

XENOMICS INC  
Form 10QSB/A  
March 15, 2006

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

**AMENDMENT NO. 5 TO 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: JULY 31, 2005**

**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

(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

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

Yes  No

As of September 19, 2005, the registrant had 18,604,300 shares of common stock, par value \$0.0001, outstanding

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**XENOMICS, INC.**

(A Development Stage Company)

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## INTRODUCTORY NOTE

**This Report on Amendment No. 5 to 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 Amendment No. 3 to Form 10-KSB for the year ended January 31, 2005 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.**

**Explanatory Note**

This Amendment No. 5 to Form 10-QSB includes restated unaudited condensed consolidated financial statements for the quarters ended July 31, 2005 and 2004, and for the period from inception (August 4, 1999) to July 31, 2005, in response to comments received by us from the Staff of the Securities and Exchange Commission. We have determined that errors had occurred in these prior financial periods for matters described in Item 2. Management's Discussion and Analysis and Plan of Operation and in Note 6 to the Consolidated Financial Statements. This Amendment speaks as of the original filing date of our Form 10-QSB and has not been updated to reflect events occurring subsequent to the original filing date.

**PART I - FINANCIAL INFORMATION****Item 1. Condensed Consolidated Financial Statements**

**XENOMICS, INC.**  
 Development Stage Company)  
**CONSOLIDATED BALANCE SHEET - RESTATED**  
**AS OF JULY 31, 2005**  
**(Unaudited)**

**ASSETS**

Current Assets:	
Cash and cash equivalents	\$ 2,814,494
Marketable investments	3,444,655
Prepaid expenses	127,748
<b>TOTAL CURRENT ASSETS</b>	<b>6,386,897</b>
Property and equipment, net	96,525
Security deposits	55,608
	\$ 6,539,030

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Current Liabilities:	
Accounts payable	\$ 142,604
Accrued expenses	125,676
<b>TOTAL CURRENT LIABILITIES</b>	<b>268,280</b>
Non-current liability:	
Derivative financial instrument	598,137
Stockholders' equity:	
Preferred stock, \$.001 par value, 20,000,000 shares authorized, 277,100 shares outstanding, designated as Series A Convertible Preferred Stock	2,203,915
Common stock, \$.0001 par value, authorized 100,000,000 shares, 18,604,300 issued at July 31, 2005	1,860
Additional paid-in-capital	17,590,422
Unamortized deferred stock based compensation	(1,368,887)
Deficit accumulated during the development stage	(12,754,697)
	5,672,613
	\$ 6,539,030

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

**XENOMICS, INC.**  
(A Development Stage Company)  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS - RESTATED**  
(UNAUDITED)

	Three Months Ended July		Six Months Ended July 31,		August 4, 1999
	31,		July 31,		(Inception) to
	2005	2004	2005	2004	July 31, 2005
Revenues	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Costs and expenses:					
Research and development	266,161	90,949	562,807	165,353	2,853,134
General and administrative	982,898	2,004	1,558,181	4,824	2,224,423
Stock based compensation	3,375,652	161,330	3,267,714	161,330	7,373,420
Loss from operations	(4,624,711)	(254,283)	(5,388,701)	(331,507)	(12,450,977)
Interest and investment income	33,686	0	45,810	0	65,845
Other expense	(16,304)	0	(16,304)	0	(16,304)
Derivative financial instrument income (expense)	(31,052)		(31,052)		(31,052)
Net loss	(4,638,381)	(254,283)	(5,390,248)	(331,507)	(12,432,488)
Accretion of dividend on Series A Preferred Stock	(322,209)	—	(322,209)	—	(322,209)
Net Loss applicable to common shareholders	\$ (4,960,590)	\$ (254,283)	\$ (5,712,457)	\$ (331,507)	\$ (12,754,697)
Weighted average shares outstanding:					
Basic and diluted	18,933,648	14,000,318	18,335,109	13,590,320	12,514,245
Net loss per common share:					
Basic and diluted	\$ (0.26)	\$ (0.02)	\$ (0.31)	\$ (0.02)	\$ (1.02)

The accompanying notes are an integral part of these condensed consolidated financial statements

**XENOMICS, INC.**  
(A Development Stage Company)  
**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY -  
RESTATED**

	Preferred Stock	Common Stock Shares	Stock Par Value	Treasury Shares	Additional Paid in Capital	Deferred Unamortized Stock-based Compensation	Deficit Accumulated During Development Stage	Total Stockholders' Equity
Balance August 4, 1999 (Inception)			—\$	\$	\$	\$	\$	—
Sale of common stock - founders		222,000,000	22,200	—	19,800	—	—	42,000
Net loss for the period ended January 31, 2000			—	—	—	—	(14,760)	(14,760)
Balance, January 31, 2000		222,000,000	22,200	0	19,800	0	(\$14,760)	27,240
Net loss for the period ended January 31, 2001			—	—	—	—	(267,599)	(267,599)
Balance, January 31, 2001		222,000,000	22,200	0	19,800	0	(282,359)	(240,359)
Capital contribution cash					45,188			45,188
Net loss for the period ended January 31, 2002			—	—	—	—	(524,224)	(524,224)
Balance, January 31, 2002		222,000,000	22,200	0	64,988	0	(806,583)	(719,395)
Sale of common stock		7,548,000	755		2,645			3,400
Capital contribution cash					2,500			2,500
Net loss for the period ended January 31, 2003			—	—	—	—	(481,609)	(481,609)
Balance, January 31, 2003		229,548,000	22,955	0	70,133	0	(1,288,192)	(1,195,104)



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Net loss for the period ended January 31, 2004	—	—	—	—	—	(383,021)	(383,021)
Balance, January 31, 2004	229,548,000	\$ 22,955	\$ 0	\$ 70,133	0	(\$1,671,213)	(\$1,578,125)

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

**XENOMICS, INC.**  
(A Development Stage Company)  
**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY-  
RESTATED (Continued)**

	Preferred Stock	Common Stock Shares	Par Value	Treasury Shares	Additional Paid in Capital	Deferred Unamortized Stock-based Compensation	Deficit Accumulated During Development Stage	Stock
Balance, January 31, 2004		229,548,000	\$ 22,955	\$ 0	\$ 70,133	\$ 0	(1,671,213)	\$
Founders waive deferred compensation					1,655,029			
Private Placement common stock		2,645,210	265		2,512,685			
Redeemed shares from Panetta Partners, Ltd		(218,862,474)	(21,886)		(478,114)			
Cost associated with recapitalization					(301,498)			
Share exchange with Xenomics Founders		2,258,001	226		(226)			
Issuance of treasury shares to escrow		350,000	35	(35)				
Private Placement common stock		1,368,154	136		2,667,764			
Issuance of warrants to finders					403,038			
Finders warrants charged cost of capital					(403,038)			
Deferred stock based compensation					1,937,500	(1,937,500)		
Amortization of deferred stock based compensation						245,697		
Options issued to consultants					1,068,238			
Warrants issued to consultant					2,630,440			
Net loss for the year ended January 31, 2005		—	—	—	—	—	(5,198,117)	
		17,306,891	\$ 1,731	(35)	\$ 11,923,282	(1,691,803)	(7,042,240)	\$

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Balance, January 31,  
2005

Private Placement common stock	127,025	12	20,388	
Private Placement common stock	1,515,384	152	2,656,847	
Private Placement of preferred stock	2,448,791		(45,107)	
Accretion of dividend on Series A preferred stock	322,209			(322,209)
Value of warrants reclassified to derivative financial instrument liability	(567,085)			
Retirement of treasury shares	(350,000)	(35)	35	
Shares issued for services rendered	5,000	0	16,500	
Outstanding options marked to market			2,928,298	
Amortization of deferred stock based compensation				322,916
Outstanding options marked to market			(269,396)	
Net loss for the six month period ended July 31, 2005				(5,390,248)
Balance, July 31, 2005	2,203,915 \$	18,604,300 \$	1,860	(\$0) \$ 17,590,422 \$ (1,368,887) \$ (12,754,697) \$

The accompanying notes are an integral part of these condensed consolidated financial statements

**XENOMICS, INC.**  
(A Development Stage Company)  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - RESTATED**  
(UNAUDITED)

	Six months ended July 31,		Period from August 4, 1999 (inception) to July 31, 2005
	2005	2004	
Cash flows from operating activities:			
Net loss	\$ (5,390,248)	\$ (331,507)	\$ (12,432,488)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	10,545	—	19,612
Founders compensation contributed to equity	0	74,404	1,655,029
Stock based compensation expense	3,267,714	161,330	7,373,420
Derivative financial instrument (income)	31,052	—	31,052
Amortization of purchase discount on marketable investments	(1,695)	—	(1,695)
Changes in operating assets and liabilities:			
Prepaid expenses	(92,387)	(16,490)	(127,748)
Security deposit	2,565	(50,617)	(55,608)
Accounts payable and accrued expenses	61,220	33,893	268,280
Patent costs	—	(36,572)	0
Total adjustments	3,279,014	165,948	9,162,342
Net cash used in operating activities	(2,111,233)	(165,559)	(3,270,146)
Cash flows from investing activities:			
Acquisition of equipment	(29,575)	(41,137)	(116,137)
Purchase of marketable investments	(3,442,960)	—	(3,442,960)
Net cash used in investing activities	(3,472,535)	(41,137)	(3,559,097)
Cash flows from financing activities:			
Proceeds from issuance of common stock	3,154,999	2,512,950	8,428,937
Payment of acquisition costs on common stock	(477,600)	(301,498)	(779,098)
Proceeds from issuance of preferred stock	2,771,000	—	2,771,000
Payment of acquisition costs on preferred stock	(277,102)	—	(277,102)
Purchase of common stock	—	(500,000)	(500,000)
Net cash provided by financing activities	5,171,297	1,711,452	9,643,737
Net (decrease)increase in cash and cash equivalents	(412,471)	1,504,756	2,814,494
Cash and cash equivalents at beginning of period	3,226,965	339	—
Cash and cash equivalents at end of period	\$ 2,814,494	\$ 1,505,095	\$ 2,814,494

Supplementary disclosure of cash flow information:

Cash paid for taxes	\$	—	\$	—	\$	—
Cash paid for interest	\$	—	\$	—	\$	—

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

**XENOMICS, INC.**  
(A Development Stage Company)  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**July 31, 2005**  
**(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 July 31, 2005, Xenomics has sustained cumulative net losses of \$12,754,697. Xenomics's losses have resulted primarily from expenditures incurred in connection with research and development activities, application and filing for regulatory approval of its proposed products, patent filing and maintenance expenses, purchase of in-process research and development, outside accounting and legal services and regulatory, scientific and financial consulting fees aggregating \$5,381,277 and non-cash stock based compensation expense of \$12,373,420. From inception through July 31, 2005, 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's 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:**

The accompanying condensed consolidated financial statements of Xenomics, which include the results of Xenomics, Inc. a Florida corporation and its wholly owned subsidiary Xenomics, a California corporation ("Xenomics Sub"), have been prepared in accordance with (i) accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and (ii) the rules of the Securities and Exchange Commission (the "SEC") for quarterly reports on Form 10-QSB. All significant intercompany balances and transactions have been eliminated in consolidation. These condensed consolidated financial statements do not include all of the information and footnote disclosures required by GAAP for complete financial statements. These statements should be read in conjunction with Xenomics's audited financial statements and notes thereto for the year ended January 31, 2005, included in Amendment No.2 to Form 10-KSB filed with the SEC on January 10, 2006. In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments, primarily consisting of normal adjustments, necessary for the fair presentation of the balance sheet and results of operations for the interim periods. The results of operations for the six months ended July 31, 2005 are not necessarily indicative of the results of operations to be expected for the full year ending January 31, 2006.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**CASH, CASH EQUIVALENTS AND MARKETABLE INVESTMENTS** - Xenomics considers all highly liquid debt instruments, including treasury bills, purchased with original maturities of three months or less to be cash equivalents.

Marketable investments consisted of held to maturity debt investments that are reported at fair market value. As of July 31, 2005 approximately \$3,444,655 was held in US Treasury Bills that had maturities ranging from three to six months. All treasury bills are purchased at a discount to face value, which discount is amortized until maturity, in accordance with Statement of Financial Accounting Standard (“SFAS”) No. 115 “Accounting for Debt and Equity Securities”. The amortization of a purchase discount of \$1,695 on these investments was recorded as interest income in Xenomics’s results of operations for the six months ended July 31, 2005.

**BUSINESS CONCENTRATIONS AND CREDIT RISKS** - All of Xenomics's cash and cash equivalents and marketable investments as of July 31, 2005 are on deposit with a major money center financial institution, or invested in short term debt instruments, principally U.S. Treasury Bills, not exceeding maturities of 120 days. Bank deposits at any point in time may exceed federally insured limits.

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 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 July 31, 2005, Xenomics had 1,288,837 shares of common stock issuable upon conversion of the 277,100 shares of Series A convertible preferred stock outstanding. In addition Xenomics had 2,503,501 and 20,000 common stock warrants outstanding which were 100% vested as of July 31, 2005 and July 31, 2004 respectively. Stock options outstanding totaled 6,290,000 and 3,750,000 as of July 31, 2005 and 2004, respectively. All share and per share amounts have been restated to reflect the 111 for 1 stock split which was effective July 26, 2004.

ACCOUNTING FOR STOCK BASED COMPENSATION - Xenomics has adopted Statement of Financial Accounting Standard ("SFAS") No. 123, "Accounting for Stock-Based Compensation." As provided for by SFAS 123, Xenomics has 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"). During the quarter ended July 31, 2005, Xenomics recorded \$3,375,652 in stock-based compensation expense.

A total of 5,000,000 shares of common stock have been reserved for issuance under the Xenomics Stock Option Plan, as amended (the "Plan"). As of July 31, 2005, options for 6,290,000 shares were outstanding under the Plan. 1,290,000 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. With respect to the options granted prior to stockholder approval a measurement date has not occurred and accordingly no compensation expense has been recorded. When such measurement date does occur, stock based compensation expense will be recorded. During the six months ended July 31, 2005, Xenomics recorded \$3,267,714 in stock-based compensation expense associated with shareholder approved options and warrants and had \$1,368,887 of deferred stock based compensation as of July 31, 2005. Had the 1,290,000 options granted subject to shareholder approval been approved on July 31, 2005 (the measurement date, at which date the market price of the Company's stock was \$2.50 per share) the Company would have recognized approximately \$85,000 of additional stock-based compensation during the quarter and the six months ended July 31, 2005 and would have approximately \$800,000 of additional deferred stock based compensation as of July 31, 2005.

In December 2002, the Financial Accounting Standards Board issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure, an amendment of FASB Statement No. 123," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both Quarterly and Annual financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. (See table below)

Had compensation cost for stock options granted to employees and directors been determined based upon the fair value at the grant date for awards, consistent with the methodology prescribed under SFAS 123, Xenomics's net loss would have been as follows:

	<b>Three Months Ended July 31,</b>		<b>Six Months Ended July,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Net loss applicable to common share holders, as reported	\$ (4,960,590)	\$ (254,283)	\$ (5,712,457)	\$ (331,507)
Add: Stock-based employee compensation expense				



recorded under APB No. 25				
intrinsic value method	161,458	—	322,917	—
Deduct: Stock-based employee compensation expense determined under fair value method	(324,742)	(149)	(649,484)	(149)
Pro forma net loss	\$ (5,123,873)	\$ (254,432)	\$ (6,039,024)	\$ (331,656)
Net loss per share:				
Basic and diluted -as reported	\$ (0.26)	\$ (0.02)	\$ (0.31)	\$ (0.02)
Basic and diluted -pro forma	\$ (0.27)	\$ (0.02)	\$ (0.33)	\$ (0.02)
Black-Scholes Methodology Assumptions:				
Dividend yield	0%	0%	0%	0%
Risk free interest rate	4.50%	4.25%	4.50%	4.25%
Expected lives of options	7 to 10 years	7 to 10 years	7 to 10 years	7 to 10 years

Volatility of 0% was used until Xenomics's common stock began to trade publicly on July 2, 2004. Since July 5, 2004 through July 31, 2005, Xenomics has used 80% volatility to determine fair value of options granted to employees.

RECENT ACCOUNTING PRONOUNCEMENTS AFFECTING THE COMPANY - In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard ("SFAS") No. 123 (Revised 2004), "Share-Based Payment." SFAS No 123R is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation" and supersedes Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees" and its related implementation guidance. SFAS No. 123R focuses primarily on accounting for transactions in which an entity obtains employee services through share-based payment transactions. SFAS No 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 cost will be recognized over the period during which an employee is required to provide services in exchange for the award. SFAS No. 123R is effective as of the beginning of the first interim or Quarterly reporting period that begins after December 15, 2005. While Xenomics cannot precisely determine the impact on net loss as a result of the adoption of SFAS No 123R, estimated compensation expense related to prior periods can be found in the above table of this footnote.

#### 4. STOCKHOLDERS' EQUITY:

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 Company 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.

On February 5, 2005 the Company completed the first tranche of the private placement described above selling an additional 104,564 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.

In connection with the offer and sale of securities to the Investors and the Company also entered into a Registration Rights Agreement, dated as of January 28, 2005 (the "Registration Rights Agreement"), with the Investors pursuant to which the Company has 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.

On April 7, 2005, the Company closed the second and final tranche of the private placement selling 1,515,384 shares of common stock and 378,846 warrants to certain additional Investors for aggregate proceeds of \$2,954,999. The Company paid an aggregate \$298,000 in fees and issued an aggregate 121,231 warrants to purchase common stock to selling agents. The warrants are immediately exercisable at \$2.15 per share and will expire five years after issuance. 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 \$166,856 on the date of issuance and this amount was recorded as a cost of raising capital.

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 and six month periods ending July 31, 2005, the Company recorded an expense of \$31,052 and \$0, 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 July 13, 2005.

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.

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 has 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 October 25, 2005. In the event a registration statement covering such shares of common stock is not declared effective by October 25, 2005 Company shall pay 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 Company's Articles of Incorporation have been amended to provide for the issuance of 277,100 shares of Series A Preferred Stock pursuant to the Articles of Amendment to the Articles of Incorporation filed with the State of Florida on July 13, 2005.

## 5. COMMITMENTS AND CONTINGENCIES:

### **LICENSE AGREEMENTS:**

On June 28, 2005, Xenomics, The Spallanzani National Institute for Infectious Diseases ("INMI") and SpaXen Italia, S.R.L., a joint venture between Xenomics and INMI ("SpaXen"), entered into a license agreement in which INMI granted to SpaXen an exclusive license to manufacture, have manufactured, use, import, offer to sell and/or sell products covered by certain existing and newly developed intellectual property assigned to INMI, pertaining to the application of Tr- DNA technology to the field of infectious diseases. In addition, SpaXen granted Xenomics an exclusive sublicense to manufacture, use, import and/or sell any products covered by the same INMI intellectual property licensed by SpaXen from INMI. Pursuant to the license agreement Xenomics agreed to pay to SpaXen a running royalty of 2% of the Company's net sales of any product resulting from the licensed INMI intellectual property. SpaXen has agreed to pay INMI a running royalty of 50% of the royalty fees paid by Xenomics. SpaXen's primary research and development targets will be tests for diagnosis of AIDS, hepatitis B, tuberculosis, malaria, and leishmaniasis diseases with the highest levels of morbidity and mortality.

### **EMPLOYMENT AND CONSULTING AGREEMENTS:**

On June 27, 2005 Xenomics entered into an agreement with Gabriele M. Cerrone, the Company's Co-Chairman, to serve as a consultant for a term of three years with automatic renewal for successive one year periods unless either party gives notice to the other not to renew the agreement. The duties of Mr. Cerrone pursuant to the agreement consist of business development, strategic planning, capital markets and corporate financing consulting advice. Mr. Cerrone's compensation under the agreement is \$16,500 per month. In the event the agreement is terminated without cause or for good reason, Mr. Cerrone will receive a cash payment equal to the aggregate amount of the compensation payments for the then remaining term of the agreement. In addition, in such event, all unvested stock options owned by Mr. Cerrone will immediately vest and the exercise period of such options will be extended to the later of the longest period permitted by the Company's stock option plans or ten years following termination. In the event a change of control of the Company occurs, Mr. Cerrone shall be entitled to such compensation upon the subsequent termination of the agreement within two years of the change in control unless such termination is the result of Mr. Cerrone's death, disability or retirement or Mr. Cerrone's termination for cause.

On May 24, 2005, the Company's Compensation Committee in recognition of the substantial time and effort to the Company's affairs during the past year by each of Gabriele M. Cerrone, Co-Chairman, L. David Tomei, Co-Chairman and President of SpaXen Italia, S.R.L., the Company's joint venture with the Spallanzani National Institute for Infectious Diseases in Rome, Italy, Samuil Umansky, President and Hovsep Melkonyan, Vice President, Research, accelerated the vesting of outstanding stock options dated June 24, 2004 previously granted to each such officer in the amounts of 1,050,000, 1,012,500, 1,012,500 and 675,000, respectively, so that such options vest as of May 24, 2005. No other terms of the original option agreements were changed (e.g. number of shares, exercise price, or life of the option) therefore, in accordance with FASB Interpretation No. 44 Accounting for Certain Transactions Involving Stock Compensation (paragraph 31), no modification of the original stock based compensation was required.

The acceleration did not result in the two affected employees (Mr. Umansky and Mr. Melkonyan) being able to exercise options that would have otherwise expired unexercised therefore no change to our original accounting treatment is required under FIN 44. However if any of the employees terminate their employment prior to the date they would have otherwise fully vested in the award we will be required to record compensation expense based on the intrinsic value on the date of modification. Because there were a relatively small number of affected employees, we have no basis for recording an estimate of future terminations and accordingly no compensation expense can be recorded until the date of any future terminations prior to the original vesting date. The compensation expense associated with the options granted to the two affected non-employee Directors (Mr. Cerrone and Mr. Tomei), who perform consulting services outside of their Board duties, was measured using the fair value method in accordance with EITF 96-18. Because these grants were awarded in conjunction with consulting agreements the fair value was remeasured ("market to market") each quarter during the original vesting (service) period. The acceleration of these options fixed the measurement date prior to the original vesting therefore we expensed the remaining balance of deferred stock based compensation totaling \$3,197,694 during the quarter ended July 31, 2005.

On February 14, 2005, Xenomics entered into an employment agreement with Bernard Denoyer, pursuant to which Mr. Denoyer will serve as Vice President-Controller for a period of 1 year commencing February 14, 2005. The agreement is automatically renewed for successive 1 year periods until written notice not to renew is delivered by either us or Mr. Denoyer. Mr. Denoyer's salary is \$75,000 per year. In connection with the employment agreement, Mr. Denoyer received a grant of 75,000 incentive stock options pursuant to Xenomics's stock option plan with an exercise price of \$2.50 per share. Such options will vest at the rate of 25,000 per year for a period of three years beginning on January 14, 2006.

On December 13, 2004 Xenomics entered into a letter of engagement (the "Agreement") with Trilogy Capital Partners, Inc. ("Trilogy"). The term of the Agreement is for twelve months and terminable thereafter by either party upon 30 days' prior written notice. Pursuant to the Agreement, Trilogy will provide marketing, financial public relations services and assume the responsibilities of an investor relations officer. Xenomics will pay Trilogy \$10,000 per month under the Agreement.

Pursuant to the Agreement, 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. Xenomics has agreed to file a registration statement with the Securities and Exchange Commission registering for resale the shares of Common Stock underlying the Warrants. The Fair Value of the Warrants using the Black-Scholes methodology is \$2,630,440 which was recorded as stock-based compensation expense in the quarter ended January 31, 2005.

## 6. Restatement

On September 2, 2005 the Company received a comment letter from the Securities and Exchange Commission (the "SEC") concerning its Form SB-2 which was filed with the SEC by the Company on August 2, 2005. The Company's consolidated financial statements for the year ended January 31, 2005 and the three and six months ended April 30 and July 31, 2005 included in Amendment No. 1 to Form SB-2 filed on October 28, 2005 were restated in response to certain SEC comments.

On November 28, 2005 the Company received a comment letter from the SEC concerning Amendment No. 1 to Form SB-2. The Company's consolidated financial statements for the year ended January 31, 2005 included in Amendment No. 2 to Form SB-2 filed on January 11, 2006 were restated in response to certain SEC comments.

On February 2, 2006 the Company received a comment letter from the SEC concerning Amendment No. 2 to Form SB-2. The Company's consolidated financial statements for the year ended January 31, 2005 and the nine months ended October 31, 2005 included in Amendment No. 3 to Form SB-2 filed on February 14, 2006 were restated in response to certain SEC comments.

On February 22, 2006, the Company received a comment letter from the SEC concerning Amendment No. 3 to Form SB-2. The Company's consolidated financial statements for the nine months ended October 31, 2005 included in Amendment No. 4 to Form SB-2 filed on February 28, 2006 were restated in response to certain SEC comments.

The following is a summary of the impact of those adjustments:

<b>Year Ended January 31, 2005</b>	<b>Six Months Ended July 31, 2005</b>
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Net loss prior to adjustments	\$	(3,336,018)	\$	(2,072,783)
Reversal of charge for acquired in-process research and development		2,145,101		0
Stock based compensation - Trilogy Capital Partners, Inc.		(123,063)		(453,294)
Deferred founders' compensation contributed to capital		(74,404)		0
Net loss as reported in Amendment #1		(1,388,384)		(2,526,077)
Stock based compensation:				
Trilogy Capital Partners, Inc.		(2,507,377)		453,294
Consultants other than Trilogy		(1,229,568)		(2,928,298)
Employees		(245,697)		(322,916)
Other		0		(35,199)
Net loss as reported in Amendment #2		(5,371,026)		(5,359,196)
Derivative financial instrument		0		(598,137)
Net loss as reported in Amendment #3		(5,371,026)		(5,957,333)
Derivative financial instrument		0		567,085
Net loss as reported in Amendment #4	\$	(5,371,026)	\$	(5,390,248)
Weighted average common shares		14,580,186		18,335,109
Loss per share - Basic and diluted - Prior to adjustments	\$	(0.23)	\$	(0.11)
Loss per share - Basic and diluted - As reported in Amendment #4	\$	(0.37)	\$	(0.32)

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

The following discussion should be read in conjunction with our consolidated financial statements and notes to those statements included in this Quarterly Report on Amendment No.2 to Form 10-QSB. In addition to historical information, the following discussion and other parts of this Quarterly Report contain forward-looking information that involves risks and uncertainties.

**OVERVIEW**

We are a development stage molecular diagnostic company that focuses on the development of DNA-based tests using Trans-renal DNA ("Tr-DNA"). Tr-DNA's 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 new R&D company called SpaXen Italia, S.R.L, or SpaXen, which will conduct research and development on non-invasive diagnostic tests for infectious disease using Tr-DNA methodology.

**HISTORY**

Since inception on August 4, 1999 through July 31, 2005, we have sustained cumulative net losses of \$12,754,697. Our losses have resulted from research and development expenses, patent costs and legal, accounting, and administrative expenses aggregating \$5,381,277 and non-cash stock-based compensation expense of \$7,373,420. From inception through July 31, 2005, 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.

**Restatement of financial statements**

The consolidated financial statements contained within this report have been restated to eliminate errors for the matters described below. For restatement purposes in accordance with Generally Accepted Accounting Principles in the United States, an error is defined as an oversight or misuse of facts that existed at the time the financial statements were prepared.

The following is a summary of those adjustments:

	<b>Six Months Ended July 31, 2005</b>	<b>Six Months Ended July 31, 2004</b>
Net loss prior to adjustments	\$ (2,072,783)	\$ (95,773)
Deferred founders' compensation contributed to capital	—	(74,404)
Stock based compensation:		
Adjustment for use of quoted market price	(322,916)	(161,330)



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Adjustment for the application of EITF 96-18	(2,928,298)	0
Shares issued for service	(16,500)	0
	(3,267,714)	(161,330)
Derivative financial instrument	(31,052)	0
Other	(18,699)	0
Total adjustments	(3,317,465)	(235,734)
Net loss as restated	\$ (5,390,248)	(331,507)
Weighted average common shares	18,335,109	13,590,320
Loss per share - Basic and diluted - Prior to adjustments	\$ (0.11)	\$ (0.01)
Loss per share - Basic and diluted - Prior to adjustments	\$ (0.29)	\$ (0.02)

*Deferred Founders' Compensation Contributed To Capital* - Originally, there was no accounting recognition as management was not aware of the existence of deferred compensation agreements. When management became aware of such agreements and the founders did not seek to be paid these amounts, the amounts were accounted for as compensation contributed to capital.

*Stock Compensation - Adjustment Resulting From Use Of Quoted Market Price* - The original accounting treatment for stock based compensation was based upon a subjective determination of the most appropriate value of our common shares to be used in the Black-Scholes calculations. Specifically, we elected to use \$1.95 per share for such calculations, representing the sales price per share from a recent financing transaction, rather than the quoted market price with a simple average of approximately \$3.70 per share during the applicable period. Upon subsequent re-examination of the circumstances, it was determined that the use of the quoted market price was required by generally accepted accounting principles. Consequently, the calculations were revised and additional stock based compensation expense was recorded.

*Stock Compensation - Adjustment For The Application Of EITF 96-18* - The original accounting treatment for options issued to Messrs. Cerrone and Tomei, Co-Chairmen of the Board of Directors, assumed those individuals to be employees and no expense was recorded. Upon subsequent re-examination of the circumstances, it was determined that the options were deemed to relate to consulting services beyond the normal scope of their roles as Directors and, as required by EITF 96-18, they were expensed and marked to market through May 24, 2005. On that date, the Board of Directors accelerated the vesting of these options. Consequently, that date was deemed to be the measurement date and the fair value of the previously unvested options was immediately expensed.

*Stock Compensation - Shares Issued For Services* - Originally, there was no accounting recognition as financial management was not aware of an agreement with a service provider. When management became aware of such an agreement, the amount was determined based upon quoted market price and accounted as expense in the appropriate period.

*Derivative Financial Instrument* - The original accounting treatment for the warrants issued in connection with the financing transaction on July 13, 2005 was limited solely to disclosure. Upon subsequent re-examination of the circumstances, it was deemed that the fair value of these warrants should be charged to expense and a corresponding liability establish for the same amount and that the liability be subsequently marked-to-market until the warrants are settled, in accordance with the provisions of EITF #00-19. Consequently, the fair value of these warrants was

accounted for as a reduction to the allocation of proceeds to preferred stock and a liability established. This amount reflects the benefit to the Statement of Operations for mark-to-market adjustments relating to that liability.

## **RESULTS OF OPERATIONS**

### **THREE MONTHS ENDED JULY 31, 2005 AND 2004.**

We had no revenues during the quarters ended July 31, 2005 and 2004 because we do not have any commercial products and we do not expect to have any for the foreseeable future.

Operating expenses increased to \$4,624,711 during the quarter ended July 31, 2005 from \$254,283 for the same period in 2004. This increase occurred as a result of increased business activities which began subsequent to July 2, 2004, the date our business combination and first private placement was completed.

Research and development expenses increased to \$266,161 during the quarter ended July 31, 2005, from \$90,949 during the quarter ended July 31, 2004. These expenditures include our in-house research and development laboratory in New Jersey, salaries and staff costs, patent legal, filing and maintenance expenses, regulatory and scientific consulting fees and laboratory supplies. Our research and development expenses increased because we were operating for the full three months in the quarter ended July 31, 2005 whereas we only had limited operations during the quarter ended July 31, 2004.

General and administrative expenses increased to \$982,897 during the quarter ended July 31, 2005 as compared to \$2,004 during the quarter ended July 31, 2004. This increase was principally due to increased investor relation expenditures of approximately \$246,000; higher compensation cost associated with the hiring of our Chief Executive Officer, Controller and other office staff of approximately \$160,000; consulting fees associated with retaining the services of our Co-Chairmen, Messrs. Cerrone and Tomei totaling approximately \$140,000; plus legal and public accounting fees of approximately \$138,000; and facilities expense totaling approximately \$114,000.

Stock-based compensation expense for the quarters ended July 31, 2005 and 2004 was \$3,375,652 and \$161,330 respectively. During the quarter ended July 31, 2005 approximately \$3,198,000 of such expense is attributable to options and warrants granted to certain independent consultants for services rendered and was measured using the fair value (Black-Scholes) methodology. Had we used the fair value method for employee and director options (instead of intrinsic value) our stock based compensation expense would have been approximately \$163,000 higher in the quarter ended July 31, 2005, whereas this alternative methodology would have had minimal impact in the quarter ended July 31, 2004.

Interest and investment income for the quarter ended July 31, 2005 was \$33,686, whereas no interest income was earned in the quarter ended July 31, 2004. Interest and investment income increased as a result of our higher cash and marketable investment balances reflecting our recent private placements discussed in the "Liquidity and Capital Resources" section below.

Derivative financial instrument charge to expense for the quarters ended July 31, 2005 and 2004 was \$31,052 and zero, respectively. This charge is attributable to the change in the the liability associated with warrants issued in connection with the financing transaction on July 13, 2005.

This interest and investment income was partially offset by \$16,304 in liquidated damages paid, to certain investors under the Registration Rights Agreement dated January 28, 2005, for failure to file a registration statement with the SEC by May 25, 2005.

Net loss for the quarter ended July 31, 2005 was \$4,638,381 as compared to a loss of \$254,283 for the same period in 2004. The increase in the net loss in 2005 is the result of higher operating expenses, slightly offset by higher interest and investment income as described above.

#### **SIX MONTHS ENDED JULY 31, 2005 AND 2004.**

We had no revenues during the six months ended July 31, 2005 and 2004 because we do not have any commercial products and we do not expect to have any for the foreseeable future.

Operating expenses increased to \$5,388,707 during the six months ended July 31, 2005 from \$331,507 for the same period in 2004. This increase occurred as a result of increased business activities which began subsequent to July 2, 2004, the date our business combination and first private placement was completed.

Research and development expenses increased to \$562,807 during the six months ended July 31, 2005, up from \$165,353 during the six months ended July 31, 2004. These expenditures include salaries and staff costs for our in-house research and development laboratory in New Jersey, patent legal, filing and maintenance expenses, regulatory and scientific consulting fees and laboratory supplies. Our research and development expenses increased because we were operating for the full six months in the six months ended July 31, 2005 whereas we only had limited operations during the six months ended July 31, 2004.

General and administrative expenses increased to \$1,558,181 during the six months ended July 31, 2005 as compared to \$4,824 during the six months ended July 31, 2004. This increase was principally due to increased investor relation expenditures of approximately \$370,000; higher compensation cost associated with the hiring of our Chief Executive Officer, Controller and other office staff of approximately \$292,000; consulting fees associated with retaining the services of our Co-Chairmen, Messrs. Cerrone and Tomei totaling approximately \$205,000; plus legal and public accounting fees in connection with our fund raising activities of approximately \$166,000; and facilities expense totaling approximately \$203,000.

Stock-based compensation expense for the six months ended July 31, 2005 and 2004 was \$3,267,714 and \$161,330 respectively. During the six months ended July 31, 2005 approximately \$3,198,000 of such expense is attributable to options and warrants granted to certain independent consultants for services rendered and was measured using the fair value (Black-Scholes) methodology. Had we used the fair value method for employee and director options (instead of intrinsic value) our stock based compensation expense would have been approximately \$327,000 higher in the six months ended July 31, 2005, whereas this alternative methodology would have had minimal impact in the six months ended July 31, 2004.

Interest and investment income for the six months ended July 31, 2005 was \$45,810, whereas no interest income was earned in the six months ended July 31, 2004. Interest and investment income increased as a result of our higher cash and marketable investment balances reflecting our recent private placements discussed in the "Liquidity and Capital Resources" section below.

Derivative financial instrument charge to expense for the six months ended July 31, 2005 and 2004 was \$31,052 and zero, respectively. This charge is attributable to the change in the liability associated with warrants issued in connection with the financing transaction on July 13, 2005.

Net loss for the six months ended July 31, 2005 was \$5,390,248 as compared to a loss of \$331,507 for the same period in 2004. The increase in the net loss in 2005 is the result of higher operating expenses, slightly offset by higher interest and investment income as described above.

## **PLAN OF OPERATION**

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: prenatal genetic testing and infectious disease detection. 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 the 2006 fiscal year. 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. The research contract with Long Island Jewish (LIJ) Health System is subject to approval by its Institutional Review Board ("IRB"). There can be no assurance that our contract with North Shore Long Island Jewish (LIJ) Health System will be approved by its IRB.

We intend to develop our infectious disease applications at SpaXen, S.R.L. our joint venture with The Spallanzani National Institute for Infectious Diseases ("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 our two focus areas of prenatal genetic testing and infectious disease detection with a goal toward eventually bringing FDA approved products to market. We anticipate that Tr-DNA analysis will become a platform technology for development of tests for the monitoring of tumor and pre-cancerous progression and post-treatment screening for tumor re-growth conditions. The initial opportunities for diagnostic test development are gastro-intestinal tumors, including colorectal cancer, liver cancer and pancreatic cancer. 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. We believe that our Tr-DNA technology can also be used to monitor organ transplant patients. Because organ rejection is marked by early death of cells, we believe that an early indication of rejection can be identified by measuring a unique series of genetic markers of the organ donor that can be detected in random urine samples of the organ recipient. 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 2 to 3 years for our first product to be commercialized. During the second half of calendar 2006, with the addition of appropriate regulatory personnel, we intend to create a good manufacturing practice, or GMP, compliant manufacturing facility. At the same time, we must adopt the FDA Quality System Regulations (QSR) system of documentation. In most cases, we expect to purchase bulk quantities of specified raw materials and reagents from qualified vendors. In some cases, we may synthesize certain materials and reagents. We expect our manufacturing facility to use bulk materials to assemble reagent sets, perform quality control testing and package the reagent sets for shipping and distribution. Because we do not have manufacturing experience, we may not be able to establish a GMP compliant facility or develop reproducible and effective manufacturing processes at a reasonable cost. In such event, we will have to rely on third party manufacturers whose availability and cost is presently unclear.

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. In addition, we have leased a laboratory facility of approximately 3,700 sq. ft. in Monmouth Junction, New Jersey. We believe that these facilities, together with laboratory facilities provided to SpaXen by INMI, will be adequate for our anticipated level of activity during fiscal year 2006.

## **LIQUIDITY AND CAPITAL RESOURCES.**

As of July 31, 2005 we had \$6,261,544 in cash, cash equivalents and marketable investments, compared to \$3,226,965 as of January 31, 2005. This increase of approximately \$3,000,000 is the result of a net fund raising of approximately \$5,100,000 less \$2,100,000 used for operating activities during the six months ended July 31, 2005.

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 Company 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.

On February 5, 2005 the Company completed the first tranche of the private placement described above selling an additional 104,564 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.

On April 7, 2005, the Company closed the second and final tranche of the private placement selling 1,515,384 shares of common stock and 378,846 warrants to certain additional Investors for aggregate proceeds of \$2,954,999. The Company paid an aggregate \$298,000 in fees and issued an aggregate 121,231 warrants to purchase common stock to selling agents. The warrants are immediately exercisable at \$2.15 per share and will expire five years after issuance. 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 are immediately exercisable at \$3.25 per share and are exercisable at any time within five years from the date of issuance. The Company paid an aggregate \$277,101 and issued an aggregate 105,432 warrants to purchase common stock to certain selling agents. The warrants issued to selling agents are immediately exercisable at \$2.50 per share and will expire five years after issuance.

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 be sufficient to fund our operations for at least the next 12 months. We will be required to raise additional capital to complete the development and commercialization of our current product candidates.

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.

## **ITEM 3: CONTROLS AND PROCEDURES.**

We are required to maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosure.

In connection with the preparation of Amendment No. 5 to Form 10-QSB for the six months ended July 31, 2005, management, under the supervision of the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of July 31, 2005 due to the errors outlined below.

*a)Deferred Founders' Compensation Contributed To Capital* - Originally, there was no accounting recognition as financial management was not aware of the existence of deferred compensation agreements. This resulted in an understatement of compensation expense. The cause of this error was attributable to inadequate communication within our company.

*b)Stock Compensation - Adjustment Resulting From Use Of Quoted Market Price* - The original accounting treatment for stock based compensation was based upon a subjective determination of the most appropriate value of our common shares to be used in the valuation calculations. Specifically, we elected to use \$1.95 per share for such calculations, representing the sales price per share from a recent financing transaction, rather than the quoted market price with a simple average of approximately \$3.70 per share during the applicable period. This error resulted in an understatement of compensation expense. The cause of this error was attributable to financial management's lack of familiarity with certain provisions of the accounting literature concerning stock compensation expense.

*c)Stock Compensation - Adjustment For The Application Of EITF 96-18* - The original accounting treatment for options issued to the Co-Chairmen of the Board of Directors erroneously assumed those individuals to be employees and no expense was recorded. This error resulted in an understatement of compensation expense. The cause of this error was attributable to financial management's lack of familiarity with certain provisions of EITF 96-18 concerning stock compensation expense.

*d)Stock Compensation - Shares Issued For Services* - Originally, there was no accounting recognition as financial management was not aware of an agreement with a service provider. This resulted in an understatement of professional services expense. The cause of this error was attributable to inadequate communication within our company.

*e)Derivative Financial Instrument* - The original treatment for the warrants issued in connection with the financing transaction in July 2005 was erroneously limited solely to disclosure. This error resulted in: i) an understatement of a derivative financial instrument liability and an overstatement of proceeds allocated to preferred stock, and ii) the absence of a net benefit to operating results for the marking-to-market of that derivative financial instrument liability at subsequent reporting dates. The cause of this error was attributable to financial management's lack of familiarity with certain provisions of EITF 00-19.

We have implemented the following measures to remediate the errors described above. We are committed to establishing the necessary environment to ensure the effectiveness of these controls in the future and quality financial reporting. As described in detail in the following paragraphs, we appointed a new director as Chairman of the Audit Committee and designated him as the Audit Committee financial expert. Additionally we hired a Chief Financial Officer. Communication has been improved through the inclusion of the Chief Financial Officer in all meetings of the Board of Directors and the establishment of a Disclosure Committee. Further, we have strengthened our accounting staff through the hiring of additional personnel.



Personnel Changes:

- a) On December 1, 2005, the Board of Directors appointed John Brancaccio as director and Chairman of the Audit Committee. Mr. Brancaccio is a retired Certified Public Accountant and has over 30 years of financial management experience. He currently serves as the Chief Financial Officer of Accelerated Technologies, Inc., a medical device company, and on the boards of the following publicly-held companies: Callisto Pharmaceuticals, Inc., Alfacell Corporation, and FermaVir Pharmaceuticals, Inc. Mr. Brancaccio was formerly the acting Chief Financial Officer and Treasurer of Memory Pharmaceuticals Corporation. The Board has designated Mr. Brancaccio as the audit committee financial expert.
- b) On January 16, 2006 we hired Frederick Larcombe as Chief Financial Officer. Mr. Larcombe is a Certified Public Accountant and has over twenty-five years of financial management experience which includes serving as Chief Financial Officer and Vice President of Finance with MicroDose Technologies, Inc., a privately held drug delivery company, and ProTeam.com, Inc., a publicly held Internet-oriented retailer. Prior to that, he held financial positions with Cambrex Corporation, a publicly-held life sciences company, and PriceWaterhouseCoopers.

Communication:

- a) Effective January 2006, the Chief Financial Officer participates in all meetings of the Board of Directors;
- b) Effective January 2006 discussions concerning all contracts, commitments, and general business activities include a member of the financial management team;
- c) Effective March 2006, a Disclosure Committee was established consisting of the Chief Executive Officer, Chief Financial Officer, and the Chairman of the Audit Committee which will meet periodically to ensure the identification of key business matters and ensure the adequacy of related disclosures; and
- d) Effective March 2006, resources supporting the accounting and reporting function has been strengthened with the addition of a more experienced individual. Additionally, a search has been initiated for an individual to fill the role of accounting manager or controller.

Except for changes in connection with the remediation subsequent to July 31, 2005 of the errors described above, there was no change in our internal control over financial reporting that occurred subsequent to April 30, 2005 that has materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**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

**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: March 15, 2006

By: /s/ L. David Tomei

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L. David Tomei  
Chief Executive Officer

Date: March 15, 2006

By: /s/ Frederick Larcombe

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Frederick Larcombe  
Chief Financial Officer

Index to Exhibits

Exhibit Description

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