

XENOMICS INC
Form 10QSB
June 20, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-QSB

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED: APRIL 30, 2006

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 333-103083

XENOMICS, INC.

(Name of small business issuer in its charter)

Florida

(State or Other Jurisdiction of Incorporation or Organization)

04-3721895

(I.R.S. Employer Identification No.)

420 Lexington Avenue, Suite 1701, New York, New York 10170

(Address of principal executive offices) (Zip Code)

(212) 297-0808

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(Registrant's telephone number)

(Former Name, Former Address and Former Fiscal Year, if changed since last report)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 such filing requirements for past 90 days.

Yes No

Indicate by check mark whether registrant is a shell company (as defined in rule 12b-2 of the Exchange Act):

Yes No

As of June 19, 2006, the registrant had 19,207,832 shares of common stock, par value \$0.0001, outstanding.

XENOMICS, INC.

(A Development Stage Company)

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INTRODUCTORY NOTE

This Report on Form 10-QSB for Xenomics, Inc. (the Company) may contain forward-looking statements. You can identify these statements by forward-looking words such as may, will, expect, intend, anticipate, believe, estimate and continue or similar words. Forward-looking statements include information concerning possible or assumed future business success or financial results. You should read statements that contain these words carefully because they discuss future expectations and plans, which contain projections of future results of operations or financial condition or state other forward-looking information. We believe that it is important to communicate future expectations to investors. However, there may be events in the future that we are not able to accurately predict or control. Accordingly, we do not undertake any obligation to update any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

The forward-looking statements included herein are based on current expectations that involve a number of risks and uncertainties set forth under Risk Factors in our Annual Report on Form 10-KSB for the year ended January 31, 2006 and other periodic reports filed with the SEC. Accordingly, to the extent that this Quarterly Report contains forward-looking statements regarding the financial condition, operating results, business prospects or any other aspect of the Company, please be advised that the Company's actual financial condition, operating results and business performance may differ materially from that projected or estimated by the Company in forward-looking statements.

PART I FINANCIAL INFORMATION**Item 1. Condensed Consolidated Financial Statements**
Xenomics, Inc. and Subsidiary
(A Development Stage Company)
Condensed Consolidated Balance Sheets

	April 30, 2006 (Unaudited)	January 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,499,906	\$ 3,865,092
Receivables	12,322	12,128
Prepaid expenses	31,941	64,569
Total current assets	2,544,169	3,941,789
Property and equipment, net	113,352	121,533
Deposits	55,698	55,698
Other assets	0	2,000
Total assets	\$ 2,713,219	\$ 4,121,020
	Liabilities and Stockholders Equity	
Current liabilities:		
Accounts payable and accrued expenses	\$ 245,582	\$ 234,681
Total liabilities	245,582	234,681
Derivative financial instruments	365,959	405,629
Commitments and contingencies		
Stockholders equity:		
Preferred stock, \$0.001 par value, 20,000,000 shares authorized, 157,340 and 277,100 shares outstanding at April 30, 2006 and January 31, 2006, respectively, designated as Series A Preferred Stock with liquidation preference of \$1,573,403 and \$2,780,237 at April 30, 2006 and January 31, 2006, respectively	1,251,406	2,203,915
Common stock, \$0.0001 par value, 100,000,000 shares authorized, 19,161,322 and 18,604,300 issued and outstanding at April 30, 2006 and January 31, 2006, respectively	1,916	1,860
Additional paid-in capital	18,052,563	17,590,422
Deferred stock based compensation	0	(1,045,971)
Deficit accumulated during development stage	(17,204,207)	(15,269,516)
Total stockholders equity	2,101,678	3,480,710
Total liabilities and stockholders equity	\$ 2,713,219	\$ 4,121,020

The accompanying notes are an integral part of these financial statements

Xenomics, Inc. and Subsidiary
(A Development Stage Company)
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended		For the period
	April 30		August 4, 1999
	2006	2005	(Inception) to
			April 30, 2006
Revenues	\$ 0	\$ 0	\$ 0
Operating expenses:			
Research and development:			
Non-cash charge (benefit) for stock-based compensation	34,278	(132,249)	2,075,411
Other	813,830	296,646	4,982,238
Total	848,108	164,397	7,057,649
General and administrative			
Non-cash charge for stock-based compensation	521,381	24,311	6,176,584
Other	571,788	575,283	3,769,276
Total	1,093,169	599,594	9,945,860
Total operating expenses	1,941,277	763,991	17,003,509
Operating loss	(1,941,277)	(763,991)	(17,003,509)
Other (income) expense:			
Other income	24,969	12,124	174,161
Other expense	(30,343)	0	(165,325)
Change in fair value of derivative financial instrument	39,670	0	201,126
Total other expense	34,296	12,124	209,962
Net loss	(1,906,981)	(751,867)	(16,793,547)
Items attributed to preferred stock:			
Preferred stock dividend	(27,710)	0	(88,451)
Accretion on Series A preferred stock	0	0	(322,209)
Net loss attributable to common shareholders	(1,934,691)	(751,867)	(17,204,207)
Weighted average shares of common stock outstanding:			
Basic and diluted	18,788,629	17,716,394	
Net loss per common share:			
Basic and diluted	\$(0.10)	\$ (0.04)	

The accompanying notes are an integral part of these financial statements.

Xenomics, Inc. and Subsidiary
(A Development Stage Company)
Condensed Consolidated Statements of Shareholders Equity (Deficiency)
(Unaudited)

	Preferred Stock Shares	Amount	Common Stock Shares	Amount	Treasury Shares	Additional Paid-In Capital	Deferred Stock Based Compensation	Deficit Accumulated During Development Stage	Total
Balance, August 4, 1999 (Inception)	0	\$ 0	0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Issuance of common stock to founders for cash at \$0.0002 per share			222,000,000	22,200		19,800			42,000
Net loss								(14,760)	(14,760)
Balance, January 31, 2000	0	0	222,000,000	22,200	0	19,800	0	(14,760)	27,240
Net loss								(267,599)	(267,599)
Balance, January 31, 2001	0	0	222,000,000	22,200	0	19,800	0	(282,359)	(240,359)
Capital contribution of cash						45,188			45,188
Net loss								(524,224)	(524,224)
Balance, January 31, 2002	0	0	222,000,000	22,200	0	64,988	0	(806,583)	(719,395)
Issuance of common stock for cash at \$0.0005 per share			7,548,000	755		2,645			3,400
Capital contribution of cash						2,500			2,500
Net loss								(481,609)	(481,609)
Balance, January 31, 2003	0	0	229,548,000	22,955	0	70,133	0	(1,288,192)	(1,195,104)
Net loss								(383,021)	(383,021)
Balance, January 31, 2004	0	0	229,548,000	22,955	0	70,133	0	(1,671,213)	(1,578,125)
Waiver of founders deferred compensation						1,655,031			1,655,031
Issuance of common stock and warrants for cash at \$0.95 per share			2,645,210	265		2,512,685			2,512,950
Redemption of shares held by Panetta Partners, Inc.			(218,862,474)	(21,886)		(478,114)			(500,000)
Costs associated with recapitalization						(301,499)			(301,499)
Share exchange with founders			2,258,001	226		(226)			0
Issuance of treasury shares to escrow			350,000	35	(35)				0
Issuance of common stock and warrants for cash at \$1.95 per share			1,368,154	136		2,667,764			2,667,900
Issuance of warrants to finders						403,038			403,038
Finders warrants charged to cost of capital						(403,038)			(403,038)
Deferred stock-based compensation						1,937,500	(1,937,500)		0
Amortization of deferred stock-based compensation							245,697		245,697
Options issued to consultants						1,229,568			1,229,568
Warrants issued to consultants						2,630,440			2,630,440
Net loss								(5,371,027)	(5,371,027)
Balance, January 31, 2005	0	\$ 0	17,306,891	\$ 1,731	\$ (35)	\$ 11,923,282	\$ (1,691,803)	\$ (7,042,240)	\$ 3,190,935

The accompanying notes are an integral part of these financial statements.

Xenomics, Inc. and Subsidiary
(A Development Stage Company)
Condensed Consolidated Statements of Shareholders Equity (Deficiency) - Continued
(Unaudited)

	Preferred Stock		Common Stock		Treasury	Additional	Deferred	Deficit	
	Shares	Amount	Shares	Amount	Shares	Paid-In	Stock	Accumulated	Total
						Capital	Based	During	
							Compensation	Development	
							Stage	Stage	
Balance, January 31, 2005	0	\$ 0	17,306,891	\$ 1,731	\$(35)	\$ 11,923,282	\$(1,691,803)	\$(7,042,240)	\$ 3,190,935
Issuance of common stock and warrants for cash at \$1.95 per share			102,564	10		199,990			200,000
Payment of finders fees and expenses in cash						(179,600)			(179,600)
Common stock issued to finders			24,461	2		(2)			0
Issuance of common stock and warrants for cash at \$1.95 per share			1,515,384	152		2,954,847			2,954,999
Payment of finders fees and expenses in cash						(298,000)			(298,000)
Warrants issued to finders						222,188			222,188
Finders warrants charged to cost of capital						(222,188)			(222,188)
Issuance of preferred stock and warrants for cash at \$10.00 per share	277,100	2,448,791				322,209			2,771,000
Accretion of preferred stock		322,209						(322,209)	0
Value of warrants reclassified to derivative financial instrument liability		(567,085)							(567,085)
Payment of finders fees and expenses in cash						(277,102)			(277,102)
Warrants issued to finders						167,397			167,397
Finders warrants charged to cost of capital						(167,397)			(167,397)
Retirement of treasury shares			(350,000)	(35)	35				0
Common stock issued for services			5,000	0		16,500			16,500
Stock-based compensation expense for non-employees						2,928,298			2,928,298
Amortization of deferred stock-based compensation							645,832		645,832
Preferred stock dividend								(60,741)	(60,741)
Net loss								(7,844,326)	(7,844,326)
Balance, January 31, 2006	277,100	2,203,915	18,604,300	1,860	0	17,590,422	(1,045,971)	(15,269,516)	3,480,710
Conversion of Preferred Stock	(119,760)	(952,509)	557,022	56		952,453			0
Implementation of SFAS 123R						(1,045,971)	1,045,971		0
Stock based compensation						555,659			555,659
Preferred Stock dividend								(27,710)	(27,710)
Net loss								(1,906,981)	(1,930,124)
Balance, April 30, 2006	157,340	1,251,406	19,161,322	1,916	0	18,052,563	0	(17,204,207)	2,101,678

The accompanying notes are an integral part of these financial statements.

Xenomics, Inc. and Subsidiary
(A Development Stage Company)
Condensed Consolidated Statement of Cash Flows
(Unaudited)

	Three Months Ended April 30 2006	2005	For the period August 4, 1999 (Inception) to April 30, 2006
Operating activities:			
Net loss	\$ (1,906,981)	\$ (751,867)	\$ (16,793,547)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	8,181	4,533	46,193
Stock based compensation expense	555,659	(107,938)	8,251,995
Founders compensation contributed to equity	0	0	1,655,029
Increase (decrease) in fair value of derivative financial instrument	(39,670)	0	(201,126)
Changes in operating assets and liabilities:			
(Increase) decrease in receivables	(12,322)	0	(12,322)
(Increase) decrease in prepaid expenses	44,756	(9,141)	(31,941)
(Increase) decrease in deposits	0	2,565	(55,698)
(Increase) decrease in other assets	2,000	0	0
Increase (decrease) in accounts payable and accrued expenses	10,901	(25,651)	245,582
Net cash used in operating activities	(1,337,476)	(887,499)	(6,895,835)
Investing activities:			
Purchase of property and equipment	0	(29,575)	(159,545)
Net cash provided by investing activities	0	(29,575)	(159,545)
Financing activities:			
Proceeds from sale of common stock net of expenses	0	3,154,399	8,428,937
Payment of acquisition costs on common stock	0	(477,000)	(779,098)
Proceeds from sale of preferred stock net of expenses	0	0	2,771,000
Payment of acquisition costs on preferred stock	0	0	(277,102)
Redemption of common stock	0	0	(500,000)
Payment of preferred stock dividends	(27,710)	0	(88,451)
Net cash provided by financing activities	(27,710)	2,677,399	9,555,286
Net change in cash	(1,365,186)	1,760,325	2,499,906
Cash - Beginning of period	3,865,092	3,226,965	0
Cash - End of period	\$ 2,499,906	\$ 4,987,290	\$ 2,499,906

Supplemental disclosure of non-cash investing and financing activities:

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Cash paid for taxes	\$ 0	\$ 0	\$ 0
Cash paid for interest	\$ 0	\$ 0	\$ 0

The accompanying notes are an integral part of these financial statements

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XENOMICS, INC.
(A Development Stage Company)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
April 30, 2006
(UNAUDITED)

1. BUSINESS OVERVIEW:

Xenomics, Inc. (Xenomics or the Company) is considered to be in the development stage. Since inception on August 4, 1999, Xenomics' efforts have been principally devoted to research and development, securing and protecting its patents and raising capital. From inception through April 30, 2006, Xenomics has sustained cumulative net losses of \$16,793,547. Xenomics' losses have resulted primarily from expenditures incurred in connection with salaries and facilities cost associated with research and development activities, application and filing for regulatory approval of its proposed products, patent filing and maintenance expenses, outside accounting and legal services and regulatory, scientific and financial consulting fees as well as stock-based compensation expense. From inception through April 30, 2006, Xenomics has not generated any revenue from operations, expects to incur additional losses to perform further research and development activities and does not currently have any commercial molecular diagnostic products approved by the Food and Drug Administration, and does not expect to have such for several years, if at all.

Xenomics' product development efforts are thus in their early stages and Xenomics cannot make estimates of the costs or the time it will take to complete. The risk of completion of any program is high because of the many uncertainties involved in bringing new drugs to market including the long duration of clinical testing, the specific performance of proposed products under stringent clinical testing protocols, the extended regulatory approval and review cycles and the nature and timing of costs and competing technologies being developed by organizations with significantly greater resources.

2. BASIS OF PRESENTATION/GOING CONCERN:

The condensed consolidated interim financial information as of April 30, 2006 and for the three-month period ended April 30, 2006 and 2005 and for the cumulative period from August 4, 1999 to April 30, 2006, has been prepared without audit, pursuant to the rules and regulations of Securities and Exchange Commission (the SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although we believe that the disclosures made are adequate to provide for fair presentation. These Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and the notes thereto, included in the Company's Annual Report on Form 10-KSB for the fiscal year ended January 31, 2006, previously filed with the SEC.

In the opinion of management, all adjustments (which include normal recurring adjustments) necessary to present a fair statement of financial position as of April 30, 2006, and results of operations, cash flows and shareholders' equity (deficiency) for the three months ended April 30, 2006 and 2005 and for the cumulative period from August 4, 1999 to April 30, 2006, as applicable, have been made. The results of operations for the three months ended April 30, 2006 are not necessarily indicative of the operating results for the full fiscal year or any future periods.

Going Concern Uncertainty

As shown in the accompanying consolidated financial statements, Xenomics has suffered operating losses and negative cash flow from operations since inception and has an accumulated deficit of \$17,204,207. Primarily as a result of private placements of common stock in 2005 and 2006 and proceeds received upon the issuance of preferred stock, Xenomics realized net

proceeds of approximately \$10,000,000. As of April 30, 2006, Xenomics has a capital surplus of \$2,101,678 and a cash balance of \$2,499,906. Xenomics expects that its existing capital resources will not be sufficient to fund its operations for the next twelve months. Consequently, it will be required to raise additional capital to complete the development and commercialization of its current product candidates. Xenomics' auditors stated in their report on the Consolidated Financial Statements for the year ended January 31, 2006, that these conditions raise substantial doubt about the Company's ability to continue as a going concern.

To date, Xenomics' sources of cash have been primarily limited to the sale of its equity securities. Xenomics cannot be certain that additional funding will be available on acceptable terms, or at all. Any debt financing, if available, may involve restrictive covenants that impact the Company's ability to conduct business. If Xenomics is unable to raise additional capital when required or on acceptable terms, it may have to significantly delay, scale back or discontinue the development and/or commercialization of one or more of its product candidates. Xenomics can give no assurances that any additional capital that it is able to obtain will be sufficient to meet its needs. Based on the resources available to Xenomics at April 30, 2006, Xenomics will need additional financing to sustain its operations through 2006 and it will need additional financing thereafter. These matters raise substantial doubt about Xenomics' ability to continue as a going concern.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

USE OF ESTIMATES - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NET LOSS PER SHARE - Basic and diluted net loss per share is presented in conformity with SFAS No. 128, Earnings per Share, for all periods presented. In accordance with SFAS No. 128, basic and diluted net loss per common share was determined by dividing net loss applicable to common stockholders by the weighted-average common shares outstanding during the period. Diluted weighted-average shares are the same as basic weighted-average shares since, due to net losses, the inclusion of issuable shares pursuant to the conversion of preferred stock and the exercise of stock options and warrants would have been antidilutive.

As of April 30, 2006, Xenomics had 731,814 shares of common stock issuable upon conversion of the 157,340 shares of Series A convertible preferred stock outstanding. In addition Xenomics had 2,503,501 and 2,011,418 common stock warrants outstanding which were 100% vested as of April 30, 2006 and 2005, respectively. Stock options outstanding totaled 7,135,000 and 5,495,000 as of April 30, 2006 and 2005, respectively. All share and per share amounts have been retroactively restated to reflect the 111 for 1 stock split which was effective July 26, 2004.

4. STOCK BASED COMPENSATION

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 123 (Revised 2004), *Share-Based Payments* (SFAS 123R). SFAS 123R requires a public entity to measure the cost of employee services received in exchange for the award of equity instruments based on the fair value of the award at

the date of grant. The expense is to be recognized over the period during which an employee is required to provide services in exchange for the award. SFAS 123R is effective as of the beginning of the first interim or annual reporting period that begins after December 15, 2005 and accordingly Xenomics adopted this standard on February 1, 2006.

For all awards granted prior to February 1, 2006, the unrecognized portion of stock based compensation will be recognized as an expense on a straight line basis over the remaining requisite service period, ranging from nine to thirty six months. Xenomics has chosen the modified prospective method for transitioning to the new standard and accordingly the financial results for prior periods have not been restated. The adoption of SFAS 123R increased net loss for the three months ended April 30, 2006 by approximately \$538,000 for stock based compensation cost related to employee stock options. The remaining unrecognized compensation cost related to non-vested share-based compensation arrangements for all employee stock options outstanding at April 30, 2006, as measured at the date of grant, was approximately \$3,086,000.

Effective with the adoption of SFAS 123R stock-based compensation expense related to Xenomics' s share-based compensation arrangements attributable to employees is being recorded as a component of general and administrative expense and research and development expense in accordance with the guidance of Staff Accounting Bulletin 107 , Topic 14, paragraph F . *Classification of Compensation Expense Associated with Share-Based Payment Arrangements* (SAB 107). Prior period financial statement accounts have been reclassified to conform to this presentation. Stock-based compensation expense related to employee and non-employee stock options recognized in the operating results for the three months ended April 30, 2006, April 30, 2005 and for the period from August 4, 1999 (inception) through April 30, 2006 is as follows:

	Three Months Ended April 30, 2006	Three Months Ended April 30, 2005	Inception Through April 30, 2006
Stock-based compensation expense related to employees	\$ 538,656	\$ 161,459	\$ 1,430,187
Stock-based compensation expense (benefit) not related to employees	17,003	(269,397)	6,821,808
Total	\$ 555,659	\$ (107,938)	\$ 8,251,995

The estimated fair value of each employee option award granted was determined in accordance with SFAS 123R on the date of grant using the Black-Scholes option valuation model with the following weighted-average assumptions for option granted during the three months ended April 30, 2006 and 2005:

	Employee options granted during the three months ended April 30,			
	2006		2005	
Risk free interest rate	4.5	%	4.25	%
Dividend yield	0.0	%	0.0	%
Volatility	80	%	80	%
Expected Life	3 to 7 years		7 years	

The risk-free interest rate assumption is based upon observed interest rates appropriate for the expected term of Xenomics' employee stock options. The expected volatility is based on the historical volatility of Xenomics' stock. The Company has not paid any dividends on common stock since its inception and does not anticipate paying dividends on its common stock in the foreseeable future. The computation of the expected option term is based on expectations regarding future exercises of options which generally vest over 3 years and have a 10 year life.

SFAS 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Based on historical Company experience Xenomics estimated future unvested option forfeitures at 6% as of February 1, 2006 and incorporated this rate in estimated fair value of employee option grants.

Xenomics' determination of fair value is affected by Xenomics' stock price as well as the assumptions discussed above that require judgment. The weighted-average fair value of all options granted during the three months ended April 30, 2006, estimated as of the grant date using the Black-Scholes option valuation model, was \$1.16 per share. A summary of the changes in options outstanding during the three months ended April 30, 2006 is as follows:

	Number of Shares	Weighted Average Price Per Share
Outstanding at February 1, 2006	6,655,000	\$ 1.68
Granted	500,000	1.88
Exercised		
Terminated	20,000	1.68
Outstanding at April 30, 2006	7,135,000	\$ 1.70
Options exercisable at April 30, 2006	4,606,667	\$ 1.41

The weighted average remaining term of all options outstanding decreased from 8.7 years at January 31, 2006 to 8.5 years at April 30, 2006.

SFAS 123R requires that cash flows resulting from tax deductions in excess of the cumulative compensation cost recognized for options exercised (excess tax benefits) be classified as cash inflows from financing activities and cash outflows from operating activities. Due to Xenomics' accumulated deficit position, no tax benefits have been recognized in the cash flow statement.

Prior to February 1, 2006, Xenomics had adopted Statement of Financial Accounting Standard (SFAS) No. 123, Accounting for Stock-Based Compensation. As provided for by SFAS 123, Xenomics had elected to continue to account for its stock-based compensation programs according to the provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25). Accordingly, compensation expense had been recognized to the extent of employee or director services rendered based on the intrinsic value of stock options granted under the plan.

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The balance of deferred unamortized stock based compensation as of January 31, 2006 of \$1,045,971, prior to adoption of SFAS 123R, has been eliminated against the appropriate equity accounts as prescribed by paragraph seventy-four of SFAS 123R during the quarter ended April 30, 2006.

Had compensation cost for stock options granted to employees and directors prior to February 1, 2006 been determined based upon the fair value at the grant date for awards, consistent with the methodology prescribed under SFAS 123, Xenomics net loss for the three months ended April 30, 2005 would have been as follows:

	Three months ended April 30, 2005
Net loss, as reported	\$ (751,867)
Add: Stock-based employee compensation expense recorded under APB No. 25 intrinsic value method	161,458
Deduct: Stock-based employee compensation expense determined under fair value based method	(324,742)
Pro forma net loss	\$ (915,151)
Net loss per share:	
Basic and diluted -as reported	\$ (0.04)
Basic and diluted -pro forma	\$ (0.05)

5. STOCKHOLDERS EQUITY:

All share and per share amounts have been restated to reflect the 111 for 1 stock split which was effected July 26, 2004 as discussed in Note 1.

On July 2, 2004 the Company completed a private placement of 2,645,210 shares of our common stock for aggregate proceeds of \$2,512,950, or \$0.95 per share. The sale was made to 17 accredited investors directly by us without any general solicitation or broker and thus no finder s fees were paid. The Company filed a Form D with the Securities and Exchange Commission (SEC) and the offering is claimed to be exempt from registration pursuant to Rule 506 of Regulation D under the Securities Act of 1933, as amended.

Pursuant to a services agreement with Trilogy Capital Partners (Trilogy), Xenomics issued warrants to Trilogy to purchase 1,000,000 shares of Common Stock of Xenomics at an exercise price of \$2.95 per share (the Warrants). The exercise price was determined to be consistent with the price of the warrants being offered to purchasers as part of an investment unit in the then operative private placement memorandum. The Warrants issued to Trilogy are exercisable upon issuance and expire on December 13, 2007. In connection with the issuance of these warrants, Xenomics agreed to file a registration statement with the Securities and Exchange Commission (SEC) registering for resale the shares of Common Stock underlying the Warrants. That registration statement was declared effective by the SEC on March 17, 2006. The fair value of the Warrants using the Black-Scholes methodology is \$2,630,440 which was immediately expensed. The following assumptions were used to determine fair value: (i) stock price \$4.20 per share (ii) no dividend (iii) risk free interest rate 4.5% (iv) volatility of 80%.

On January 28, 2005, the Company closed the first tranche of a private placement selling 1,368,154 shares of common stock and 367,681 warrants to certain investors (the Investors). The securities were sold as a unit (the Units) at a price of \$1.95 per Unit for aggregate proceeds of \$2,667,900. Each Unit consisted of one share of common stock and a warrant to purchase one quarter share of common stock. The warrants are immediately exercisable at \$2.95 per share and are exercisable at any time within five years from the date of issuance. The fair value of these Investor warrants using a market price of \$4.20 per share on the date of issuance was \$1,198,373. The Company also issued an aggregate 123,659 warrants to purchase common stock to various selling agents, which are immediately exercisable at \$2.15 per share and will expire five years after issuance. The selling agent warrants had a fair value of \$403,038 on the date of issuance and this amount was recorded as a cost of raising capital.

On February 5, 2005 the Company completed the first tranche of the private placement described above selling an additional 102,564 shares of its common stock to the Investors at a price of \$1.95 per share for aggregate proceeds of \$200,000. In addition, the Company paid an aggregate \$179,600 in cash and issued 24,461 shares of common stock to certain selling agents, in lieu of cash, which had a fair value of \$47,699 capitalized at \$1.95 per share.

In connection with the offer and sale of securities to the Investors the Company also entered into a Registration Rights Agreement, dated as of January 28, 2005, with the Investors pursuant to which the Company agreed to file, within 120 days after the closing, a registration statement covering the resale of the shares of common stock sold to the Investors and the shares of common stock issuable upon exercise of the Warrants issued to the Investors. In the event a registration statement covering such shares of Common Stock is not filed with the SEC by the 120th day after the final closing of the Offering (May 28, 2005), the Company shall pay to the investors, at the Company's option in cash or common stock, an amount equal to 0.1125% of the gross proceeds raised in the Offering for each 30 day period that the registration statement is not filed with the SEC. On August 1, 2005 the Company filed a Form SB-2 registration statement with the Securities and Exchange Commission and the resulting liquidated damages in the amount of \$16,304 was paid to the Investors. Pursuant to this January 28, 2005 Registration Rights Agreement there are no additional liquidated damages for failure to have the registration

statement declared effective by a specified date, or for failure to maintain its effectiveness for any specified period of time.

On April 7, 2005, the Company closed the second and final tranche of the private placement of 1,515,384 shares of common stock and 378,846 warrants to certain additional Investors. The securities were sold as a unit (the Units) at a price of \$1.95 per Unit for aggregate proceeds of \$2,954,999. Each Unit consisted of one share of common stock and a warrant to purchase one quarter share of common stock. The warrants are immediately exercisable at \$2.95 per share and are exercisable at any time within five years from the date of issuance. The fair value of these Investor warrants using a market price of \$2.61 per share on the date of issuance date was \$694,335. The Company paid an aggregate \$298,000 and issued an aggregate 121,231 warrants to purchase common stock to Axiom Capital Management who acted as the selling agent. The warrants are immediately exercisable at \$2.15 per share, will expire five years after issuance. The warrants had a fair value of \$222,188 on the date of issuance and this amount was recorded as a cost of raising capital. These April 7, 2005 Investors became parties to the same Registration Rights Agreement as the January 28, 2005 Investors

On July 13, 2005, the Company closed a private placement of 277,100 shares of Series A Convertible Preferred Stock (the Series A Preferred Stock) and 386,651 warrants to certain investors for aggregate gross proceeds of \$2,771,000 pursuant to a Securities Purchase Agreement dated as of July 13, 2005. The warrants sold to the Investors are immediately exercisable at \$3.25 per share and are exercisable at any time within five years from the date of issuance. These investor warrants had a fair value of \$567,085 on the date of issuance using a market price of \$2.40 on that date. In addition the Company paid an aggregate \$277,102 and issued an aggregate 105,432 warrants to purchase common stock to certain selling agents. The warrants issued to the selling agents are immediately exercisable at \$2.50 per share and will expire five years after issuance. The selling agent warrants had a fair value of \$167,397 on the date of issuance and this amount was recorded as a cost of raising capital.

The material terms of the Series A Preferred Stock consist of:

Dividends. Holders of the Series A Convertible Preferred Stock shall be entitled to receive cumulative dividends at the rate per share of 4% per annum, payable quarterly on March 31, June 30, September 30 and December 31, beginning with September 30, 2005. Dividends shall be payable, at the Company's sole election, in cash or shares of common stock.

Voting Rights. Shares of the Series A Convertible Preferred Stock shall have no voting rights. However, so long as any shares of Series A Convertible Preferred Stock are outstanding, the Company shall not, without the affirmative vote of the holders of the shares of Series A Convertible Preferred Stock then outstanding, (a) adversely change the powers, preferences or rights given to the Series A Convertible Preferred Stock, (b) authorize or create any class of stock senior or equal to the Series A Convertible Preferred Stock, (c) amend its articles of incorporation or other charter documents, so as to affect adversely any rights of the holders of Series A Convertible Preferred Stock or (d) increase the authorized number of shares of Series A Convertible Preferred Stock.

Liquidation. Upon any liquidation, dissolution or winding-up of the Company, the holders of the Series A Convertible Preferred Stock shall be entitled to receive an amount equal to the Stated Value per share, which is \$10 per share plus any accrued and unpaid dividends.

Conversion Rights. Each share of Series A Convertible Preferred Stock shall be convertible into that number of shares of common stock determined by dividing the Stated Value, currently \$10 per share, by the conversion price, currently \$2.15 per share. The conversion price is subject to adjustment for dilutive issuances.

Beginning July 13, 2006, if the price of the common stock equals \$4.30 per share for 20 consecutive trading days, and an average of 50,000 shares of common stock per day shall have been traded during the 20 trading days, the Company shall have the right to deliver a notice to the holders of the Series A Convertible Preferred Stock, to convert any portion of the shares of Series A Convertible Preferred Stock into shares of Common Stock at the conversion price.

During the quarter ended April 30, 2006 119,760 Series A Preferred shares were converted to 557,022 shares of common stock.

As per EITF 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, Company Stock the Company calculated the value of the warrants issued in connection with this transaction to be \$567,085. This amount was recorded as a reduction to the proceeds allocated to Preferred Stock and a corresponding liability was established. This liability has been classified as non-current since the exercise price of these warrants exceeds the market value of the related common shares. These warrants have been marked-to-market and the liability has been adjusted with a corresponding charge or benefit recorded in the statement of operations. During the three months ended April 30, 2006, and for the period from August 4, 1999 (Inception) through April 30, 2006, the Company recorded benefits of \$39,670 and \$201,126, respectively.

As per EITF 00-27 Application of Issue 98-5 to Certain Convertible Instruments the Company evaluated the preferred stock transaction and accordingly found that there was an associated beneficial conversion feature. The cash purchase and existing conversion were found to contain a beneficial conversion feature totaling \$322,209 and the preferred stock was further discounted by this amount. The beneficial conversion amount was then accreted back to the preferred stock in accordance with the conversion provision which allowed for 100% to be converted immediately. The total amount accreted back to the preferred and charged to Deficit Accumulated during Development Stage was \$322,209 as of April 30, 2006.

In connection with the offer and sale of the Series A Preferred Stock securities the Company also entered into a Registration Rights Agreement pursuant to which the Company agreed to have a registration statement covering the resale of the common stock attributable to conversion of Series A Preferred Stock and the shares of common stock issuable upon exercise of the preferred warrants, declared effective by the SEC. By October 25, 2005. In the event a registration statement covering such shares of common stock was not declared effective by October 25, 2005, the Company was required to pay a penalty to the investors, at the Company's option in cash or common stock, an amount equal to 1% of the gross proceeds raised in the Offering for each 30 day period that the registration statement is not declared effective by the SEC. The registration statement filed on August 1, 2005 was not declared effective until March 17, 2006 and a penalty of \$134,982 was paid to the investors through April 30, 2006.

6. STOCK OPTION PLAN:

In June 2004 the Company adopted the Xenomics Stock Option Plan, as amended (the Plan). The Plan authorizes the grant of stock options to directors, eligible employees, including executive officers and consultants. Generally, vesting for options granted under the Plan is determined at the time of grant, and options expire after a ten year period. Options are granted at an exercise price not less than the fair market value at the date of grant.

A total of 5,000,000 shares had been reserved for issuance under the Plan. As of January 31, 2006, options for 6,655,000 shares were outstanding under the Plan. 1,655,000 of such options have been granted subject to stockholder approval of an increase in the number of shares that can be granted under the plan.

On April 4, 2006, at our annual meeting, our stockholders approved a proposal to increase the number of shares available for grant under the Plan from 5,000,000 to 12,000,000.

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7. COMMITMENTS AND CONTINGENCIES:

EMPLOYMENT AND CONSULTING AGREEMENTS:

On September 3, 2004, Dr. V. Randy White and Xenomics entered into a letter agreement whereby Xenomics employed Dr. White as Chief Executive Officer for a period of 3 years commencing September 13, 2004 at an annual base salary of \$215,000. Dr. White was granted an aggregate 1,425,000 incentive stock options pursuant to Xenomics' s Plan with an exercise price of \$2.25 per share. Such options vested 300,000, 350,000, and 400,000 of such options vest on the first, second, and third anniversary dates, respectively, of the Letter Agreement. The remaining 375,000 options would vest in the event of a sale of Xenomics for consideration equal to \$15.00 per share or more. In the event of a sale of Xenomics for consideration exceeding \$9.25 per share, Dr. White would have been entitled to a cash bonus of \$500,000 and all of his unvested Sale Options would have immediately vested. In the event there was a sale of Xenomics for consideration equal to \$15.00 per share or more, Dr. White was entitled to a cash bonus of \$750,000. In addition, at any time during the term of his employment, in the event the stock price of the common stock of Xenomics exceeded \$9.25 per share for sixty consecutive trading days, all of Dr. White' s unvested Sale Options would have immediately vested. On February 23, 2006, Dr. White left the Company to pursue other interests. As of June 19, 2006, the Company is in discussions with Dr. White regarding a severance agreement.

8. RESTATEMENTS

During the twelve months ended January 31, 2006, the Company received several comment letters from the Securities and Exchange Commission in connection with its Form SB-2 which was filed in August 2005. In response to these comment letters, the Company's financial statements for the twelve month period ended January 31, 2005 and the interim periods within the nine month period ended October 31, 2005 were restated. Such restatements related to the accounting for the Company's acquisition of Xenomics Sub, deferred founders' compensation contributed to capital, stock based compensation expense, and derivative financial instruments and are described in the Company's Amendment No. 5 to Form SB-2 filed with the Commission on March 15, 2006.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Overview

We are a development stage molecular diagnostic company that focuses on the development of DNA-based tests using Tr-DNA. Tr-DNAs are fragments of DNA derived from dying cells inside the body compartment. The intact DNA is fragmented in these dying cells, appears in the blood stream and these fragments have been shown to cross the kidney barrier and can be detected in urine. Because Tr-DNA originates inside the body, using a safe and simple urine collection, we believe our patented technology can be applied to a broad range of testing including: prenatal testing, tumor detection and monitoring, tissue transplantation, infectious disease, forensic identification, drug development and bio-terrorism. In March 2004, we organized a joint venture with the Spallanzani National Institute for Infectious Diseases (Istituto Nazionale per le Malattie Infettive) in Rome, Italy, in the form of a research and development company called SpaXen Italia, S.R.L, or SpaXen, which conducts research and development on non-invasive diagnostic tests for infectious disease using Tr-DNA methodology.

Since inception on August 4, 1999 through April 30, 2006, we have sustained cumulative net losses of \$16,793,547. Our losses have resulted primarily from research and development expenses, patent costs and legal and accounting expenses. From inception through April 30, 2006, we have not generated any revenue from operations. We expect to incur additional losses to perform further research and development activities. We do not currently have any commercial products and we do not expect to have any for the foreseeable future. Our product development efforts are in their early stages and we cannot make estimates of the costs or the time it will take to complete. The risk of completion of any program is high because of the long duration of clinical testing, regulatory approval and review cycles and uncertainty of the costs. Net cash inflows from any products developed may take several years to achieve.

Results of Operations

Three Months Ended April 30, 2006 and 2005:

We had no revenues during the three months ended April 30, 2006 and 2005 because we do not have any commercial products.

Operating expenses increased to \$1,941,277 during the three months ended April 30, 2006 from \$763,991 for the same period in 2005.

Research and development expenses increased to \$848,108 during the three months ended April 30, 2006, up from \$164,397 during the comparable period in 2005. This increase is attributable to expansion of research and development activities and, consequently, includes salaries and staff costs for our in-house research and development laboratory, patent legal, filing and maintenance expenses, regulatory and scientific consulting fees and laboratory supplies.

General and administrative expenses increased to \$1,093,170 during the three months ended April 30, 2006, up from \$599,594 during the comparable period in 2005. This increase is primarily attributable an increase in stock-based compensation expense of \$497,070.

Total stock-based compensation expense, attributable to employees and non-employees, increased to \$555,659 for the three months ended April 30, 2006, up from a benefit of \$107,938 during the comparable period in 2005. This increase of \$663,597 is primarily attributable to our adoption of Financial Accounting Standard 123R effective February 1, 2006 for employee options. See Note 4 to our Condensed Consolidated Financial Statements for a detailed description of the impact of this accounting change. We have chosen not to restate the prior periods in accordance with the *modified prospective method* allowed for transitioning to this new standard.

Net loss for the three months ended April 30, 2006 was \$1,906,981 as compared to a loss of \$751,867 for the same period in 2005. The increase in the net loss in 2006 is the result of the increased research and development and stock-based compensation expense described above.

Plan of Operations

We plan to devote significant financial and other resources to further research and development, and commercialize tests using our Tr-DNA technology. Our initial focus is on two key applications: infectious disease detection and prenatal genetic testing. If developed, we intend to sell these products to independent clinical laboratories and hospital laboratories approved for performance of high-complexity tests. We have completed our proof of principle studies in these two key areas and must now validate these findings in human clinical samples. It is expected that the next phase of product development will last throughout 2006 and 2007. The next phase requires that we gain access to clinical samples pertinent to each product focus. We have executed research contracts with North Shore - Long Island Jewish (LIJ) Health System in Lake Success, New York and Eastern Virginia Medical School in Norfolk, Virginia. Because these studies are overseen by the respective IRB's of the institutions, they can be terminated for safety and efficacy issues. If we do not gain access to human clinical samples, or do not complete the studies, this will prevent us from developing FDA approved products and will severely limit our ability to generate revenue through product sales.

We intend to develop our infectious disease applications at SpaXen, our joint venture with INMI located in Rome, Italy. Under the terms of our agreement with INMI, INMI provides laboratory space to SpaXen and financial support in the form of chemicals and scientific personnel to work on applications of the Tr-DNA technology for a broad variety of infectious diseases. The Spallanzani Institute is a large AIDS treatment center and provides patient care to 4,000 infected patients. The SpaXen joint venture provides access to needed human clinical samples for development of our HIV and TB products. If our agreement with INMI is terminated, we may not be able to gain access to needed human clinical samples which will prevent us from developing FDA approved products and will severely limit our ability to generate revenue through product sales. Our plan of operation is to continue our product development in the two focus areas of prenatal genetic testing and infectious disease detection with a goal toward bringing FDA approved products to market.

Because cancer detection and monitoring studies are long and expensive, we are actively seeking academic-based researchers who are funded to perform evaluations of new cutting-edge technologies. In this way we expect to progress our understanding of cancer detection and monitoring with little or no cost to us. Because organ transplant monitoring is not truly diagnostic, in the next fiscal year we will begin to explore licensing arrangements with drug companies who manufacture the immune-suppression drugs used to prevent organ rejection. If we can conclude a license agreement, this may provide an early source of revenue for us. However, there can be no assurance that appropriate strategic partnership or licensing arrangements will be completed in either of these areas.

We expect it will take 1 to 2 years for our first product to be commercialized. We currently employ 14 research and development scientists at an annual expense of approximately \$1,500,000. In January 2006 we hired a Vice-President of Product Development and in March of

2006 we hired a Vice-President of Regulatory Affairs. During fiscal 2007 as we transition into product development and human clinical studies we expect to hire approximately 10 full-time employees representing an additional annual expense of approximately \$750,000. These positions include additional technical and regulatory positions. The full-year fiscal 2007 expense associated with the existing research and development personnel and the additional personnel is expected to total approximately \$2,250,000. Substantially all of the costs involved with our product development are labor costs and reagent and chemical costs. It is not possible to accurately predict the exact costs associated with each of these product development steps since our scientific personnel work simultaneously on multiple projects and the various projects may proceed faster or slower than expected.

Our current research and development facility does not satisfy the good manufacturing practice (cGMP) guidelines required for data collection purposes. We are currently negotiating a lease for a new facility which would enable us to satisfy cGMP guidelines. During fiscal 2007, with the addition of appropriate regulatory personnel discussed above, we intend to begin operating under cGMP guidelines and adopt the FDA Quality System Regulations (QSR) system of documentation.

We entered into a lease for corporate office space in New York City comprising approximately 2,000 square feet, for seven years ending September 30, 2011. We believe the lease should provide sufficient space for our corporate offices for our anticipated level of activity during fiscal 2007. In addition, we have a lease for a laboratory facility of approximately 5,000 sq. ft. in Monmouth Junction, New Jersey. This lease expires on August 31, 2006. As discussed above the current laboratory facility does not meet cGMP and we are currently negotiating a lease for a new facility that satisfies cGMP guidelines.

Liquidity and Capital Resources

As of April 30, 2006 we had \$2,499,906 in cash, cash equivalents and marketable investments, compared to \$3,865,092 as of January 31, 2006. This decrease of \$1,365,186 is the result of cash used for operating activities and payment of preferred dividends during the three months ended April 30, 2006.

On July 13, 2005, we closed a private placement of 277,100 shares of Series A Convertible Preferred Stock (the Series A Preferred Stock) and 386,651 warrants to certain investors for aggregate gross proceeds of \$2,771,000 pursuant to a Securities Purchase Agreement dated as of July 13, 2005. Holders of the Series A Convertible Preferred Stock are entitled to receive dividends at the rate of 4% per annum payable quarterly on March 31, June 30, September 30, and December 31. Dividends are payable in cash or shares of common stock at our discretion. We elected to satisfy the dividend obligations of September 30 and December 31, 2005 with cash. As of April, 2006, the accrued but unpaid preferred dividends aggregated \$9,237. There are no dividends in arrears.

Our working capital requirements will depend upon numerous factors including but not limited to the nature, cost and timing of: product development; pre-clinical and clinical testing; obtaining regulatory approvals; technological advances and our ability to establish collaborative arrangements with research organizations and individuals needed to commercialize our products. Our capital resources will be focused primarily on the clinical development and regulatory approval of our Tr-DNA technology.

We expect that our existing capital resources will not be sufficient to fund our operations for the next twelve months. Consequently, we will be required to raise additional capital to complete the development and commercialization of our current product candidates. Our auditors stated in their report on our Consolidated Financial Statements for the year ended January 31, 2006, that these conditions raise substantial doubt about our ability to continue as a going concern.

To date, our sources of cash have been primarily limited to the sale of our equity securities. We cannot be certain that additional funding will be available on acceptable terms, or at all. Any debt financing, if available, may involve restrictive covenants that impact our ability to conduct our business. If we are unable to raise additional capital when required or on acceptable terms, we may have to significantly delay, scale back or discontinue the development and/or commercialization of one or more of our product candidates. We can give no assurances that any additional capital that we are able to obtain will be sufficient to meet our needs. Based on the resources available to us at April 30, 2006, we will need additional financing to sustain our

operations through 2006 and we will need additional financing thereafter. These matters raise substantial doubt about our ability to continue as a going concern.

ITEM 3: CONTROLS AND PROCEDURES.

Our Chief Executive Officer and Chief Financial Officer, based on evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) required by paragraph (b) of Rule 13a-15 or Rule 15d-15, as of April 30, 2006, have concluded that our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms our Chief Executive Officer and Chief Financial Officer also concluded that, as of April 30, 2006, our disclosure controls and procedures are effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

There were no changes in our internal controls over financial reporting that occurred during the quarter ended April 30, 2006 that materially affected or are reasonably likely to materially affect our internal controls over financial reporting.

PART II- OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTER TO A VOTE OF SECURITY HOLDERS

Information related to this Item 4 has previously been reported in our Form 10-KSB for the year ended January 31, 2006 filed with the SEC on May 16, 2006.

ITEM 6. EXHIBITS

(a) Exhibits

- 31.1 Certification of Chief Executive Officer required under Rule 13a-14(a)/15d-14(a) under the Exchange Act.
- 31.2 Certification of Principal Financial Officer required under Rule 13a-14(a)/15d-14(a) under the Exchange Act.
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Principal Financial Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURES

Pursuant to the requirements 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.

Xenomics, Inc .

(Registrant)

Date: June 19, 2006

By: /s/ L. David Tomei
David Tomei
Chief Executive Officer

Date: June 19, 2006

By: /s/ Frederick Larcombe
Frederick Larcombe
Chief Financial Officer
(Principal Financial and Accounting Officer)

Index to Exhibits

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