury Note	3,002
**** United States Treasury	Treasury Note	10,423
**** United States Treasury	Treasury Note	5,250
World Omni Auto Receivables Trust	Mfg HsgSrSub	2,326
**** United States Treasury	Treasury Note	8,103
JP Morgan Chase Commercial Mortgage Sec.	Non-Agency Comm Mort Bkd	8,044

AT&T SAVINGS AND SECURITY PLAN
EIN 43-1301883, PLAN NO. 004

SCHEDULE H, LINE 4(i) - SCHEDULE OF ASSETS (HELD AT END OF YEAR) - (continued)

December 31, 2007

(Dollars in Thousands)

Identity of Issue	Description of Investment	Cost	Current Value
TBC Inc PooledEmpDailyLiquidity	STIF		7,282
Cash on Hand	Cash		123
			125,496
Rabobank Nederland	Synthetic GIC		
	SBC-060201, IR, ***		-
Chase Manhattan First Union	Conduit		7,727
Credit Suisse First Boston	Conduit		2,470
Federal Home - Adj Rate Mtg.	Agency Hybrid		2,422
**** Federal Home Loan Mtg - Adj Rate Mtg	Agency Hybrid		16,455
Federal Home Loan Mtg Multiclass	Agency NAS		11,628
Federal Nationl Mtg Assn - Adj Rate Mtg	Agency HYB PP		1,150
**** Federal National Mtg Assn Debs	Agency Debenture		4,526
Federal National Mtg Assn Whole Loan	Home Equity Agency		1,952
Federal National Mtg Assn Whole Loan	Agency RPF Fix		2,526
GMACC Commercial Mtg. Securities	Conduit		5,425
MBNA Master Trust	Monoline Credit Card		8,005
Nissan Auto Receivables Trust	Prime Auto		4,695
**** United States Treasury	Treasury Note		3,023
Wachovia Auto Owner Trust	Prime Auto		2,102
**** United States Treasury	Treasury Note		8,392
**** Federal National Mtg Assn	US Agency		4,121
Federal Home - Adj Rate Mtg.	Agency Passthru		7,556
Greenwich Capital Commercial Funding Corp.	Non-Agency Comm Mort		8,119
TBC Inc PooledEmpDailyLiquidity	STIF		5,509
Cash on Hand	Cash		157
			107,960
State Street Wrapper	Synthetic GIC		
	#99039, IR, ***		-
Bank One Insurance Trust	Bank Credit Card		9,950
Cendant Timeshare Receivables Funding	Collateralized Mtg Obligation		
	Commercial/Corporate		272
Chase Insurance Trust	Bank Credit Card		8,075
Commercial Mtg Acceptance Corp	Collateralized Mtg Obligation		4,121
Countrywide Asset-backed Certificates	Home Equity SrSub		6,494
Federal Home Loan Mtg Corp	Agency Hybrid		53
Federal Home Loan Mtg Corp	Agency PAC		2,150
Federal Home Loan Mtg Corp	Agency NAS		6,178

Edgar Filing: XSUNX INC - Form 10-Q

Federal Home Loan Mtg Corp	Agency PAC	4,018
Federal National Mtg Assn - Adj Rate Mtg	Agency HYB PP	5,933
Fannie Mae Grantor Trust	Agency MF Fix	8,345
Federal National Mtg Assn Whole Loan	Home Equity Agency	1,762

13

AT&T SAVINGS AND SECURITY PLAN
EIN 43-1301883, PLAN NO. 004

SCHEDULE H, LINE 4(i) - SCHEDULE OF ASSETS (HELD AT END OF YEAR) - (continued)
December 31, 2007
(Dollars in Thousands)

Identity of Issue	Description of Investment	Cost	Current Value
-------------------	---------------------------	------	---------------

Edgar Filing: XSUNX INC - Form 10-Q

FSPC	Home Equity Agency	1,984
GE Commercial Equipment Financing Lease	Large Equipment Loan	660
GE Equipment Small Ticket LLC	Small Equipment Lease	4,749
GMACC Commercial MTG Securities	Conduit	8,324
GSR Mortgage Loan Trust	Nag PT Arm	6,830
Sallie Mae Student Loan Trust	Agency Student Loan	5,397
**** United States Treasury	Treasury Note	2,015
Wells Fargo Mortgage-backed Securities Trust	Nag PT Arm	7,858
Wells Fargo Mortgage-backed Securities Trust	Nag PT Arm	5,791
LB-UBS Commercial Mortgage Trust	Non-Agency Comm Mortg	6,044
Federal National Mtg Assn	Us Agency	4,121
**** United States Treasury	Treasury Note	5,250
Bank of America Credit Card Trust	Credit Card	12,493
TBC Inc PooledEmpDailyLiquidity	STIF	9,113
Cash on Hand	Cash	(6,033)
		131,947
UBS Wrapper	Synthetic GIC #5029, IR, ***	-
Americredit Auto Rec	SubPrime Auto	1,287
Adjustable Rate Mortgage Trust	Nag PT Arm	5,566
Cabellas Credit Card MT	Retail Credit Card	3,165
Caterpillar Fin Asset Trust	Large Equipment Loan	5,457
Capital One Auto Finance Trust	SubPrime Auto	4,515
Commercial Mtg Pass-Thru Cert	Conduit	5,647
Federal Home Loan Mtg - Adj Rate Mtg	Agency Hybrid	54
**** Federal Home Loan Mortgage Corporation	Agency Debenture	3,766
Federal Home Loan Mortgage Corporation	Agency PAC	981
Federal Home Loan Mortgage Corporation	Agency NAS	8,672
Federal Home Loan Mortgage Corporation	Agency PAC	8,033
Federal National Mtg Assn - Adj Rate Mtg	Agency HYB PP	4,488
Federal National Mtg Assn - Adj Rate Mtg	Agency HYB PP	4,913
Federal National Mtg Assn Whole Loan	Home Equity Agency	2,052
Federal National Mtg Assn Whole Loan	Home Equity Agency	1,762
John Deere Owner Trust	Large Equipment Loan	7,483
Morgan Stanley Capital	Conduit	5,219
Res Asset Mtg Products	Home Equity Monoline	2,043
Structured Adjustable Rate Mortgage Loan	Collateralized Mtg Obligation	
	Commercial/Corporate	2,735
**** United States Treasury	Treasury Note	5,211
**** United States Treasury	Treasury Note	7,997
Nissan Auto Lease Trust	Auto Lease	8,040

AT&T SAVINGS AND SECURITY PLAN
EIN 43-1301883, PLAN NO. 004

SCHEDULE H, LINE 4(i) - SCHEDULE OF ASSETS (HELD AT END OF YEAR) - (continued)

December 31, 2007
(Dollars in Thousands)

Identity of Issue	Description of Investment	Cost	Current Value
	General Electric Capital Corp Sr Unsec	Corporate Bond	2,066
	TBC Inc PooledEmpDailyLiquidity	STIF	2,998
	Cash on Hand	Cash	1
			104,151
	*Mellon Trust of New England, National Association	Temporary cash investment	29,915
	Total Interest Income Fund		** 846,296
Global Equity Fund			
	*Barclays Global Investors U.S. Equity Market Fund F	3,950,646 units	159,369
	*Barclays Global Investors EAFE Equity Index Fund F	1,884,302 units	64,424
	Total Global Equity Fund		** 223,793
Mid and Small Cap Stock Fund			
	*Barclays Global Investors EAFE Equity Extended Equity Market Fund F	13,615,634 units	** 365,035
International Stock Fund			
	*Barclays Global Investors EAFE Equity Index Fund F	11,766,827 units	** 402,308
Loan Fund			
	*Loans to Plan Participants	8.25% - 9.25%	** 357,219
	TOTAL		\$7,279,522

* Party-in-Interest.

** Participant-directed investment, cost not required

*** Synthetic Insurance Contracts, no stated maturity.

**** Investment balances have been adjusted to include the market value of securities on loan, which are reclassified for financial statement presentation.

15

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the trustee (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed by the undersigned thereunto duly authorized.

AT&T SAVINGS AND SECURITY
PLAN

By AT&T Inc.,
Plan Administrator for the Foregoing Plan

By/s/ John J. Stephens
John J. Stephens
Senior Vice President and
Controller

Date: June 27, 2008

EXHIBIT INDEX

Exhibit identified below, Exhibit 23 is filed herein as an exhibit hereto.

Exhibit
Number

23 Consent of Independent Registered Public Accounting Firm