

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, DC 20549

FORM 10-Q

(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, 2006

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ **to** _____

Commission file number 333-103083

XENOMICS, INC.

(Exact name of registrant as specified 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 including area code)

(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 the registrant is a large accelerated filer or a non-accelerated filer. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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 15, 2006, the registrant had 20,029,388 shares of common stock, par value \$0.0001, outstanding.

INTRODUCTORY NOTE

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

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

PART I – FINANCIAL INFORMATION

ITEM 1 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Xenomics, Inc. and Subsidiary
(A Development Stage Company)
Condensed Consolidated Balance Sheets
(Unaudited)

	July 31, 2006 (Unaudited)	January 31, 2006
Assets		
Current assets:		
Cash	\$ 1,685,576	\$ 3,865,092
Prepaid expenses and other current assets	33,649	76,697
Total current assets	<u>1,719,225</u>	<u>3,941,789</u>
Property and equipment, net	230,068	121,533
Deposits	55,698	55,698
Other asset	<u>0</u>	<u>2,000</u>
Total assets	<u>\$ 2,004,991</u>	<u>\$ 4,121,020</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 493,515	\$ 234,681
Total liabilities	<u>493,515</u>	<u>234,681</u>
Derivative financial instruments	<u>146,360</u>	<u>405,629</u>
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.001 par value, 20,000,000 shares authorized, 134,840 and 277,100 shares outstanding at July 31, 2006 and January 31, 2006, respectively, designated as Series A Preferred Stock with liquidation preference of \$1,348,407 and \$2,780,237 at July 31, 2006 and January 31, 2006, respectively	1,072,456	2,203,915
Common stock, \$0.0001 par value, 100,000,000 shares authorized, 19,905,971 and 18,604,300 issued and outstanding at July 31, 2006 and January 31, 2006, respectively	1,990	1,860
Additional paid-in capital	19,224,069	17,590,422
Deferred stock based compensation	0	(1,045,971)
Deficit accumulated during development stage	<u>(18,933,399)</u>	<u>(15,269,516)</u>
Total stockholders' equity	<u>1,365,116</u>	<u>3,480,710</u>
Total liabilities and stockholders' equity	<u>\$ 2,004,991</u>	<u>\$ 4,121,020</u>

The accompanying notes are an integral part of these financial statements

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

	Three Months Ended July 31		Six Months Ended July 31		For the period August 4, 1999 (Inception) to July 31, 2006
	2006	2005	2006	2005	2006
Revenues	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Operating expenses:					
Research and development:					
Non-cash charge for stock-based compensation	72,137	1,569,777	105,900	1,437,527	2,147,034
Other	950,267	266,161	1,764,097	562,807	5,932,505
Total	<u>1,022,404</u>	<u>1,835,938</u>	<u>1,869,997</u>	<u>2,000,334</u>	<u>8,079,539</u>
General and administrative					
Non-cash charge for stock-based compensation	123,362	1,805,875	645,258	1,830,187	6,300,460

Other	807,399	982,898	1,379,187	1,558,181	4,576,675
Total	<u>930,761</u>	<u>2,778,773</u>	<u>2,024,445</u>	<u>3,388,368</u>	<u>10,877,135</u>
Total operating expenses	1,953,165	4,624,711	3,894,442	5,388,702	18,956,674
Operating loss	<u>(1,953,165)</u>	<u>(4,624,711)</u>	<u>(3,894,442)</u>	<u>(5,388,702)</u>	<u>(18,956,674)</u>
Other income (expense):					
Other income	22,751	33,686	47,720	45,810	196,912
Other expense	0	(16,304)	(30,343)	(16,304)	(165,325)
Change in fair value of derivative financial instrument - Income (Expense)	219,599	(31,052)	259,269	(31,052)	420,725
Total other expense	<u>242,350</u>	<u>(13,670)</u>	<u>276,646</u>	<u>(1,546)</u>	<u>452,312</u>
Net loss	<u>(1,710,815)</u>	<u>(4,638,381)</u>	<u>(3,617,796)</u>	<u>(5,390,248)</u>	<u>(18,504,362)</u>
Items attributed to preferred stock:					
Preferred stock dividend	(18,377)	0	(46,087)	0	(106,828)
Accretion on Series A preferred stock	0	(322,209)	0	(322,209)	(322,209)
Net loss attributable to common shareholders	<u>\$ (1,729,192)</u>	<u>\$ (4,960,590)</u>	<u>\$ (3,663,883)</u>	<u>\$ (5,712,457)</u>	<u>\$ (18,933,399)</u>
Weighted average shares of common stock outstanding:					
Basic and diluted	<u>19,263,879</u>	<u>18,933,648</u>	<u>18,952,676</u>	<u>18,335,109</u>	
Net loss per common share:					
Basic and diluted	<u>\$ (0.09)</u>	<u>\$ (0.24)</u>	<u>\$ (0.19)</u>	<u>\$ (0.29)</u>	

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

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

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

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

	Preferred Stock		Common Stock		Treasury Shares	Additional Paid-In Capital	Subscription Receivable	Deferred Stock Based Compensation	Deficit Accumulated During Development Stage	Total
	Shares	Amount	Shares	Amount						
Balance, January 31, 2005	0	0	17,306,891	\$ 1,731	\$ (35)	\$ 11,923,282	\$ 0	\$ (1,691,803)	\$ (7,042,240)	\$ 3,190,935
Issuance of common stock and warrants for cash at \$1.95 per share			102,564	10		199,990				200,000
Payment of finders fees and expenses in cash						(179,600)				(179,600)
Common stock issued to finders			24,461	2		(2)				0
Issuance of common stock and warrants for cash at \$1.95 per share			1,515,384	152		2,954,847				2,954,999
Payment of finders fees and expenses in cash						(298,000)				(298,000)
Warrants issued to finders						222,188				222,188
Finders warrants charged to cost of capital						(222,188)				(222,188)
Issuance of preferred stock and warrants for cash at \$10.00 per share	277,100	2,448,791				322,209				2,771,000
Accretion of preferred stock		322,209							(322,209)	0
Value of warrants reclassified to derivative financial instrument liability		(567,085)								(567,085)
Payment of finders fees and expenses in cash						(277,102)				(277,102)
Warrants issued to finders						167,397				167,397
Finders warrants charged to cost of capital						(167,397)				(167,397)
Retirement of treasury shares			(350,000)	(35)	35					0
Common stock issued for services			5,000	0		16,500				16,500
Stock-based compensation expense for non-employees						2,928,298				2,928,298
Amortization of deferred stock-based compensation								645,832		645,832
Preferred stock dividend									(60,741)	(60,741)
Net loss									(7,844,326)	(7,844,326)
Balance, January 31, 2006	277,100	2,203,915	18,604,300	1,860	0	17,590,422	0	(1,045,971)	(15,269,516)	3,480,710
Conversion of Preferred Stock	(142,260)	(1,131,459)	661,671	66		1,131,393				0
Implementation of SFAS 123R						(1,045,971)		1,045,971		0
Issuance of common stock and warrants for cash at \$1.95 per share			640,000	64		695,936				696,000
Warrants issued for services						101,131				101,131
Stock based compensation						751,158				751,158
Preferred stock dividend									(46,087)	(46,087)
Net loss									(3,617,796)	(3,617,796)
Balance, July 31, 2006	134,840	\$ 1,072,456	19,905,971	\$ 1,990	\$ 0	\$ 19,224,069	\$ 0	\$ 0	\$ (18,933,399)	\$ 1,365,116

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

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

	Six Months Ended July 31		For the period August 4, 1999 (Inception) to July 31, 2006
	2006	2005	
Operating activities:			
Net loss	\$ (3,617,796)	\$ (5,390,248)	\$ (18,504,362)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	16,362	10,545	54,374
Stock based compensation expense	751,158	3,267,714	8,447,494
Founders compensation contributed to equity	0	0	1,655,029
Increase (decrease) in fair value of derivative financial instrument	(259,269)	31,052	(420,725)
Issuance of warrants for services	101,131	0	101,131
Amortization of purchase discount on marketable securities	0	(1,695)	0
Changes in operating assets and liabilities:			
(Increase) decrease in receivables	(9,000)	0	(9,000)
(Increase) decrease in prepaid expenses	52,048	(92,387)	(24,649)

(Increase) decrease in other assets	2,000	2,565	(55,698)
Increase (decrease) in accounts payable and accrued expenses	258,834	61,221	493,515
Net cash used in operating activities	(2,704,532)	(2,111,233)	(8,262,891)
Investing activities:			
Purchase of property and equipment and additions to construction-in-progress	(124,897)	(29,575)	(284,442)
Purchase of marketable investments	0	(3,442,960)	0
Net cash provided by investing activities	(124,897)	(3,472,535)	(284,442)
Financing activities:			
Proceeds from sale of common stock net of expenses	696,000	3,154,399	9,124,937
Payment of acquisition costs on common stock	0	(477,000)	(779,098)
Proceeds from sale of preferred stock net of expenses	0	2,771,000	2,771,000
Payment of acquisition costs on preferred stock	0	(277,102)	(277,102)
Redemption of common stock	0	0	(500,000)
Payment of preferred stock dividends	(46,087)	0	(106,828)
Net cash provided by financing activities	649,913	5,171,297	10,232,909
Net change in cash	(2,179,516)	(412,471)	1,685,576
Cash - Beginning of period	3,865,092	3,226,965	0
Cash - End of period	\$ 1,685,576	\$ 2,814,494	\$ 1,685,576
Supplemental disclosure of non-cash investing and financing activities:			
Cash paid for taxes	\$ 0	\$ 0	0
Cash paid for interest	\$ 0	\$ 0	0

The accompanying notes are an integral part of these financial statements

Xenomics, Inc.
(A Development Stage Company)
Notes to Condensed Consolidated Financial Statements
For the Six Months Ended July 31, 2006 and 2005
(Unaudited)

1) Business

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 \$18,933,399. Xenomics’ losses have resulted primarily from expenditures incurred in connection with salaries and facilities cost associated with research and development activities, application and filing for regulatory approval of its proposed products, patent filing and maintenance expenses, outside accounting and legal services and regulatory, scientific and financial consulting fees as well as stock-based compensation expense. From inception through July 31, 2006, Xenomics has not generated any revenue from operations, expects to incur additional losses to perform further research and development activities, 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 and Going Concern Uncertainty

Basis of Presentation

The condensed consolidated interim financial information as of July 31 2006 and for the three and six month periods ended July 31, 2006 and 2005 and for the cumulative period from August 4, 1999 to July 31, 2006, has been prepared without audit, pursuant to the rules and regulations of Securities and Exchange Commission (the “SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although we believe that the disclosures made are adequate to provide for fair presentation. These Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and the notes thereto, included in the Company’s

Annual Report on Form 10-KSB for the fiscal year ended January 31, 2006, previously filed with the SEC.

In the opinion of management, all adjustments (which include normal recurring adjustments) necessary to present a fair statement of financial position as of July 31, 2006, and results of operations, cash flows and shareholders' equity (deficiency) for the three and six months ended July 31, 2006 and 2005 and for the cumulative period from August 4, 1999 to July 31, 2006, as applicable, have been made. The results of operations for the three and six month periods ended July 31, 2006 are not necessarily indicative of the operating results for the full fiscal year or any future periods.

Going Concern Uncertainty

As shown in the accompanying consolidated financial statements, Xenomics has suffered operating losses and negative cash flow from operations since inception and have an accumulated deficit of \$18,933,399. Primarily as a result of private placements of common stock in 2005 and 2006 and proceeds received upon the issuance of preferred stock, Xenomics realized net proceeds of approximately \$11,200,000. As of July 31, 2006, Xenomics has working capital of \$1,225,710 and a cash balance of \$1,685,576. Xenomics expects that its existing capital resources will not be sufficient to fund its operations for the next twelve months. Consequently, it will be required to raise additional capital to complete the development and commercialization of its current product candidates. Xenomics' auditors stated in their report on the Consolidated Financial Statements for the year ended January 31, 2006, that these conditions raise substantial doubt about its ability to continue as a going concern.

To date, Xenomics' sources of cash have been primarily limited to the sale of its equity securities. Xenomics cannot be certain that additional funding will be available on acceptable terms, or at all. Any debt financing, if available, may involve restrictive covenants that impact its ability to conduct business. If Xenomics is unable to raise additional capital when required or on acceptable terms, it may have to significantly delay, scale back or discontinue the development and/or commercialization of one or more of its product candidates. Xenomics can give no assurances that any additional capital that it is able to obtain will be sufficient to meet its needs. Based on the resources available to Xenomics at July 31, 2006, Xenomics will need additional financing to sustain its operations through 2006 and it will need additional financing thereafter. These matters raise substantial doubt about Xenomics' ability to continue as a going concern.

3) Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported

amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Net Loss Per Share

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

As of July 31, 2006, Xenomics had 645,167 shares of common stock issuable upon conversion of the 134,840 shares of Series A convertible preferred stock outstanding. In addition Xenomics had 3,064,062 and 2,503,501 common stock warrants outstanding which were 100% vested as of July 31, 2006 and 2005, respectively. Stock options outstanding totaled 6,153,000 and 6,290,000 as of July 31, 2006 and 2005, respectively. All share and per share amounts have been retroactively restated to reflect the 111 for 1 stock split which was effective October 26, 2004.

4.) Stock-Based Compensation

Accounting for Employee Awards:

Effective February 1, 2006, all employee awards are accounted for in accordance with the recognition and measurement provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment ("FAS 123(R)"), which replaces SFAS No. 123, Accounting for Stock-Based Compensation ("FAS 123"), and supersedes Accounting Principles Board Opinion No. 25 ("APB 25"), Accounting for Stock Issued to Employees, and related interpretations. FAS 123(R) requires compensation costs related to share-based payment transactions, including employee stock options, to be recognized in the financial statements. In addition, the Company adheres to the guidance set forth within Securities and Exchange Commission ("SEC") Staff Accounting Bulletin No. 107, which provides the Staff's views regarding the interaction between FAS 123(R) and certain SEC rules and regulations and provides interpretations with respect to the valuation of share-based payments for public companies.

Prior to February 1, 2006, the Company accounted for similar employee transactions in accordance with APB 25 which employed the intrinsic value method of measuring compensation cost. Accordingly, compensation expense was not recognized for employee fixed stock options if the exercise price of the option equaled or exceeded the fair value of the underlying stock at the grant date. While FAS 123, for employee options, encouraged recognition of the fair value of

all stock-based awards on the date of grant as expense over the vesting period, companies were permitted to continue to apply the intrinsic value-based method of accounting prescribed by APB 25 and disclose certain pro-forma amounts as if the fair value approach of FAS 123 had been applied. In December 2002, FAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure, an amendment of FAS 123, was issued, which, in addition to providing alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation, required more prominent pro-forma disclosures in both the annual and interim financial statements. The Company complied with these disclosure requirements for all applicable periods prior to February 1, 2006.

In adopting FAS 123(R), the Company applied the modified prospective approach to the transition. Under the modified prospective approach, the provisions of FAS 123(R) are to be applied to new employee awards and to employee awards modified, repurchased, or cancelled after the required effective date. Additionally, compensation cost for the portion of employee awards for which the requisite service has not been rendered that are outstanding as of the required effective date shall be recognized as the requisite service is rendered on or after the required effective date. The compensation cost for that portion of employee awards shall be based on the grant-date fair value of those awards as calculated for either recognition or pro-forma disclosures under FAS 123.

Employee stock option compensation expense in 2006 is the estimated fair value of options granted amortized on a straight-line basis over the requisite service period for entire portion of the award. The Company has adjusted the expense by estimated forfeitures, as required by FAS 123(R) for employee options using a rate of 6%.

Accounting for Non-employee Awards:

The Company previously accounted for options granted to its non-employee consultants and non-employee registered representatives using the fair value cost in accordance with FAS 123 and EITF No. 96-18. The adoption of FAS 123(R) and SAB 107 as of February 1, 2006, had no material impact on the accounting for non-employee awards. The Company continues to consider the additional guidance set forth in EITF Issue No. 96-18 ("EITF 96-18"), "Accounting for Equity Instruments That Are Issued to Other Than Employees".

Effective with the adoption of SFAS 123R, stock-based compensation expense related to Xenomics's share-based compensation arrangements attributable to employees, is being recorded as a component of general and administrative expense and research and development expense in accordance with the guidance of Staff Accounting Bulletin 107, Topic 14, paragraph F, *Classification of Compensation Expense Associated with Share-Based Payment Arrangements*. Prior period financial statement accounts have been reclassified to conform to this presentation.

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Stock based compensation expense related to employee and non-employee stock options recognized in the operating results for the three and six months ended July 31, 2006 and 2005, and for the period from August 4, 1999 (inception), through July 31, 2006 can be summarized as follow:

Stock based compensation expense	Three Months Ended July 31		Six Months Ended July 31		Inception through July 31, 2006
	2006	2005	2006	2005	
Employees — included in research and development expense	\$ 72,137	\$ 0	\$ 97,141	\$ 0	\$ 97,141
Employees — included in general and administrative expense	69,096	161,458	582,748	322,916	1,474,279
Subtotal employee stock option grants	141,233	161,458	679,889	322,916	1,571,420
Non-employee — research and development	0	1,569,777	8,759	1,437,528	2,049,892
Non-employee — general and administrative	54,266	1,644,417	62,510	1,507,270	4,826,181
Subtotal non-employee stock option grants	54,266	3,214,194	71,269	2,944,798	6,876,073
Total stock based compensation expense	\$ 195,499	\$ 3,375,652	\$ 751,158	\$ 3,267,714	\$ 8,447,493

The weighted average estimated fair value of all stock options granted in the six months ended July 31, 2006 and 2005 was \$1.07 and \$1.29, respectively. The fair value of options at the date of grant was estimated using the Black-Scholes option pricing model. During 2006, the Company took into consideration guidance under FAS 123(R) and SEC Staff Accounting Bulletin No. 107 ("SAB 107") when reviewing and updating assumptions. The expected volatility is based upon historical volatility of our stock and other contributing factors. The expected term is based upon observation of actual time elapsed between date of grant and exercise of options for all employees. Previously such assumptions were determined based on historical data. No income tax benefit has been recognized in the income statement for share-based compensation arrangements as the Company has provided for 100% valuation allowance on net deferred tax assets.

The assumptions made in calculating the fair values of all options are as follows:

	Six Months Ended		Three Months Ended	
	July 31, 2006	July 31, 2005	July 31, 2006	July 31, 2005
Expected volatility	80 - 60%	80%	80-60%	80%
Expected dividend yield	0%	0%	0%	0%
Risk-free interest rate	4.50%	4.50%		
Expected term (in years)	3-7 years	7 years	3-7 years	7 years

Pro Forma Information under SFAS No. 123 for Periods Prior to Adoption of FAS 123(R):

The following table illustrates the effect on the net income and earnings per share as if the fair value recognition provisions of FAS 123 had been applied to all outstanding and unvested employee awards in the prior year comparable period.

Six months ended July 31, 2005 (unaudited)	Three months ended July 31, 2005 (unaudited)
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Net loss attributable to common stockholders, as reported	\$	(5,712,457)	\$	(4,960,590)
Add: Employee stock-based compensation expense reported under APB No 25				
Intrinsic value method		322,917		161,458
Deduct: Stock-based employee compensation				
Expense determined under the fair value based method for all awards (no tax effect)		(649,484)		(324,742)
Pro forma net income attributable to common stockholders	\$	<u>(6,039,024)</u>	\$	<u>(5,123,873)</u>
Earnings per share:				
Basic and Diluted—as reported	\$	(0.31)	\$	(0.26)
Basic and Diluted—pro forma	\$	(0.33)	\$	(0.27)

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The following table represents all our stock options granted, exercised, and forfeited during the six months of 2006.

Stock Options	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at February 1, 2006	6,635,000	\$ 1.68	8.4	\$ 2,696,600
Granted	643,000	\$ 1.92		
Exercised	—	—		
Terminated	1,125,000	\$ 2.25		
Outstanding at July 31, 2006	6,153,000	\$ 1.60	8.3	\$ 503,750
Exercisable at July 31, 2006	4,606,667	\$ 1.42	8.0	\$ 503,750

As of July 31, 2006, there was \$ 1,079,000 of total unrecognized compensation cost, net of estimated forfeitures, related to all unvested stock options and shares, which is expected to be recognized over a weighted average period of approximately 2.1 years.

The balance of deferred unamortized stock based compensation as of January 31, 2006 of \$1,045,871, prior to adoption of SFAS 123R, was eliminated against the appropriate equity accounts as prescribed by paragraph seventy-four of SFAS 123R on February 1, 2006.

5) Stockholders' Equity:

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

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

Pursuant to a services agreement with Trilogy Capital Partners (Trilogy), Xenomics issued warrants to Trilogy to purchase 1,000,000 shares of Common Stock of Xenomics at an exercise price of \$2.95 per share (the "Warrants"). The exercise price was determined to be consistent with the price of the warrants being offered to purchasers as part of an investment unit in the then operative private placement memorandum. The Warrants issued to Trilogy are exercisable upon issuance and expire on December 13, 2007. In connection with the issuance of these warrants, Xenomics agreed to file a registration statement with the Securities and Exchange Commission (SEC) registering for resale the shares of Common Stock underlying the Warrants. That registration statement was declared effective by the SEC on March 17, 2006. The fair value of the Warrants using the Black-Scholes methodology was \$2,630,440 which was immediately

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expensed. The following assumptions were used to determine fair value: (i) stock price \$4.20 per share (ii) no dividend (iii) risk free interest rate 4.5% , and (iv) volatility of 80%. This service agreement was terminated on June 12, 2006.

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

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

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

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

warrants are immediately exercisable at \$2.15 per share, will expire five years after issuance. The warrants had a fair value of \$222,188 on the date of issuance and this amount was recorded as a cost of raising capital. These April 7, 2005 Investors became parties to the same Registration Rights Agreement as the January 28, 2005 Investors.

On July 13, 2005, the Company closed a private placement of 277,100 shares of Series A Convertible Preferred Stock (the "Series A Preferred Stock") and 386,651 warrants to certain investors for aggregate gross proceeds of \$2,771,000 pursuant to a Securities Purchase Agreement dated as of July 13, 2005. The warrants sold to the Investors were immediately exercisable at \$3.12 per share and are exercisable at any time within five years from the date of issuance. These investor warrants had a fair value of \$567,085 on the date of issuance using a market price of \$2.40 on that date. In addition, the Company paid an aggregate \$277,102 and issued an aggregate 105,432 warrants to purchase common stock to certain selling agents. The warrants issued to the selling agents are immediately exercisable at \$2.50 per share and will expire five years after issuance. The selling agent warrants had a fair value of \$167,397 on the date of issuance and this amount was recorded as a cost of raising capital.

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

Dividends - - Holders of the Series A Convertible Preferred Stock shall be entitled to receive cumulative dividends at the rate per share of 4% per annum, payable quarterly on each March 31st, June 30th, September 30th and December 31st beginning with September 30, 2005. Dividends are 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 \$2.08 per share. The conversion price is subject to adjustment for dilutive issuances.

Beginning July 13, 2006, if the price of the common stock equals \$4.30 per share for 20 consecutive trading days, and an average of 50,000 shares of common stock per day shall have been traded during the 20 trading days, the Company shall have the right to deliver a notice to

the holders of the Series A Convertible Preferred Stock, to convert any portion of the shares of Series A Convertible Preferred Stock into shares of Common Stock at the conversion price.

During the three and six months ended July 31, 2006 the holders of the Series A Convertible Preferred Stock converted 22,500 and 142,260 shares of Preferred Stock into 104,638 and 661,671 shares of the Company's common stock. As of July 31, 2006 there were 134,840 shares of Series A Convertible Preferred Stock outstanding with a liquidation preference of \$1,348,407.

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 twelve months ending January 31, 2006 and the three and six months ended July 31, 2006, the Company recorded benefits of \$164,043, \$39,670 and \$219,559, 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 stock and charged to Deficit Accumulated during Development Stage was \$322,209 as of January 31, 2006.

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

On July 20, 2006, the Company issued 640,000 shares of common stock at \$1.25 per share and received net proceeds of \$696,000. In connection with this transaction, the Company issued warrants to purchase 320,000 shares of common stock with an exercise price of \$2.00 per share which expire on July 20, 2008 and had a fair value of \$169,850. In connection with this transaction, the Company paid \$104,000 and issued 83,200 warrants to a selling agent. The warrants have the same terms as those issued to the purchasers of common stock, and had a fair value of \$44,161 at the date of grant.

6) Commitments and Contingencies

On August 2, 2006, the Company entered into a severance agreement with Randy White, the Company's former Chief Executive Officer who left the Company on February 23, 2006. Pursuant to the agreement, the Company agreed pay to Mr. White an aggregate amount of

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\$80,625 as a severance payment, \$10,000 of which has been paid to date and the remainder to be paid no later than September 5, 2006. After making the \$10,000 payment during August 2006, the Company has suspended all subsequent payments for reasons it believes to be valid and supportive of such action. As of September 19, 2006, the date of this report, there are no meaningful discussions in progress with Dr. White.

The Company was party to a Technology Acquisition Agreement dated June 24, 2004 with L. David Tomei, Co-Chairman and Chief Executive Officer, Samuil Umansky, President and Chief Scientific Officer, Hovsep Melkonyan, Vice President, Research, Anatoly Lichtenstein and Kathryn Wilke (collectively, the "Shareholders") and Xenomics Sub pursuant to which the Shareholders had the option to acquire the Tr-DNA technology from the Company in the event we expended less than 50% of the aggregate net proceeds received by the Company from our aggregate equity or debt financings during the two year period ending on July 2, 2006, on development of the Tr-DNA technology. On June 30, 2006, the Company entered into an agreement with its wholly-owned subsidiary, Xenomics, and the Shareholders pursuant to which the parties terminated the Technology Acquisition Agreement.

NPM Commitment

On May 10, 2006, the Company entered into a license agreement wherein it obtained the exclusive rights for the genetic marker for Acute Myeloid Leukemia and intends to utilize these rights for the development of new diagnostic tools. In connection with this agreement, the Company paid \$170,000 and issues warrants for the purchase of 100,000 shares of common stock at \$2.00 per share. These warrants had a value of \$101,131 on the date of issuance and expire June 29, 2014. The Company is obligated to pay an additional \$100,000 upon FDA approval of a commercial product based upon this technology and royalties of 3% of net sales and/or 10% of any sublicense income.

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

Overview

We are a development stage molecular diagnostic company that focuses on the development of DNA-based tests using trDNA. TrDNA represents 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 trDNA originates inside the body, using a safe and simple urine collection, we believe our patented technology can be applied to a broad range of testing including: prenatal testing, tumor detection and monitoring, tissue transplantation, infectious disease, forensic identification, drug development and bio-terrorism. In March 2004, we organized a joint venture with the Spallanzani National Institute for Infectious Diseases (Istituto Nazionale per le Malattie Infettive) in Rome, Italy, in the form of a research and development company called SpaXen Italia, S.R.L, or SpaXen, which conducts research and development on non-invasive diagnostic tests for infectious disease using TrDNA methodology.

Since inception on August 4, 1999 through July 31, 2006, we have sustained cumulative net losses of \$18,933,399. Our losses have resulted primarily from research and development expenses, patent costs and legal and accounting expenses. From inception through July 31, 2006, we have not generated any revenue from operations. We expect to incur additional losses to perform further research and development activities. We do not currently have any commercial products and expect it will take one to two years for our first product to be commercialized. Our product development efforts are ongoing, but we cannot make estimates of the costs or the time it will take to complete them. The risk of completion of any program is high because of the long duration of clinical testing, regulatory approval and review cycles and uncertainty of the costs. Net cash inflows from any products developed may take several years to achieve.

Results of Operations

Three Months Ended July 31, 2006 and 2005

We had no revenues during the three months ended July 31, 2006 and 2005 because we do not have any commercial products.

Operating expenses decreased to \$1,953,165 during the three months ended July 31, 2006 from

\$4,624,711 for the same period in 2005. The reasons for this change are described in the following paragraphs.

Research and development expenses increased to \$1,042,896 during the three months ended July 31, 2006 from \$266,161 during the comparable period in 2005. This increase is attributable to expansion of research and development activities and, consequently, includes salaries and staff costs for our in-house research and development laboratory, patent legal, filing and maintenance expenses, regulatory and scientific consulting fees and laboratory supplies.

General and administrative expenses decreased to \$910,269 during the three months ended July 31, 2006 from \$4,358,550 during the comparable period in 2005. This decrease is primarily attributable a decrease in stock-based compensation expense of \$3,272,782 due to the acceleration of stock options primarily held by founders during the three months ended July 31, 2005 in recognition of services performed to date. The balance of the decrease of \$175,499 is attributable to cost containment measures for administrative activities.

Other income decreased to \$22,751 during the three months ended July 31, 2006 from \$33,686 during the comparable period in 2005. Other income consists primarily of interest income and this decrease reflects lower cash balances during the current year. Other expense decreased to zero during the three months ended July 31, 2006 from \$16,304 during the comparable period in 2005. The amount in 2005 consisted of liquidated damages incurred to certain common stock investors for failure to file a registration statement within the time period required in accordance with the terms of the offering of those securities. Change in the fair value of derivative financial instruments for the three months ended July 31, 2006 and 2005 was a benefit of \$219,599 and an expense of \$31,052, respectively. This benefit/expense is attributable to the change in the liability associated with the warrants issued in connection with the financing transactions concluded on July 13, 2005.

Net loss for the three months ended July 31, 2006 was \$1,710,815 as compared to a loss of \$4,638,381 for the same period in 2005. The decrease in the net loss in 2006 is primarily the result of the decrease of stock-based compensation expense as described above.

Six Months Ended July 31, 2006 and 2005

We had no revenues during the six months ended July 31, 2006 and 2005 because we do not have any commercial products.

Operating expenses decreased to \$3,894,442 during the six months ended July 31, 2006 from \$45,388,702 for the same period in 2005. The reasons for this change are described in the following paragraphs.

Research and development expenses increased to \$1,891,004 during the six months ended July 31, 2006 from \$562,807 during the comparable period in 2005. This increase is attributable to expansion of research and development activities and, consequently, includes salaries and staff costs for our in-house research and development laboratory, patent legal, filing and maintenance expenses, regulatory and scientific consulting fees and laboratory supplies.

General and administrative expenses decreased to \$2,003,438 during the six months ended July 31, 2006 from \$5,388,702 during the comparable period in 2005. This decrease is primarily attributable a decrease in stock-based compensation expense of \$2,643,463 due to the acceleration of stock options primarily held by founders during the three months ended July 31, 2005 in recognition of services performed to date. The balance of the decrease of \$178,994 is attributable to cost containment measures for administrative activities.

Other income increased to \$47,720 during the six months ended July 31, 2006 from \$45,810 during the comparable period in 2005. Other income consists primarily of interest income and this comparable amount reflects comparable average cash balances on hand during those periods. Other expense increased to \$30,343 during the six months ended July 31, 2006 from \$16,304 during the comparable period in 2005. The amount in 2006 consisted of liquidated damages incurred to certain preferred stock investors for failure to obtain a registration statement declared effective within the time period required in accordance with the terms of the offering of those securities. The amount in 2005 consisted of liquidated damages incurred to certain common stock investors for failure to file a registration statement in the time period required in accordance with the terms of the offering. Change in the fair value of derivative financial instruments for the three months ended July 31, 2006 and 2005 was a benefit of \$259,269 and an expense of \$31,052, respectively. This benefit/expense is attributable to the change in the liability associated with the warrants issued in connection with the financing transactions concluded on July 13, 2005.

Net loss for the three months ended July 31, 2006 was \$3,617,796 as compared to a loss of \$45,390,248 for the same period in 2005. The decrease in the net loss in 2006 is primarily the result of the decrease of stock-based compensation expense as described above.

Plan of Operations

We plan to devote significant financial and other resources to further research and development, and commercialize our trDNA technology through strategic partnership or licensing arrangements. Our initial focus is on infectious diseases such as tuberculosis and HIV as well as developing a collaboration with a diagnostic company for the development and marketing of "homebrew" test kits based upon our technology. In parallel to these efforts, we will pursue FDA approval for certain tests where broader marketing opportunities exist. If developed, we intend to sell these products to independent clinical laboratories and hospital laboratories approved for performance of high-complexity tests.

We intend to develop our infectious disease applications at SpaXen, our joint venture with INMI located in Rome, Italy. Under the terms of our agreement with INMI, INMI provides laboratory space to SpaXen and financial support in the form of chemicals and scientific personnel to work on applications of the trDNA 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 products and will severely limit our ability to generate revenue in connection with infectious disease applications.

Because cancer detection and monitoring studies are long and expensive, we are actively seeking academic-based researchers who are funded to perform evaluations of new cutting-edge technologies. In this way we expect to progress our understanding of cancer detection and monitoring with little or no cost to us. Because organ transplant monitoring is not truly “diagnostic,” we will 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 one to two years for our first product to be commercialized. We currently employ 18 research and development scientists and administrative employees at an annual expense of approximately \$1,900,000. During the next twelve months as we continue product development and human clinical studies we expect to hire approximately 5 full-time employees representing an additional annual expense of approximately \$400,000. These positions include additional scientific, regulatory, and administrative positions. Substantially all of the expenses involved with our product development initiatives consist of labor and laboratory supplies costs.

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

Our corporate office occupies approximately 2,000 square feet of leased space in New York City. Additionally, our laboratory occupies approximately 5,000 square feet of leased space in Monmouth Junction, New Jersey. As indicated in the preceding paragraph, this facility does not meet cGMP guidelines. We are currently on a month-to-month basis at that location while we negotiate a lease for a new facility in New Jersey which will enable us to combine administrative and scientific activities in one location in a facility which will enable our laboratories to satisfy cGMP guidelines.

NPM Commitment

On May 10, 2006, the Company entered into a license agreement wherein it obtained the exclusive rights for the genetic marker for Acute Myeloid Leukemia and intends to utilize these rights for the development of new diagnostic tools. In connection with this agreement, the Company paid \$170,000 and issued warrants for the purchase of 100,000 shares of common stock at \$2.00 per share. These warrants had a value of \$101,131 on the date of issuance and expire June 29, 2014. The Company is obligated to pay an additional \$100,000 upon FDA approval of a commercial product based upon this technology and royalties of 3% of net sales and/or 10% of any sublicense income.

Liquidity and Capital Resources

As of July 31, 2006 we had \$1,685,576 in cash, cash equivalents and marketable investments, compared to \$3,865,092 as of January 31, 2006. This decrease of \$2,179,516 is the result of net fund raising of \$649,913, less \$2,704,532 used for operating activities during the six months ended July 31, 2006.

On January 28, 2005, we 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. We 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 we completed the first tranche of the private placement described above selling an additional 102,564 shares of its common stock to the Investors at a price of \$1.95 per share for aggregate proceeds of \$200,000. In addition, we paid an aggregate \$179,600 in cash and issued 24,461 shares of common stock to certain selling agents, in lieu of cash on the entire first tranche of the private placement.

On April 7, 2005, we 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. We 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, we closed a private placement of 277,100 shares of Series A Convertible Preferred Stock (the “Series A Preferred Stock”) and 386,651 warrants to certain investors for aggregate gross proceeds of \$2,771,000 pursuant to a Securities Purchase Agreement dated as of July 13, 2005. The warrants are immediately exercisable at \$3.25 per share and are exercisable at any time within five years from the date of issuance. We paid an aggregate \$277,102 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. Holders of the Series A Convertible Preferred Stock are entitled to receive dividends at the rate of 4% per annum payable quarterly on March 31, June 30, September 30, and December 31. Dividends are payable in cash or shares of common stock at our discretion. To date, we have utilized cash to satisfy all dividend obligations.

On July 20, 2006, the Company issued 640,000 shares of common stock at \$1.25 per share and received net proceeds of \$696,000. In connection with this transaction, the Company issued warrants to purchase 320,000 shares of common stock with an exercise price of \$2.00 per share which expire on July 20, 2008. In connection with this transaction, the Company paid \$104,000 and issued 83,200 warrants to a selling agent. The warrants have the same terms as those issued to the purchasers of common stock, and had a fair value of \$44,161 at the date of grant.

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 on initiatives relating to the development and commercialization our trDNA technology

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

To date, our sources of cash have been primarily limited to the sale of our equity securities. We cannot be certain that additional funding will be available on acceptable terms, or at all. Any debt financing, if available, may involve restrictive covenants that impact our ability to conduct our business. If we are unable to raise additional capital when required or on acceptable terms, we may have to significantly delay, scale back or discontinue the development and/or commercialization of one or more of our initiatives. We can give no assurances that any additional capital that we are able to obtain will be sufficient to meet our needs. Based on the resources available to us at July 31, 2006, we will need additional financing to sustain our operations throughout the next twelve months and we will need additional financing thereafter. These matters raise substantial doubt about our ability to continue as a going concern.

ITEM 3 CONTROLS AND PROCEDURES

Our Chief Executive Officer and Principal Financial Officer, based on evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) required by paragraph (b) of Rule 13a-15 or Rule 15d-15, as of July 31, 2006, have concluded that our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms. Our Chief Executive Officer and Chief Financial Officer also concluded that, as of July 31, 2006, our disclosure controls and procedures are effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

There were no significant changes in our internal controls over financial reporting that could significantly affect internal controls during the three months ended July 31, 2006.

ITEM 6 EXHIBITS

- 10.1 Agreement dated July 26, 2006 between V. Randy White and Xenomics, Inc.
- 31.1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) under the Exchange Act.
- 31.2 Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) under the Exchange Act.

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- 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 Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: September 19, 2006

XENOMICS, INC.

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

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

July 26, 2006

VIA FEDERAL EXPRESS

V. Randy White, Ph.D.
15080 La Planideras
Rancho Santa Fe, CA 92067

Dear Dr. White:

Your employment with Xenomics, Inc. ("Xenomics") ceased on February 23, 2006 (the "Termination Date"). Although Xenomics is not obligated to pay you any severance in connection with the termination of your employment, because we hope to part amicably, Xenomics is prepared to provide you with the severance benefits and other consideration set forth in this Agreement (this "Agreement") in consideration of your executing, delivering and performing all of the terms, conditions and obligations applicable to you under this Agreement.

Be advised that you will have at least twenty-one (21) days to consider this Agreement, including the waivers and releases set forth below. This Agreement, however, shall become automatically null and void after August 16, 2006 unless it is executed by you and returned to L. David Tomei's attention on or prior to that date. You are entitled to revoke this Agreement in the manner provided in Section 11(g) below, including the waivers and releases contained herein, within seven (7) days after its execution. Accordingly, the Effective Date of this Agreement (the "Effective Date") shall be the eighth (8th) day following your execution of this Agreement (unless this Agreement is revoked by you as provided in Section 11(g)).

Now, therefore, in consideration of the recitals, covenants and promises contained herein, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, you and Xenomics agree as follows:

1. Termination of Employment/Effect on Benefits

(a) Your last day of employment was the Termination Date. You will not accrue credit toward vacation or the vesting of any other rights, benefits or awards after that date.

(b) You hereby represent, warrant and confirm that: (i) as of the date of your execution and delivery of this Agreement, you have returned to the Company (as that term is defined in Section 3(a) below) all of the Company's property, including, without limitation, Confidential and Proprietary Information (as that term is defined in Section 6(b) below), office keys, Company identification cards, access passes, and all documents, files, equipment, computers, laptops, printers, telephones, cell phones, beepers, pagers, palm pilots, BlackBerry or similar devices, fax machines, credit cards, computer software, diskettes and access materials and other property prepared by, for or belonging to the Company (all of such

Company Property being referred to herein as "*Company Property*"); (ii) you have not and will not utilize the Company Property or make or retain any copies, duplicates, reproductions or excerpts of the Company Property; and (iii) you have not and will not access, utilize or affect in any manner, any of the Company Property, including, without limitation, its electronic communications systems or any information contained therein,

(c) Your Company sponsored health and dental coverage ceased as of the Termination Date. In the event you elect to receive health insurance coverage in accordance with the federal COBRA statute, the Company shall pay, on your behalf, any required premiums for coverage under any one health plan of your choice (which you were covered under as an employee of the Company prior to the Termination Date), for any period in which you remain eligible for such COBRA benefits, through and including May 23, 2006 (the "Health Benefits"). You have elected to receive, in cash, the premium payments to be paid on your behalf which aggregate \$3,284.88 (the "Premium Payments"). Premium and other payments required for any further continued health insurance coverage, in accordance with COBRA, shall be the sole responsibility of Employee.

(d) Company-provided services ceased as of the Termination Date. You may continue to receive any Company services at your own cost after that date.

(e) This Agreement is in full and complete satisfaction and is in excess of all obligations or agreements of the Company to you, including for: (i) any severance benefits in connection with the termination of your employment or otherwise; (ii) any incentives, awards and bonuses, (iii) any accrued, unused vacation pay, sick pay and personal day pay to which you may have been entitled to under Company policies through the Termination Date; and (iv) any other compensation, deferred, contingent or otherwise, or any program or award thereunder (collectively, "Incentive Plans") or any other payment that may have been due to you for any reason whatsoever.

(f) Nothing in this Agreement will affect your eligibility for unemployment benefits to the extent provided by law.

(g) Your reimbursable expenses of \$3,970.03 will be paid upon execution of this Agreement.

2. Consideration

(a) Subject to the terms and conditions contained in this Agreement, and in addition to our commitment to provide you with the other benefits set forth herein, if you execute and deliver to the Company this Agreement by the date set forth above and are in full compliance with all of the terms and conditions contained herein, then:

(1) the Company will pay you Eighty Thousand Six Hundred Twenty Five Dollars (\$80,625) (the "Severance") subject to reduction for all applicable withholding and other taxes and deductions, as follows:

(i) Ten Thousand Dollars (\$10,000) will be paid in a lump sum on the Effective Date.

(ii) The remaining Seventy Thousand Six Hundred Twenty Five Dollars (\$70,625) will be paid no later than September 5, 2006 (the "Future Payments"); and

(2) the expiration date of your stock options which are vested as of February 23, 2006 will be extended until August 23, 2006.

(b) Without waiver of the Company's remedies for any breach of this Agreement as set forth herein (including, without limitation, under Sections 9 and 13 below), the Future Payments and the payment of the Premium Payments are expressly conditioned on your not, at any time, being in breach of this Agreement.

3. Release

(a) By countersigning and delivering to the Company the enclosed copy of this Agreement, and in consideration of the Company's promise to provide you with the Severance and other benefits and consideration set forth in this Agreement, you hereby release and discharge: (i) Xenomics or any of its respective present and former parent corporations, their now or hereafter existing predecessors, joint venturers, partners, affiliates, subsidiaries, successors, assigns and otherwise related entities (collectively, the "Company"), and (ii) the Company's incumbent or former officers, directors, employees, consultants, agents, representatives, successors and assigns (the Company, together with the persons listed in this Section 3(a) being referred to collectively as, the "Released Entities and Persons" and each, a "Released Entity or Person"), from any and all claims, liabilities, demands or causes of action of whatever nature, known or unknown, inchoate or otherwise, whether based in contract (written, oral, express, implied or otherwise) and/or any local, state or federal statute, regulation or other law (including common law) or in equity, that you had, ever had, or could have had as of the date of this Agreement (and to the extent this Agreement is not revoked as of the Effective Date) including, without limitation, any claim arising out of or in any way connected with or related to:

(i) your employment by the Company and/or the termination thereof,

(ii) any claim for additional wages or pay, severance pay, benefits, incentives, awards, commissions or bonuses

(iii) any claim regarding bias, age, sex, religion, religious creed, citizenship, color, race, ancestry, national origin, veteran, familial or marital status, sexual orientation or

preference, genetic predisposition or carrier status, physical or mental disability or past or present history of the same or any other form of discrimination, including, without limitation, any rights or claims under the Americans with Disabilities Act as amended, ("ADA"), the Age Discrimination in Employment Act of 1967 ("ADEA"), as amended, the New York Constitution, the New York Labor Law, as amended, the New York State Executive Law (including New York State's Human Rights Law), as amended, the New York City Administrative Code, as amended, Title VII of the Civil Rights Act of 1964, as amended, ("Title VII"), the Civil Rights Act of 1991, Sections 1981, 1983, 1985 and 1986 of Title 42 of the United States Code, as amended, the Family and Medical Leave Act of 1993, the Equal Pay Act, the Fair Labor Standards Act, as amended, the Executive Retirement Income Security Act of 1974, as amended; and any other federal, state, local law or ordinance;

(iv) any claim for: (a) wrongful discharge, harassment or retaliation; (b) intentional or negligent infliction of emotional harm, defamation or any other tort; (c) fraud, misrepresentation or conversion; or (d) mental, physical or other personal injuries, or pain and suffering;

(v) any Company-sponsored health or dental (other than for claims occurring prior to February 23, 2006), life insurance, savings, retirement or other benefit plan offered by the Company (other than claims for vested benefits); and/or

(vi) any expenses, disbursements, costs, tax gross-ups, fees or other expenses, including without limitation attorneys' fees and disbursements.

(b) You hereby represent, warrant and confirm that you are not suffering from any work-related physical or mental impairment and are not suffering from any work-related injury or disease as of the date hereof.

(c) If the release contained in this Section 3 of this Agreement is found to be invalid or unenforceable in any way, you agree to execute and deliver to the Company a revised release which will effectuate your intention to release the Released Entities and Persons unconditionally, as set forth above in this Section 3, to the maximum extent permitted by law.

4. Covenant Not to Sue

(a) You hereby represent, warrant and confirm that you have not filed, with any local, state or federal court or administrative agency, any complaints, charges, or claims for relief against the Company or any other Released Entity or Person arising out of any acts or omissions any of them allegedly may have committed in connection with this Agreement, your employment or the termination of such employment or any other matter. In addition, you hereby represent and warrant that you have not authorized any other person or entity to assert any claim on your behalf and you do not know of any basis upon which any claim could reasonably be made against you, the Company or any other Released Entity or Person. Other than for claims arising under the ADEA, you hereby also agree, to the fullest extent permitted by law, not to

commence, encourage, facilitate or participate in any action or proceeding for damages, reinstatement, injunctive or any other type of relief, in any state, federal or local court or before any administrative agency relating to this Agreement, the enforceability of any provision thereof, your employment with the Company or the termination thereof (unless requested by the Company) or any other matter involving the Company.

(b) Nothing in this Agreement is intended to prevent you from filing a charge or participating in any investigation or proceeding conducted by the Equal Employment Opportunity Commission (the "Commission"). If you countersign the enclosed Agreement, however, you will not be able to obtain any relief or recovery upon any charge filed with the Commission, including costs and attorneys' fees, except where permissible by law or regulation. This Agreement does not affect your right to challenge the validity of the ADEA waiver set forth in Section 11 below.

5. Confidentiality of Agreement

You hereby agree to keep the existence and terms of this Agreement strictly confidential and not to disclose them (or any of the Agreement's terms or conditions) to any persons other than your legal and/or financial advisors and members of your immediate family (who shall also be bound by the foregoing confidentiality covenant), except as may be required by law, in which case you shall notify the Company in writing in advance of such disclosure and afford the Company an opportunity to respond and to seek protective relief prior to such disclosure. You hereby agree to cooperate with the Company in obtaining confidential treatment in connection with any such legally compelled disclosure.

6. Confidential and Proprietary Information of the Company

(a) You hereby acknowledge and agree that: (i) during the course of your employment, you have had access to Confidential and Proprietary Information (as defined in Section 6(b) below), (ii) you have not taken nor are you in possession of any Confidential or Proprietary information, and (iii) you shall retain in strict confidence and shall not use for any purpose whatsoever or divulge, disseminate, copy, disclose to any third party, or otherwise use any Confidential or Proprietary Information.

(b) As used in this Agreement, the term "Confidential and Proprietary Information" means any non-public information of the Company or any other Released Entity or Person, including, without limitation: (i) information of a commercially sensitive, proprietary or personal nature or that, if disclosed, could have an adverse affect on the Company's or any other Released Person or Entity's standing in the community, its business reputation, operations or competitive position; (ii) information and documents that have been designated or treated as confidential; (iii) financial data, customer, vendor or shareholder lists or data; advertising, business, sales or marketing plans, tactics and strategies; projects: technical or strategic information about any of the Company's businesses economic or commercially sensitive information, policies, practices, procedures or techniques; trade secrets and other

intellectual property; merchandising, advertising, marketing or sales strategies or plans; litigation theories or strategies; terms of agreements with third parties and third party trade secrets; information about the Company's (and/or, to the extent applicable any other Released Person's or Entity's) employees compensation, (including, without limitation, bonuses, incentives and commissions), or other human resources policies, plans and procedures, or any other non-public material or information relating to the Company or any other Released Entity or Person; and (iv) or any member of the Company's senior management team or Board of Directors, whether prior to your employment by the Company or subsequent to such employment.

(c) You hereby acknowledge and agree that the Company is the owner of all rights, title and interest in and to all Confidential and Proprietary Information, regardless of whether it was developed or prepared by you or with your cooperation during the course of your employment by the Company or otherwise, including documents, tapes, videos, designs, plans, formulas, models, processes, computer programs, inventions (whether patentable or et), trademarks, software or other intellectual property, schematics, other technical, business, financial, advertising, sales, marketing, customer or product development plans, forecasts, strategies, information and materials (in any media whatsoever) (collectively, the "Materials"). You further acknowledge and agree that the Company will have the sole and exclusive authority to use the Materials in any manner that it deems appropriate, in perpetuity, without additional payment to you or any other restriction.

(d) If you are at any time required to disclose any Confidential and Proprietary Information as a result of any federal, state and local laws or judicial proceedings, then you shall provide the Company with written notice in advance of such disclosure and afford the Company an opportunity to respond and to seek protective relief prior to such disclosure, You hereby agree to cooperate with the Company in obtaining confidential treatment in connection with any such legally compelled disclosure.

7. Non-Solicit

(a) You hereby represent, warrant and confirm that you will not for a period of one (1) year from the date hereof, hire, seek to hire, or cause any person or entity to hire or seek to hire (without the prior written consent of the Company), directly or indirectly (whether for your own interest or any other person or entity's interest) any current employee of the Company. This restriction does not apply to any employee who was discharged by the Company.

(c) You hereby acknowledge that this Non-Solicit provision is necessary for the Company's legitimate protection of its business interests, are reasonable, and will not prevent you from obtaining other employment or a livelihood.

8. Non-Disparagement

(a) You hereby agree, for yourself and any other representatives while they are acting on your behalf, that you (and they) have not and will not, directly or indirectly, disparage, make negative statements about or act in any manner which is intended to or does damage to the goodwill or business or personal reputations of the Company, or any Released Person or Entity.

(b) This Agreement in no way restricts or prevents you from providing truthful testimony as may be required by court order or other legal process; provided that you afford the Company advance written notice and an appropriate period of time and opportunity to respond prior to such disclosure.

9. Remedies for Breach of Agreement

(a) You hereby acknowledge and agree that your breach or threatened breach of Sections 5, 6, 7 or 8 will cause irreparable harm to the Company for which monetary damages alone will not provide an adequate remedy. Accordingly, you agree that if you violate any of these provisions, the Company, in addition to any other rights or remedies available to it under this Agreement or otherwise, will be entitled to an injunction to be issued by any court of competent jurisdiction restraining you from committing or continuing any violation of these provisions, without the necessity of showing actual damage and without any bond or other security being required.

(b) In addition to any other remedies available under the law or at equity and including those set forth in Sections 2 and 9(a) above and 13 below, if you breach any of the provisions of this Agreement, this Agreement shall terminate and you will be required to immediately pay back to the Company, upon demand the Severance and the Premium Payments. You further understand that this provision shall not be effective with respect to, or adversely affect your rights under, the ADEA with respect to any challenge you make as to the validity of the ADEA waivers in Section 3 above or 11 below.

10. Further Cooperation

You hereby represent, warrant and agree that, after the Termination Date, you will not provide any regular services to the Company or represent yourself as a Company agent. If, however, the Company so requests, you agree to cooperate fully with the Company in connection with any matter with which you were involved prior to the Termination Date, or in any litigation or administrative proceedings or appeals (including any preparation therefor) where the Company believes that your personal knowledge, attendance and participation could be beneficial to the Company. Such cooperation shall include, but is not limited to, your providing truthful testimony by affidavit, deposition, testimony or otherwise in connection with a trial, arbitration or similar proceeding, upon the Company's reasonable request.

11. Additional Waivers and Acknowledgements Including Express Waiver Under the ADEA

(a) By execution of this Agreement, you expressly waive any and all claims relating to age discrimination you may have under the ADEA.

(b) You hereby acknowledge that you have read this Agreement in its entirety and understand all of its terms and conditions and that you knowingly and voluntarily assent to all of the terms and conditions contained herein, including without limitation, the waiver and release set forth in Section 3, and that your waiver of rights or claims arising under the ADEA is in writing and is understood by you.

(c) You expressly understand that by your execution of this Agreement, you do not waive any rights or claims that may arise after the date this Agreement is executed (other than, if this Agreement is not revoked by you, rights or claims arising on or prior to the Effective Date).

(d) You hereby acknowledge that the waiver of your rights and/or claims existing under the ADEA is in exchange for consideration which is in excess of any severance or other benefits which you have received or may have been entitled to receive contractually or under the policies of the Company in connection with the termination of your employment.

(e) You hereby acknowledge that you have been advised to consult with an attorney of your choosing prior to executing this Agreement and specifically in connection with the waivers and releases set forth in Section 3 of this Agreement and under this Section 11.

(f) You have been advised that you have a period of not less than twenty-one (21) days from the date on which you received a copy of this Agreement, within which to consider this Agreement, including the waivers and releases set forth in Section 3 above and under this Section 11, and that you may choose to sign this Agreement at any time subsequent to the close of business on the Termination Date, but prior to the expiration of the twenty-one (21) day period. You hereby acknowledge that if you choose to execute this Agreement before the expiration of the twenty-one (21) day period, you do so freely, voluntarily and with full knowledge of your rights.

(g) You hereby acknowledge that you have been advised that you are entitled to revoke this Agreement, including all waivers and releases, within seven (7) days after execution, and that this Agreement, including the waivers and releases, will not and does not become effective or enforceable until the seven (7) day revocation period has expired. Accordingly, if you decide to revoke this Agreement, you must notify the Company of your revocation in a letter (the "Revocation Letter") signed by you and received by L. David Tomei by no later than 5:01 p.m. on the seventh (7th) day after you have signed this Agreement. For example, if you execute this Agreement on a Monday, you would have until 5:01 p.m. on the following Monday for the Company to receive your Revocation Letter. The Revocation Letter must be sent in accordance with Section 16. A Revocation Letter that is not received on the seventh (7th) day by 5:01 p.m. after you have signed this Agreement will be invalid and will not revoke this Agreement.

12. Choice of Law/Forum/Waiver of Jury Trial/Contract Interpretation

(a) This Agreement shall be deemed to be made under, and in all respects shall be interpreted, construed and governed by and in accordance with, the laws of the State of New York without reference to its conflict of law principles.

(b) You hereby irrevocably submit to the jurisdiction of the courts of the State of New York and the federal courts of the United States of America located in the State of New York in respect of the interpretation and enforcement of the provisions of this Agreement, and you hereby waive, and agree not to assert, as a defense that you are not subject thereto or that the venue thereof may not be appropriate. You further hereby waive your right to a jury trial in any action that arises out of or relates to any breach or failure to perform by you any of the terms and provisions of this Agreement. You hereby agree that mailing of process or other papers in connection with any such action or proceeding in any manner as may be permitted by law shall be valid and sufficient service thereof.

(c) You agree that the language of all parts of this Agreement shall be construed as a whole, and according to its fair meaning, and not strictly for or against you or the Company.

13. Indemnification

You hereby agree to indemnify and hold harmless each Released Person or Entity against any and all damages or liabilities (including, without limitation, tax liabilities), expenses and costs that may arise out of or that is in any way related to a breach or failure to perform by you of any of the terms and provisions of this Agreement. You hereby further agree to pay any legal fees and costs incurred by the Company to defend any claim you may bring (other than a proceeding to receive unemployment insurance benefits or arising under the ADEA) or to enforce any rights the Company may have under this Agreement.

14. Non-Assignability

You may not assign this Agreement without the express written consent of the Company.

15. Complete Agreement; Amendment

You acknowledge and agree that this Agreement sets forth the entire agreement of the parties concerning its subject matter, and supersedes any and all prior agreements and discussions. This Agreement may be modified only by a written instrument signed by you and the Company.

16. Notices

(a) My notice required or permitted under this Agreement shall be in writing and shall be deemed to have been duly given if sent by personal delivery or Federal Express to such party at the address below or such other address as a party hereto shall have last designated by notice to the other party. Notice shall be deemed delivered when actually delivered to such address.

If to V. Randy White, Ph.D.:

15080 La Planideras
Rancho Santa Fe, CA 92067

With a copy to:

If to the Company:

420 Lexington Avenue, Suite 1701
New York, NY 10170

With a copy to:


Sichenzia Ross Freidman Ference LLP
1065 Avenue of the Americas, 21st Floor
New York, NY 10018
Attention: Jeffrey J. Fessler, Esq.

17. No Admission of Liability

You hereby acknowledge that nothing contained in this Agreement shall constitute an admission of liability or wrongdoing on the part of the Company and that nothing contained herein or therein should be construed as such.

We wish you success in your future undertakings.

Sincerely yours,

By: 
L. David Tomei, Chief Executive Officer

Accepted and Agreed to:

Date: _____

CERTIFICATION

I, L. David Tomei, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Xenomics, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) [paragraph omitted in accordance with SEC transition instruction contained in SEC Release 34-47986]
 - c) evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):

-
- a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuers internal control over financial reporting.

September 19, 2006

/s/ L. David Tomei

L. David Tomei,

Chief Executive Officer

CERTIFICATION OF CHIEF EXECUTIVE OFFICER**XENOMICS, INC.****FORM 10-Q FOR THE QUARTER ENDED JULY 31, 2006****PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED****PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I am the Chief Executive Officer of Xenomics, Inc., a Florida corporation (the "Company"). I am delivering this certificate in connection with the Form 10-Q of the Company for the quarter ended July 31, 2006 and filed with the Securities and Exchange Commission ("Form 10-Q").

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I hereby certify that, to the best of my knowledge, the Form 10-Q fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

September 19, 2006

/s/ L. David Tomei

L. David Tomei,
Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER**XENOMICS, INC.****FORM 10-Q FOR THE QUARTER ENDED JULY 31, 2006****PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED****PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I am the Chief Financial Officer of Xenomics, Inc., a Florida corporation (the "Company"). I am delivering this certificate in connection with the Form 10-Q of the Company for the quarter ended July 31, 2006 and filed with the Securities and Exchange Commission ("Form 10-Q").

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I hereby certify that, to the best of my knowledge, the Form 10-Q fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

September 19, 2006

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