

XENOMICS INC
Form 10QSB
September 19, 2005

**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: 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

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

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, 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.

PART I – FINANCIAL INFORMATION**Item 1. Condensed Consolidated Financial Statements****XENOMICS, INC.**

(A Development Stage Company)

CONSOLIDATED BALANCE SHEET**AS OF JULY 31, 2005****(Unaudited)****ASSETS**

Current Assets:

Cash and cash equivalents	\$	2,816,889
Marketable investments		3,444,655
Prepaid expenses		127,748
TOTAL CURRENT ASSETS		6,389,292

Property and equipment, net		96,525
Security deposits		55,608
	\$	6,541,425

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:

Accounts payable	\$	142,604
Accrued expenses		109,372
TOTAL CURRENT LIABILITIES		251,976

Stockholders' equity:

Preferred stock, \$.001 par value, 20,000,000 shares authorized, 277,100 shares outstanding, designated as Series A Convertible Preferred Stock		2,771,000
Common stock, \$.0001 par value, authorized 100,000,000 shares, 18,604,300 issued at July 31, 2005		1,860
Additional paid-in-capital		9,093,916
Unamortized deferred stock based compensation		(1,516,980)
Deficit accumulated during the development stage		(4,060,347)
		6,289,449
	\$	6,541,425

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

XENOMICS, INC.
(A Development Stage Company)

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended July 31,		Six Months Ended July 31,		August 4,
	2005	2004	2005	2004	1999
					(Inception) to
					July 31, 2005
Revenues	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Costs and expenses:					
Research and development	266,161	90,949	562,807	93,769	1,198,105
General and administrative	980,503	2,004	1,555,786	2,004	2,208,002
Stock based compensation	299,599	2,733	582,996	2,733	706,059
Loss from operations	(1,546,263)	(95,686)	(2,701,589)	(98,506)	(4,112,166)
Interest and investment income	33,686	0	45,810	0	51,819
Net loss	\$ (1,512,577)	\$ (95,686)	\$ (2,655,779)	\$ (98,506)	\$ (4,060,347)
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	\$ (0.08)	\$ (0.01)	\$ (0.14)	\$ (0.01)	\$ (0.32)

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

	Preferred Stock	Common Shares	Stock Par Value	Treasury Shares	Additional Paid in Capital	Stock-based Compensation	Deferred Unamortized	Accumulated During Development Stage	Deficit	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 year ended January 31, 2001			—	—	—	—	—	(40,724)		(40,724)
Balance, January 31, 2001		222,000,000	\$ 22,200	\$ 0	\$ 19,800	\$ 0		(\$55,484)		(\$13,484)
Capital contribution cash					45,188					45,188
Net loss for the year ended January 31, 2002			—	—	—	—	—	(29,224)		(29,224)
Balance, January 31, 2002		222,000,000	\$ 22,200	\$ 0	\$ 64,988	\$ 0		(\$84,708)		\$ 2,480
Sale of common stock		7,548,000	755		2,645					3,400
Capital contribution cash					2,500					2,500
Net loss for the year ended January 31, 2003			—	—	—	—	—	(5,359)		(5,359)
Balance, January 31, 2003		229,548,000	\$ 22,955	\$ 0	\$ 70,133	\$ 0		(\$90,067)		\$ 3,021
Net loss for the year ended January 31, 2004			—	—	—	—		(521)		(521)
Balance, January 31, 2004		229,548,000	\$ 22,955	\$ 0	\$ 70,133	\$ 0		(\$90,588)		\$ 2,500

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
(Continued)

	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, January 31, 2004		229,548,000	\$ 22,955	\$ 0	\$ 70,133	0	(\$90,588)	2,500
Private Placement common stock		2,645,210	265		2,512,685			2,512,950
Redeemed shares from Panetta Partners, Ltd		(218,862,474)	(21,886)		(478,114)			(500,000)
Cost associated with recapitalization					(308,060)			(308,060)
Share exchange with Xenomics Founders		2,258,001	226		(226)			0
Issuance of treasury shares to escrow		350,000	35	(35)				0
Private Placement common stock		1,368,154	136		2,674,326			2,674,462
Deferred stock based compensation					895,450	(895,450)		0
Amortization of deferred stock based compensation						123,063		123,063
Net loss for the year ended January 31, 2005			—	—	—		(1,313,980)	(1,313,980)
Balance, January 31,	\$ 0	17,306,891	\$ 1,731	(\$35)	\$ 5,366,194	(\$772,387)	(\$1,404,568)	\$ 3,190,934

2005										
Sale of common stock - net										
	127,025	\$	13	\$	20,387		\$	20,400		
Sale of common stock - net										
	1,515,384	\$	152	\$	2,656,847		\$	2,656,999		
Sale of Series A Convertible Preferred Stock - net										
	\$ 2,771,000				(\$277,101)		\$	2,493,899		
Retirement of Treasury Shares										
	(350,000)		(\$35)	\$	35		\$	0		
Shares issued for services										
	5,000	\$	0				\$	0		
Deferred stock based compensation - new grants										
				\$	1,262,589	(\$1,262,589)	\$	0		
Amortization of deferred stock based compensation										
				\$	517,996		\$	517,996		
Stock based compensation expense - new grant										
				\$	65,000		\$	65,000		
Net loss for 6 months ended July 31, 2005										
							(\$2,655,779)	(\$2,655,779)		
Balance, July 31, 2005										
	\$ 2,771,000	18,604,300	\$	1,860	\$	0	\$ 9,093,916	(\$1,516,980)	(\$4,060,347)	\$ 6,289,449

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
(UNAUDITED)

	Six months ended July 31,		Period from
	2005	2004	August 4, 1999
			(inception) to
			July 31, 2005
Cash flows from operating activities:			
Net loss	\$ (2,655,779)	\$ (98,506)	\$ (4,060,347)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	10,545	—	19,612
Stock based compensation expense	582,996	2,733	706,059
Amortization of purchase discount on marketable investments	(1,695)	—	(1,695)
Changes in operating assets and liabilities:			
Prepaid expenses	(92,388)	(16,490)	(127,748)
Security deposit	2,565	(50,617)	(55,608)
Accounts payable and accrued expenses	44,918	(8,205)	251,976
Patent costs	—	(1,732)	2,527
Total adjustments	546,941	(74,311)	795,123
Net cash used in operating activities	(2,108,838)	(172,817)	(3,265,224)
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	2,368,510	8,126,313
Payment of acquisition costs on common stock	(477,600)	(149,800)	(477,600)
Proceeds from issuance of preferred stock	2,771,000	—	2,771,000
Payment of acquisition costs on preferred stock	(277,101)	—	(277,101)
Purchase of common stock	—	(500,000)	(500,000)
Net cash provided by financing activities	5,171,298	1,718,710	9,642,612
Net (decrease)increase in cash and cash equivalents	(410,075)	1,504,756	2,816,889
Cash and cash equivalents at beginning of period	3,226,964	339	—
Cash and cash equivalents at end of period	\$ 2,816,889	\$ 1,505,095	\$ 2,816,889
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 \$4,060,347. 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. 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 Form 10-KSB filed with the SEC on May 17, 2005. 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 \$299,599 in stock-based compensation expense.

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:

	Three Months Ended July 31,		Six Months Ended July,	
	2005	2004	2005	2004
Net loss, as reported	\$ (1,512,577)	\$ (95,686)	\$ (2,655,779)	\$ (98,506)
Add: Stock-based employee compensation expense recorded under APB No. 25				
intrinsic value method	11,250	—	76,250	—
Deduct: Stock-based employee compensation expense determined under fair value method	(156,906)	(149)	(370,504)	(149)
Pro forma net loss	\$ (1,658,233)	\$ (95,835)	\$ (2,950,033)	\$ (98,655)
Net loss per share:				
Basic and diluted -as reported	\$ (0.08)	\$ (0.01)	\$	\$