

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

APPLIED DNA SCIENCES INC
Form 10QSB/A
October 10, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Amendment No. 1 to
FORM 10-QSB

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

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

For the Quarterly period ended June 30, 2005

Commission file number 002-90519

APPLIED DNA SCIENCES, INC.
(Exact name of registrant as specified in its charter)

Nevada

59-2262718

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification Number)

25 Health Sciences Drive, Suite 113
Stony Brook, New York

11790

(Address of Principal Executive Offices)

(Zip Code)

(631)444-6862

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the last 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

The number of shares of Common Stock, \$0.001 par value, outstanding on August 9, 2005, was 110,653,025 shares, held by approximately 1,182 shareholders.

Transitional Small Business Disclosure Format (check one):

Yes No

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

EXPLANATORY NOTE

This Amendment No. 1 to Form 10-QSB/A (this "Amendment") amends the Quarterly Report of Applied DNA Sciences, Inc. (the "Company") on Form 10-QSB for the quarter ended June 30, 2005, as filed with the Securities and Exchange Commission on August 15, 2005 (the "Original Filing"). This Amendment is being filed for the purpose of correcting errors in accounting for and the disclosing the issuance by the Company of common stock, warrants, and options to acquire the Company's common stock for services and in exchange for previously incurred debt. In addition the Company is correcting certain errors in accounting for the exchange of its common stock for previously incurred debt with a Company Director.

We have not updated the information contained herein for events occurring subsequent to August 15, 2005, the filing date of the Original Filing.

APPLIED DNA SCIENCES, INC

Amendment No. 1 to Quarterly Report on Form 10-QSB/A for the Quarterly Period Ending June 30, 2005

Table of Contents

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

Condensed Consolidated Balance Sheet: June 30, 2005 (Unaudited)	4
Condensed Consolidated Statements of Losses: Three and nine Months Ended June 30, 2005 and 2004 (Unaudited) and the Period from September 16, 2002 (Date of Inception) Through June 30, 2005 (Unaudited)	5
Condensed Consolidated Statement of Stockholder's Equity: For the Period from September 16, 2002 (Date of Inception) Through June 30, 2005 (Unaudited)	6
Condensed Consolidated Statements of Cash Flows: Nine Months Ended June 30, 2005 and 2004 (Unaudited) and the Period from September 16, 2002 (Date of Inception) Through June 30, 2005 (Unaudited)	18
Notes to Unaudited Condensed Consolidated Financial Information: June 30, 2005	20-40
Item 2. Management Discussion and Analysis	41
Item 3. Controls and Procedures	52

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

Part II. OTHER INFORMATION

Item 1. Legal Proceedings	54
2	
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	54
Item 3. Defaults Upon Senior Securities	54
Item 4. Submission of Matters to a Vote of Security Holders	55
Item 5. Other Information	55
Item 6. Exhibits	55
Signatures	56

3

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

APPLIED DNA SCIENCES, INC.
(A Development stage company)
CONDENSED CONSOLIDATED BALANCE SHEETS
RESTATED
(Unaudited)

ASSETS	
	June 30, 2005

Current assets:	
Cash and Equivalents	\$ 1,192,465
Total Current Assets	----- 1,192,465
Property, plant and equipment - Net of accumulated depreciation of \$8,844 as of June 30, 2005	20,663
Security Deposits	56,850
Patent Filing - Net	24,753
Total Assets	----- \$ 1,294,731 =====

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

LIABILITIES AND DEFICIENCY IN STOCKHOLDERS' EQUITY

Current liabilities:	
Accounts payable and accrued liabilities	\$ 1,038,025
Accrued liabilities due related parties (Note C)	136,474
Note payable (Note C)	425,000

Total Current Liabilities	1,599,499
Warrant Liability (Note D)	9,802,137
Commitments and contingencies (Note F)	
Deficiency in stockholders' equity:	
Preferred Stock, par value \$.001 per share; 10,000,000 shares authorized; 60,000 issued and outstanding	6
Common Stock, par value \$.001 per share; 250,000,000 shares authorized; 66,411,025 shares issued and outstanding	66,412
Common stock Subscription	(36,000)
Common stock receivable	(1,000)
Additional Paid-In-Capital	53,143,538
Deficit Accumulated During Development Stage	(63,279,861)

Total Deficiency in Stockholders' Equity	(10,106,905)
Total Liabilities and Deficiency in Stockholders' Equity	\$ 1,294,731
	=====

See accompanying notes to unaudited condensed consolidated financial statements

4

APPLIED DNA SCIENCES, INC.
(A development stage company)
CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND LOSS
(Unaudited)

	For The Three Months Ended June 30		For The Nine Months Ended	
	2005	2004	2005	
	-----	-----	-----	-----
	RESTATED		RESTATED	
Operating expenses:				
Selling, general and administrative	\$ 1,865,631	\$ 1,672,449	\$ 24,188,882	\$

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

Research and Development	88,870	--	345,958	
Depreciation and amortization	3,160	351	15,187	
	-----	-----	-----	-----
Total operating expenses	1,957,661	1,672,800	24,550,027	
	-----	-----	-----	-----
Operating loss	(1,957,661)	(1,672,800)	(24,550,027)	
Net gain on revaluation of warrant liability	5,679,175	--	16,454,928	
Other Income (expense)	241	--	3,415	
Interest (expense)	(21,557)	(558,333)	(32,373,143)	
Income (taxes) benefit	--	--	--	
	-----	-----	-----	-----
Net income (loss)	\$ 3,700,198	\$ (2,231,133)	\$ (40,464,827)	\$
	=====	=====	=====	=====
Income(loss) per common share (basic)	\$ 0.06	\$ (0.10)	\$ (0.83)	\$
	=====	=====	=====	=====
Income per common share (fully diluted)	\$ 0.04			
	=====			
Weighted average shares outstanding (basic)	66,308,115	21,350,449	48,810,559	
	=====	=====	=====	=====
Weighted average share outstanding (fully diluted)	109,223,832			
	=====			

See accompanying notes to unaudited condensed consolidated financial statements

5

APPLIED DNA SCIENCES, INC
(A development stage company)
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2005
RESTATED
(Unaudited)

Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed
-----	-----	-----	-----	-----	-----

Issuance of common stock
to Founders in exchange
for services on September

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

16, 2002 at \$.01 per share	-	-	100,000	\$	10	\$	990	\$	-	\$
Net Loss	-	-	-	-	-	-	-	-	-	-
Balance at September 30, 2002	-	\$ -	100,000	\$	10	\$	990	\$	-	\$
Issuance of common stock in connection with merger with Prohealth Medical Technologies, Inc on October 1, 2002	-	-	10,178,352		1,015		-		-	-
Cancellation of Common stock in connection with merger with Prohealth Medical Technologies, Inc on October 21, 2002	-	-	(100,000)		(10)		(1,000)		-	-
Issuance of common stock in exchange for services in October 2002 at \$ 0.65 per share	-	-	602,000		60		39,070		-	-
Issuance of common stock in exchange for subscription in November and December 2002 at \$ 0.065 per share	-	-	876,000		88		56,852		-	-
Cancellation of common stock in January 2003 previously issued in exchange for consulting services	-	-	(836,000)		(84)		(54,264)		-	-
Issuance of common stock in exchange for licensing services valued at \$ 0.065 per share in January 2003	-	-	1,500,000		150		97,350		-	-
Issuance of common stock in exchange for consulting services valued at \$ 0.13 per share in January 2003	-	-	586,250		58		76,155		-	-
Issuance of common stock in exchange for consulting services at \$ 0.065 per share in February 2003	-	-	9,000		1		584		-	-
Issuance of common stock to Founders in exchange for services valued at \$0.0001 per share in March 2003	-	-	10,140,000		1,014		-		-	-
Issuance of common stock in exchange for consulting services valued at \$2.50 per share in March 2003	-	-	91,060		10		230,624		-	-

See accompanying notes to unaudited condensed consolidated financial statements

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

APPLIED DNA SCIENCES, INC
(A development stage company)
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2005
RESTATED
(Unaudited)
(Continued)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed
Issuance of common stock in exchange for consulting services valued at \$ 0.065 per share in March 2003	-	-	6,000	1	389	-
Common stock subscribed in exchange for cash at \$1 per share in March 2003	-	-	-	-	18,000	-
Common stock issued in exchange for consulting services at \$ 0.065 per share on April 1, 2003	-	-	860,000	86	55,814	-
Common stock issued in exchange for cash at \$ 1.00 per share on April 9, 2003	-	-	18,000	2	-	-
Common stock issued in exchange for consulting services at \$ 0.065 per share on April 9, 2003	-	-	9,000	1	584	-
Common stock issued in exchange for consulting services at \$ 2.50 per share on April 23, 2003	-	-	5,000	1	12,499	-
Common stock issued in exchange for consulting services at \$ 2.50 per share, on June 12, 2003	-	-	10,000	1	24,999	-
Common stock issued in exchange for cash at \$ 1.00 per share on June 17, 2003	-	-	50,000	5	49,995	-
Common stock subscribed in exchange for cash at \$ 2.50 per share pursuant to private placement on June 27, 2003	-	-	-	-	-	24,000
Common stock retired in exchange for note payable						

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

at \$0.0118 per share, on June 30, 2003	-	-	(7,500,000)	(750)	750	-
Common stock issued in exchange for consulting services at \$0.065 per share, on June 30, 2003	-	-	270,000	27	17,523	-
Common stock subscribed in exchange for cash at \$ 1.00 per share pursuant to private placement on June 30, 2003	-	-	-	-	-	10,000
Common stock subscribed in exchange for cash at \$ 2.50 per share pursuant to private placement on June 30, 2003	-	-	-	-	-	24,000
Common stock issued in exchange for consulting services at approximately \$2.01 per share, July 2003	-	-	213,060	21	428,798	-

See accompanying notes to unaudited condensed consolidated financial statements

7

APPLIED DNA SCIENCES, INC
(A development stage company)
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2005
RESTATED
(Unaudited)
(Continued)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed
Common stock canceled in July 2003, previously issued for services rendered at \$2.50 per share	-	-	(24,000)	(2)	(59,998)	-
Common stock issued in exchange for options exercised at \$1.00 in July 2003	-	-	20,000	2	19,998	-
Common stock issued in exchange for exercised of options previously subscribed at \$1.00 in July 2003	-	-	10,000	1	9,999	(10,000)
Common stock issued in						

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

exchange for consulting services at approximately \$2.38 per share, August 2003	-	-	172,500	17	410,915	-
Common stock issued in exchange for options exercised at \$1.00 in August 2003	-	-	29,000	3	28,997	-
Common stock issued in exchange for consulting services at approximately \$2.42 per share, September 2003	-	-	395,260	40	952,957	-
Common stock issued in exchange for cash at \$2.50 per share-subscription payable-September 2003	-	-	19,200	2	47,998	(48,000)
Common stock issued in exchange for cash at \$2.50 per share pursuant to private placement September 2003	-	-	6,400	1	15,999	-
Common stock issued in exchange for options exercised at \$1.00 in September 2003	-	-	95,000	10	94,991	-
Common stock subscription receivable reclassification adjustment	-	-	-	-	-	-
Common Stock subscribed to at \$2.50 per share in September 2003	-	-	-	-	-	300,000
Net Loss for the year ended September 30, 2003	-	-	-	-	-	-
Balance at September 30, 2003	-	\$ -	17,811,082	\$ 1,781	\$ 2,577,568	\$ 300,000

See accompanying notes to unaudited condensed consolidated financial statements

8

APPLIED DNA SCIENCES, INC
(A development stage company)
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2005
RESTATE
(Unaudited)
(Continued)

Preferred	Common	Additional Paid in	Common
-----------	--------	-----------------------	--------

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

	Preferred Shares	Shares Amount	Common Shares	Stock Amount	Capital Amount	Stock Subscribed
Preferred shares issues in exchange for services at \$25.00 per share, October 2003	15,000	15	-	-	-	-
Common stock issued in exchange for consulting services at approximately \$2.85 per share, October 2003	-	-	287,439	29	820,389	-
Common stock issued in exchange for cash at \$2.50 per share-subscription payable-October 2003	-	-	120,000	12	299,988	(300,000)
Common stock canceled in October 2003, previously issued for services rendered at \$2.50 per share	-	-	(100,000)	(10)	(249,990)	-
Common stock issued in exchange for consulting services at approximately \$3 per share, November 2003	-	-	100,000	10	299,990	-
Common stock subscribed in exchange for cash at \$2.50 per share pursuant to private placement, November, 2003	-	-	100,000	10	249,990	-
Common stock subscribed in exchange for cash at \$2.50 per share pursuant to private placement, December, 2003	-	-	6,400	1	15,999	-
Common stock issued in exchange for consulting services at approximately \$2.59 per share, December 2003	-	-	2,125,500	213	5,504,737	-
Common Stock subscribed to at \$2.50 per share in Dec 2003	-	-	-	-	-	104,000
Beneficial conversion feature relating to notes payable	-	-	-	-	1,168,474	-
Beneficial conversion feature relating to warrants	-	-	-	-	206,526	-
Adjust common stock par value from \$0.0001 to \$0.50 per share, per amendment of articles dated Dec 2003	-	-	-	10,223,166	(10,223,166)	-
Common Stock issued pursuant to subscription at \$2.50 share in Jan 2004	-	-	41,600	20,800	83,200	(104,000)

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

Common stock issued in exchange for consulting services at \$2.95 per share, Jan 2004	-	-	13,040	6,520	31,948	-
Common stock issued in exchange for consulting services at \$2.60 per share, Jan 2004	-	-	123,000	61,500	258,300	-

See accompanying notes to unaudited condensed consolidated financial statements

9

APPLIED DNA SCIENCES, INC
(A development stage company)
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2005
RESTATE
(Unaudited)
(Continued)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed
Common stock issued in exchange for consulting services at \$3.05 per share, Jan 2004	-	-	1,000	500	2,550	-
Common stock issued in exchange for employee services at \$3.07 per share, Feb 2004	-	-	6,283	3,142	16,147	-
Common stock issued in exchange for consulting services at \$3.04 per share, Mar 2004	-	-	44,740	22,370	113,640	-
Common Stock issued for options exercised at \$1.00 per share in Mar 2004	-	-	55,000	27,500	27,500	-
Common stock issued in exchange for employee services at \$3.00 per share, Mar 2004	-	-	5,443	2,722	13,623	-
Common stock issued in exchange for employee services at \$3.15 per share, Mar 2004	-	-	5,769	2,885	15,292	-
Preferred shared converted to common shares for consulting services at \$3.00 per share, Mar 2004	(5,000)	(5)	125,000	62,500	312,500	-
Common stock issued in exchange for employee services at \$3.03 per share, Mar 2004	-	-	8,806	4,400	22,238	-

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

Common Stock issued pursuant to subscription at \$2.50 per share in Mar. 2004	-	-	22,500	11,250	(9,000)	-
Beneficial Conversion Feature relating to Notes Payable			-	-	122,362	-
Beneficial Conversion Feature relating to Warrants	-	-	-	-	177,638	-
Common stock issued in exchange for consulting services at \$2.58 per share, Apr 2004	-	-	9,860	4,930	20,511	-
Common stock issued in exchange for consulting services at \$2.35 per share, Apr 2004	-	-	11,712	5,856	21,667	-
Common stock issued in exchange for consulting services at \$1.50 per share, Apr 2004	-	-	367,500	183,750	367,500	-
Common stock returned to treasury at \$0.065 per share, April 2004	-	-	(50,000)	(25,000)	21,750	-
Preferred stock converted to common stock for consulting services at \$1.01 per share in May 2004	(4,000)	(4)	100,000	50,000	51,250	-
Common stock issued per subscription May 2004	-	-	10,000	5,000	(4,000)	-

See accompanying notes to unaudited condensed consolidated financial statements

10

APPLIED DNA SCIENCES, INC
(A development stage company)
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2005
RESTATED
(Unaudited)
(Continued)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed
Common stock issued in exchange for consulting services at \$0.86 per share in May 2004	-	-	137,000	68,500	50,730	-

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

Common stock issued in exchange for consulting services at \$1.15 per share in May 2004	-	-	26,380	13,190	17,147	-
Common stock returned to treasury at \$0.065 per share, Jun 2004	-	-	(5,000)	(2,500)	2,175	-
Common stock issued in exchange for consulting services at \$0.67 per share in June 2004	-	-	270,500	135,250	45,310	-
Common stock issued in exchange for consulting services at \$0.89 per share in June 2004	-	-	8,000	4,000	3,120	-
Common stock issued in exchange for consulting services at \$0.65 per share in June 2004	-	-	50,000	25,000	7,250	-
Common stock issued pursuant to private placement at \$1.00 per share in June 2004	-	-	250,000	125,000	125,000	-
Common stock issued in exchange for consulting services at \$0.54 per share in July 2004	-	-	100,000	50,000	4,000	-
Common stock issued in exchange for consulting services at \$0.72 per share in July 2004	-	-	5,000	2,500	1,100	-
Common stock issued in exchange for consulting services at \$0.47 per share in July 2004	-	-	100,000	50,000	(2,749)	-
Common stock issued in exchange for consulting services at \$0.39 per share in August 2004	-	-	100,000	50,000	(11,000)	-
Preferred stock converted to common stock for consulting services at \$0.39 per share in August 2004	(2,000)	(2)	50,000	25,000	(5,500)	-
Common stock issued in exchange for consulting services at \$0.50 per share in August 2004	-	-	100,000	50,000	250	-
Common stock issued in exchange for consulting services at \$0.56 per share in August 2004	-	-	200,000	100,000	12,500	-
Common stock issued in exchange for consulting services at \$0.41 per share in August 2004	-	-	92,500	46,250	(8,605)	-

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

Common stock issued in exchange for consulting services at \$0.52 per share in September 2004	-	-	1,000,000	500,000	17,500	-
---	---	---	-----------	---------	--------	---

See accompanying notes to unaudited condensed consolidated financial statements

11

APPLIED DNA SCIENCES, INC
(A development stage company)
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2005
RESTATED
(Unaudited)
(Continued)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	S
	-----	-----	-----	-----	-----	-----	-----
Common stock issued in exchange for consulting services at \$0.46 per share in September 2004	-	-	5,000	2,500	(212)	-	
Common stock issued pursuant to subscription at \$0.50 per share in September 2004	-	-	40,000	20,000	-	-	
Preferred shares converted to common stock for consulting services at \$0.41 per share in September 2004	(4,000)	(4)	100,000	50,000	4,000	-	
Preferred shares issued in exchange for service at \$25 per share in September 2004	60,000	6	-	-	1,499,994	-	
Fair value of 2,841,000 warrants issued to non-employees and consultants for services rendered at approximately \$0.71 per warrant in September 2004	-	-	-	-	2,019,862	-	
Net Loss	-	-	-	-	-	-	
Balance at September 30, 2004	60,000	\$ 6	23,981,054	\$11,990,527	\$ 6,118,993	\$ -	\$
	=====	=====	=====	=====	=====	=====	=====

See accompanying notes to unaudited condensed consolidated financial statements

APPLIED DNA SCIENCES, INC
(A development stage company)
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2005
RESTATE
(Unaudited)
(Continued)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed
Common stock issued in exchange for consulting services at \$0.68 per share in October 2004	-	-	200,000	100,000	36,000	-
Common stock returned to treasury at \$0.60 per share, Oct 2004	-	-	(1,069,600)	(534,800)	(107,297)	-
Common stock issued in exchange for consulting services at \$0.60 per share in Oct 2004	-	-	82,500	41,250	8,250	-
Common Stock issued pursuant to subscription at \$0.60 share in October 2004	-	-	500,000	250,000	50,000	(300,000)
Common stock issued in exchange for consulting services at \$0.50 per share in October 2004	-	-	532,500	266,250	-	-
Common Stock issued in exchange for debt at \$0.50 share in October 2004	-	-	500,000	250,000	-	-
Common Stock issued pursuant to subscription at \$0.45 share in October 2004	-	-	1,000,000	500,000	(50,000)	(450,000)
Common stock issued in exchange for consulting services at \$0.45 per share in October 2004	-	-	315,000	157,500	(15,750)	-
Common Stock issued in exchange for consulting services at \$0.47 share in November 2004	-	-	100,000	50,000	(3,000)	-
Common Stock issued in exchange for consulting services at \$0.80 share						

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

in November 2004	-	-	300,000	150,000	90,000	-
Common Stock issued in exchange for consulting services at \$1.44 share in November 2004	-	-	115,000	57,500	108,100	-
Common Stock issued in exchange for employee services at \$1.44 share in November 2004	-	-	5,000	2,500	4,700	-

See accompanying notes to unaudited condensed consolidated financial statements

13

APPLIED DNA SCIENCES, INC
(A development stage company)
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2005
RESTATE
(Unaudited)
(Continued)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	S
Warrants exercised at \$0.60 per share in November 2004	-	-	60,000	30,000	6,000	(4,000)	
Beneficial Conversion discount relating to Notes Payable	-	-	-	-	1,465,000	-	
Common stock issued at \$0.016 per share in exchange for note payable in December 2004	-	-	5,500,000	2,750,000	(2,661,500)	-	
Fair value of 6,063,500 warrants issued to non employees and consultants for services rendered at \$.52 per warrant in October and December 2004	-	-	-	3,169,052	-	-	
Warrants exercised at \$0.10 per share in January 2005	-	-	25,000	12,500	(10,000)	-	
Common Stock issued in settlement of debt at \$0.33 per share in January 2005	-	-	1,628,789	814,395	(276,895)	-	
Fair value of warant liability							

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

reclassified due to registration rights granted in January 2005	-	-	-	-	(3,108,851)	-
Warrants exercised at \$0.10 per share in January 2005	-	-	17,500	8,750	(7,000)	-
Common Stock issued in settlement of debt at \$0.33 per share in January 2005	-	-	2,399,012	1,199,504	(407,830)	-
Common Stock issued in exchange for consulting services at \$1.30 per share in January 2005	-	-	315,636	157,818	252,508	-
Common Stock issued in exchange for consulting services at \$1.44 per share in February 2005	-	-	5,796,785	2,898,393	5,418,814	-
Common stock issued in settlement of debt at \$0.50 per share in February 2005	-	-	2,930,000	1,465,000	-	(125,000)
Common Stock issued in settlement of debt at \$0.33 per share in February 2005	-	-	75,757	37,879	(12,879)	-

See accompanying notes to unaudited condensed consolidated financial statements

14

APPLIED DNA SCIENCES, INC
(A development stage company)
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2005
RESTATED
(Unaudited)
(Continued)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed
Warrants exercised at \$0.10 per share in February 2005	-	-	20,000	10,000	(8,000)	-
Common Stock issued in settlement of debt at \$0.33 per share in February 2005	-	-	606,060	303,030	(103,030)	-
Warrants exercised at \$0.10 per share in February 2005	-	-	45,000	22,500	(18,000)	-
Common Stock issued in						

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

exchange for related party debt at \$1.31 per share in February 2005	-	-	1,500,000	750,000	1,215,000	-
Common Stock issued in settlement of debt at \$0.33 per share in February 2005	-	-	278,433	139,217	(47,334)	-
Common Stock issued in exchange for consulting services at \$1.17 per share in February 2005	-	-	17,236	8,618	11,548	-
Common stock issued in exchange for debt at \$0.50 per share in February 2005	-	-	300,000	150,000	-	-
Common Stock issued in exchange for consulting services at \$0.95 per share in February 2005	-	-	716,500	358,250	322,425	-
Common Stock issued in exchange for consulting services at \$0.95 per share in February 2005	-	-	10,500	5,250	4,725	-
Fair value of 55,000 warrants issued to consultants for services rendered at \$.71 per warrant in February 2005	-	-	-	-	72,017	-
Common stock issued in exchange for debt at \$0.50 per share in March 2005	-	-	13,202,000	6,601,000	-	-
Common Stock issued in exchange for consulting services at \$1.19 per share in March 2005	-	-	185,000	92,500	127,650	-
Options exercised at \$0.60 per share in March 2005	-	-	100,000	50,000	10,000	-
Common Stock issued in exchange for consulting services at \$0.98 per share in March 2005	-	-	1,675,272	837,636	804,131	-

See accompanying notes to unaudited condensed consolidated financial statements

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2005

RESTATED
(Unaudited)
(Continued)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed
Common Stock issued in exchange for consulting services at \$0.92 per share in March 2005	-	-	24,333	12,167	10,219	-
Common Stock issued in exchange for consulting services at \$0.99 per share in March 2005	-	-	15,000	7,500	7,350	-
Common stock issued in exchange for debt at \$0.50 per share in March 2005	-	-	1,240,000	620,000	-	-
Common stock canceled for shares issued in exchange of debt in March 2005	-	-	(500,000)	(250,000)	-	-
Common stock subscribed Canceled in March 2005	-	-	-	-	-	750,000
Common Stock issued in exchange for consulting services at \$0.89 per share in March 2005	-	-	10,000	5,000	3,900	-
Adjust common stock par value from \$0.50 to \$0.001 per share, per amendment of articles dated March 2005	-	-	-	(32,312,879)	32,312,879	-
Beneficial Conversion discount relating to Notes Payable in March 2005	-	-	-	-	7,371,000	-
Stock options granted to employees in exchange for services rendered, at exercise price below fair value of common stock in March 2005	-	-	-	-	180,000	-
Common Stock issued in exchange for consulting services at \$0.80 per share in April 2005	-	-	160,000	160	127,840	-
Common Stock issued in exchange for consulting services at \$0.80 per share in April 2005	-	-	40,000	40	31,960	-

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

See accompanying notes to unaudited condensed consolidated financial statements

16

APPLIED DNA SCIENCES, INC
(A development stage company)
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2005
RESTATE
(Unaudited)
(Continued)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed
Common Stock issued in exchange for consulting services at \$0.75 per share in April 2005	-	-	850,000	850	636,650	-
Common Stock issued in exchange for consulting services at \$0.33 per share in April 2005	-	-	500,000	500	164,500	-
Common Stock canceled during April 2005, previously issued for services rendered at \$3.42 per share	-	-	(10,000)	(10)	(34,190)	-
Common Stock issued in settlement of debt at \$0.33 per share in April 2005	-	-	75,758	77	24,923	(25,000)
Common Stock issued in exchange for consulting services at \$0.68 per share in April 2005	-	-	50,000	50	33,950	-
Proceeds received against subscription Payable in June 2005	-	-	-	-	-	118,000
Common Stock canceled in June 2005, previously issued for services rendered at \$0.50 per share	-	-	(10,000)	(10)	(4,990)	-
Cancellation of previously granted stock options granted to employees for services rendered, at exercise price below fair value of common stock	-	-	-	-	(180,000)	-

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

Net Loss	-	-	-	-	-	-
Balance at June 30, 2005	60,000	6	66,411,025	66,412	53,143,538	(36,000)

See accompanying notes to unaudited condensed consolidated financial statements

17

APPLIED DNA SCIENCES, INC.
(A DEVELOPMENT STAGE COMPANY)
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

	For The Nine Months Ended	
	2005	2004
	RESTATED	
Cash flows from operating activities:		
Net loss from operating activities.....	\$ (40,464,827)	\$ (12,210,262)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation.....	15,187	1,054
Organizational Expenses.....	--	--
Preferred Shares issued in exchange for service.....	--	--
Warrants issued to consultants	3,241,068	--
Income attributable to re-pricing of warrants	(16,454,929)	--
Financing costs attributable to issuance of warrants	23,148,214	--
Amortization of beneficial conversion feature-convertible notes.....	8,836,000	1,219,444
Fair value of common stock issued to related party in excess of previously incurred debt	1,365,000	-
Common stock issued in exchange for services	13,396,202	8,918,032
Common stock canceled-previously issued for services rendered.....	(181,298)	(285,575)
Changes in Assets and Liabilities:		
Payments for security deposits	(33,291)	(23,559)
Increase in-other assets.....	--	--
Increase in due related parties.....	(20,631)	--
Increase (decrease) in accounts payable and accrued liabilities.....	(833,465)	101,439
Cash disbursed in excess of available.....	--	17,870
Net cash used in operating activities.....	(7,986,770)	(2,261,557)
Cash flows from investing activities:		

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

Payments for patent filing.....	(4,347)	(18,758)
Capital expenditures.....	--	(29,507)
	-----	-----
Net cash used in investing activities.....	(4,347)	(48,265)
Cash flows from financing activities:		
Proceeds from sale of common stock, net of cost.....	--	--
Proceeds from issuance of convertible notes.....	9,079,000	354,000
Proceeds from exercise of options and warrants.....	102,750	87,000
Proceeds from loans.....	--	1,675,000
Advances from shareholders.....	--	34,004
Proceeds from related party advance.....	--	(33,653)
	-----	-----
Net cash provided by financing activities.....	9,181,750	2,116,351
Net increase in cash and cash equivalents.....	1,190,633	(193,471)
Cash and cash equivalents at beginning of period.....	1,832	193,471
	-----	-----
Cash and cash equivalents at end of period.....	\$ 1,192,465	\$ --
	=====	=====
Supplemental Disclosures of Cash Flow Information:		
Cash paid during period for interest.....	--	--
Cash paid during period for taxes.....	--	--
Non-cash transactions:		
Common stock issued for services.....	13,396,202	8,918,032
Common stock issued in exchange for previously incurred debt	2,313,500	--
Common stock canceled-previously issued for services	(181,298)	(285,575)
rendered.....		
Common stock retired.....	--	--
Beneficial conversion feature attributed to convertible	8,836,000	1,219,444
notes.....		
Preferred Shares in exchange for services.....	--	
Warrants issued to consultants.....	3,241,068	--
Acquisition:		
Common stock retained.....		1,015
Assets acquired.....		(135)

Total consideration paid.....		880

Organization expenses - note issued in exchange of shares		
retired.....		

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

For The Nine Months Ended

	2005	2004
	-----	-----
	RESTATED	

Common stock issued in exchange for note payable.....	--	--

See accompanying notes to unaudited condensed consolidated financial statements

19

APPLIED DNA SCIENCES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
JUNE 30, 2005
(Unaudited)

NOTE A - SUMMARY OF ACCOUNTING POLICIES

General

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-QSB/A, and therefore, do not include all the information necessary for a fair presentation of financial position, results of operations and cash flows in conformity with generally accepted accounting principles.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine month periods ended June 30, 2005 are not necessarily indicative of the results that may be expected for the fiscal year ended September 30, 2005. The unaudited condensed consolidated financial statements should be read in conjunction with the consolidated September 30, 2004 financial statements and footnotes thereto included in the Company's SEC Form 10-KSB, as amended.

Business and Basis of Presentation

On September 16, 2002, Applied DNA Sciences, Inc. (the "Company") was incorporated under the laws of the State of Nevada. The Company is in the development stage, as defined by Statement of Financial Accounting Standards No. 7 ("SFAS No. 7") and its efforts have been principally devoted to developing DNA embedded biotechnology security solutions in the United States. To date, the Company has generated nominal sales revenues, has incurred expenses and has sustained losses. Consequently, its operations are subject to all the risks inherent in the establishment of a new business enterprise. For the period from inception through June 30, 2005, the Company has accumulated losses of \$63,279,861.

The consolidated financial statements include the accounts of the Company, and its wholly-owned subsidiary ProHealth Medical Technologies, Inc. Significant inter-company transactions have been eliminated in consolidation.

Reclassification

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

Certain prior period amounts have been reclassified for comparative purposes.

Property and Equipment

Property and equipment are stated at cost and depreciated over their estimated useful lives of 3 to 5 years using the straight line method. At June 30, 2005 property and equipment consist of:

Furniture	\$	29,507
Accumulated depreciation		(8,844)

Net	\$	20,663

20

APPLIED DNA SCIENCES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
JUNE 30, 2005
(Unaudited)

NOTE A - SUMMARY OF ACCOUNTING POLICIES (continued)

Stock Based Compensation

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure-an amendment of SFAS 123." This statement amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in APB Opinion No. 25 and related interpretations. Accordingly, compensation expense for stock options is measured as the excess, if any, of the fair market value of the Company's stock at the date of the grant over the exercise price of the related option. The Company has adopted the annual disclosure provisions of SFAS No. 148 in its financial reports for the year ended September 30, 2003 and for the subsequent periods.

Had compensation costs for the Company's stock options been determined based on the fair value at the grant dates for the awards, the Company's net loss and losses per share would have been as follows (transactions involving stock options issued to employees and Black-Scholes model assumptions are presented in Note E):

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

	For The Three Months ended June 30, 2005	For The Three Months ended June 30, 2004	For The Nine Months ended June 30, 2005	For The Nine Months ended June 30, 2004
Net income (loss) - as reported	\$3,700,198	\$ (2,231,133)	\$ (40,464,827)	\$ (12,210,262)
Add: Total stock based employee compensation expense as reported under intrinsic value method (APB No. 25)	--	--	--	--
Deduct: Total stock based employee compensation expense as reported under fair value method (APB No. 123)	(1,406,350)	--	(1,406,350)	--
Net income (loss) - Pro Forma	<u>\$2,293,848</u>	<u>\$ (2,231,133)</u>	<u>\$ (41,871,177)</u>	<u>\$ (12,210,262)</u>
Net income (loss) attributable to common stockholders - Pro Forma	<u>\$2,293,848</u>	<u>\$ (2,231,133)</u>	<u>\$ (41,871,177)</u>	<u>\$ (12,210,262)</u>
Basic income (loss) per share - as reported	<u>\$0.06</u>	<u>\$ (0.10)</u>	<u>\$ (0.83)</u>	<u>\$ (0.61)</u>
Basic income (loss) per share - Pro Forma	<u>\$0.064</u>	<u>\$ (0.10)</u>	<u>\$ (0.86)</u>	<u>\$ (0.61)</u>

21

APPLIED DNA SCIENCES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
JUNE 30, 2005
(Unaudited)

NOTE A - SUMMARY OF ACCOUNTING POLICIES (continued)

Stock Based Compensation (continued)

Fully diluted income per share - as reported	\$0.04	N/A	N/A	N/A
--	--------	-----	-----	-----

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

	=====	=====	=====	=====
Fully diluted income per share - Pro Forma	\$0.03	N/A	N/A	N/A
	=====	=====	=====	=====

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123R (revised 2004), "Share-Based Payment" which is a revision of FASB Statement No. 123, "Accounting for Stock-Based Compensation". Statement 123R supersedes APB opinion No. 25, "Accounting for Stock Issued to Employees", and amends FASB Statement No. 95, "Statement of Cash Flows". Generally, the approach in Statement 123R is similar to the approach described in Statement 123. However, Statement 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro-forma disclosure is no longer an alternative. On April 14, 2005, the SEC amended the effective date of the provisions of this statement. The effect of this amendment by the SEC is that the Company will have to comply with Statement 123R and use the Fair Value based method of accounting no later than the first quarter of 2006. Management has not determined the impact that this statement will have on the Company's consolidated financial statements.

New Accounting Pronouncements

In March 2005, the FASB issued FASB Interpretation (FIN) No. 47, "Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143," which requires an entity to recognize a liability for the fair value of a conditional asset retirement obligation when incurred if the liability's fair value can be reasonably estimated. The Company is required to adopt the provisions of FIN 47 no later than the first quarter of fiscal 2006. The Company does not expect the adoption of this Interpretation to have a material impact on its consolidated financial position, results of operations or cash flows.

In May 2005 the FASB issued Statement of Financial Accounting Standards (SFAS) No. 154, "Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3." SFAS 154 requires retrospective application to prior periods' financial statements for changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 also requires that retrospective application of a change in accounting principle be limited to the direct effects of the change. Indirect effects of a change in accounting principle, such as a change in non-discretionary profit-sharing payments resulting from an accounting change, should be recognized in the period of the accounting change. SFAS 154 also requires that a change in depreciation, amortization, or depletion method for long-lived, non-financial assets be accounted for as a change in accounting estimate effected by a change in accounting principle. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Early adoption is permitted for accounting changes and corrections of errors made in fiscal years beginning after the date this Statement is issued. The Company does not expect the adoption of this SFAS to have a material impact on its consolidated financial position, results of operations or cash flows.

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
JUNE 30, 2005
(Unaudited)

NOTE B - CAPITAL STOCK

The Company is authorized to issue 10,000,000 shares of preferred stock with a \$.001 par value per share. The Company is authorized to issue 250,000,000 shares of common stock, with a \$0.001 par value per share as the result of a shareholder meeting conducted on February 14, 2005. Prior to the February 14, 2005 share increase and par value change, the Company had 100,000,000 authorized shares with a par value of \$0.50. In February 2005, the Company passed a resolution authorizing change in the par value per common shares from \$0.50 per share to \$0.001 per share.

During the period September 16, 2002 through September 30, 2003, the Company issued 100,000 shares of common stock in exchange for reimbursement of services provided by the founders of the Company. The Company valued the shares issued at approximately \$1,000, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

In October, 2002, the Company issued 10,178,352 shares of common stock in exchange for the previously issued 100,000 shares to the Company's founders in connection with the merger with Prohealth Medical Technologies, Inc.

In October, 2002 the Company canceled 100,000 shares of common stock issued to the Company's founders.

During the fiscal year ended September 30, 2003, the Company issued 2,369,130 shares of common stock, net of cancellation of 860,000 shares in exchange for consulting services. The Company valued the shares issued at \$2,191,227, net of cancellation of \$60,008, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

In November 2003, the Company issued 876,000 shares of common stock in exchange for subscription at approximately \$ 0.065 per share.

In January 2003, the Company issued 1,500,000 shares of common stock in exchange for a licensing agreement (see Note I). The Company valued the shares issued at approximately \$.065 per share, which represents the fair value of the license received which did not differ materially from the value of the stock issued. The Company charged the cost of the license to operations.

In March 2003, the Company issued 10,140,000 shares of common stock to Company's founders in exchange for services. In accordance with EITF 96-18 the measurement date to determine fair value was in September 2002. This was the date at which a commitment for performance by the counter party to earn the equity instrument was reached. The Company valued the shares issued at approximately \$0.0001 per share, which presents the fair value of the services received which did not differ materially from the value of the stock issued.

In connection with the Company's acquisition of ProHealth, the controlling owner of ProHealth granted the Company an option to acquire up to 8,500,000 shares of the Company's common stock in exchange for \$100,000 (see Note C). The option expires on December 10, 2004. On June 30, 2003, the Company exercised its option and acquired 7,500,000 common shares under this agreement in exchange for an \$88,500 convertible promissory note payable to the former controlling owner. The Company has an option through December 10, 2004 to acquire the remaining 1,000,000 shares from the former controlling owner in exchange for \$11,500. On June 30, 2003, the Company retired the 7,500,000 shares common acquired pursuant to the option agreement.

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

In September 2003, the Company issued 19,200 shares of common stock for cash previously subscribed at \$2.50 per share.

23

APPLIED DNA SCIENCES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
JUNE 30, 2005
(Unaudited)

NOTE B - CAPITAL STOCK (continued)

During the fiscal year ended September 30, 2003, the Company issued 154,000 shares of common stock in exchange for previously issued options to purchase the Company's common stock at \$1.00 per share.

During the fiscal year ended September 30, 2003, the Company issued 74,400 shares of common stock in exchange for cash at approximately \$0.89 per share.

In October 2003, the Company issued 15,000 shares of convertible preferred stock in exchange for services. The Company valued the shares issued at the \$15 par value and recorded the value for services when the shares were converted into common shares as identified below.

During the fiscal year ended September 30, 2004, the Company issued 5,149,472 shares of common stock, net of cancellation of 155,000 shares, in exchange for consulting services. The Company valued the shares issued at \$8,787,315, net of cancellation of \$408,575, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

During the fiscal year ended September 30, 2004, the Company issued 340,500 shares of common stock for shares previously subscribed at approximately \$2.04 per share.

In March 2004, the Company issued 55,000 of common stock for options exercised at \$1.00 per share.

During the fiscal year ended September 30 2004, the Company converted 15,000 preferred shares into 375,000 shares of common stock at \$1.47 per share in exchange for employee services valued at \$549,750.

In June 2004, the Company sold 250,000 shares of common stock at \$1.00 per share for total proceeds of \$250,000 pursuant to private placement.

In September 2004, the Company issued 60,000 convertible preferred shares at \$25.00, in exchange for consulting services valued at \$1,500,000.

In October 2004, the Company issued 200,000 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately \$0.68 per share for a total of \$136,000, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

In October 2004, shareholders returned 1,069,600 shares to treasury issued earlier in exchange for services valued at \$642,098.

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

In October 2004, the Company issued 82,500 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately \$0.60 per share for a total of \$49,500, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

In October 2004, the Company sold 500,000 shares of common stock subscribed for cash at \$0.60 per share pursuant to private placement.

In October 2004, the Company issued 532,500 shares of common stock to existing noteholders in exchange for advisory services. The Company valued the shares issued at approximately \$0.50 per share and charged \$266,250 to operations.

24

APPLIED DNA SCIENCES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
JUNE 30, 2005
(Unaudited)

NOTE B - CAPITAL STOCK (continued)

In October 2004, the Company sold 500,000 shares of common stock subscribed for cash at \$0.50 per share pursuant to private placement.

In October 2004, the Company sold 1,000,000 shares of common stock subscribed for cash at \$0.45 per share pursuant to private placement.

In October 2004, the Company issued 315,000 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately \$0.45 per share for a total of \$141,750, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

In November 2004, the Company issued 100,000 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately \$0.47 per share for a total of \$47,000, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

In November 2004, the Company issued 300,000 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately \$0.80 per share for a total of \$240,000, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

In November 2004, the Company issued 115,000 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately \$1.44 per share for a total of \$165,600, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

In November 2004, the Company issued 5,000 shares of common stock in exchange for employee services. The Company valued the shares issued at approximately \$1.44 per share for a total of \$7,200, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

In November 2004, the Company issued 60,000 shares of common stock in exchange for employee services. The Company valued the shares issued at approximately \$0.60 per share for a total of \$36,000, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

In December 2004, the Company issued net 5,500,000 shares of common stock for default as per terms of notes payable for \$88,500. Out of total, 3,500,000 shares were retained in escrow on behalf of another party for future deferred compensation.

In December 2004, the Company issued 5,796,785 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately \$1.44 per share for a total of \$8,317,207, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

In December, 2004, the Company issued 2,930,000 shares of common stock subscribed for cash at \$0.50 per share pursuant to the exercise terms of a note payable. This issuance is considered exempt under Regulation D of the Securities Act of 1933 and Rule 506 promulgated thereunder (See note D).

In January 2005, the Company received \$2,500 in exchange for previously issued warrants to purchase the Company's common stock at \$0.10 per share. This issuance is considered exempt under Regulation D of the Securities Act of 1933 and Rule 506 promulgated thereunder.

25

APPLIED DNA SCIENCES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
JUNE 30, 2005
(Unaudited)

NOTE B - CAPITAL STOCK (continued)

In January 2005, the Company received \$1,750 in exchange for previously issued warrants to purchase the Company's common stock at \$0.10 per share. This issuance is considered exempt under Regulation D of the Securities Act of 1933 and Rule 506 promulgated thereunder.

In January 2005, the Company retired \$791,673 of convertible notes payable for 2,399,012 shares of common stock. The Notes are convertible into shares of our common stock at a price of \$0.33 per share (see Note D).

In January 2005, the Company issued 315,636 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately \$1.30 per share for a total of \$ 410,327, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

In February 2005, the Company retired \$25,000 of convertible notes payable for 75,757 shares of common stock. The Notes are convertible into shares of our common stock at a price of \$0.33 per share (see Note D).

In February 2005, the Company received \$2,000 in exchange for previously issued

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

warrants to purchase the Company's common stock at \$0.10 per share. This issuance is considered exempt under Regulation D of the Securities Act of 1933 and Rule 506 promulgated thereunder.

In February 2005, the Company retired \$200,000 of convertible notes payable for 606,060 shares of common stock. The Notes are convertible into shares of our common stock at a price of \$0.33 per share (see Note D).

In February 2005, the Company received \$4,500 in exchange for previously issued warrants to purchase the Company's common stock at \$0.10 per share. This issuance is considered exempt under Regulation D of the Securities Act of 1933 and Rule 506 promulgated thereunder.

In February 2005, the Company exchanged a related party note payable valued at \$1,965,000 with 1,500,000 shares using a price of \$1.31 per share. (See note C). The Company valued the shares at \$1.31 per share for a total of \$1,965,000, which represents the fair value of the common stock on the date of the exchange. The difference between the fair value of the common stock of \$1,965,000 and the face amount of the debt \$ 600,000, or \$1,365,000 has been charged to operations as current period interest expense.

In February 2005, the Company retired \$91,883 of convertible notes payable for 278,433 shares of common stock. The Notes are convertible into shares of our common stock at a price of \$0.33 per share.

In February 2005, the Company issued 17,236 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately \$1.17 per share for a total of \$ 20,166, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

In February 2005, the Company issued 300,000 shares of common stock at \$0.50 per share pursuant to the exercise terms of a note payable. This issuance is considered exempt under Regulation D of the Securities Act of 1933 and Rule 506 promulgated thereunder. (See note D)

26

APPLIED DNA SCIENCES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
JUNE 30, 2005
(Unaudited)

NOTE B - CAPITAL STOCK (continued)

In February 2005, the Company issued 716,500 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately \$0.95 per share for a total of \$ 680,675, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

In February 2005, the Company issued 10,500 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately \$0.95 per share for a total of \$,9,975 which represents the fair value of the services received which did not differ materially from the value of the stock issued.

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

In March 2005, the Company issued 13,202,000 shares of common stock at \$0.50 per share pursuant to the exercise terms of a note payable. This issuance is considered exempt under Regulation D of the Securities Act of 1933 and Rule 506 promulgated thereunder. (See note D)

In March 2005, the Company issued 185,000 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately \$1.19 per share for a total of \$ 220,150, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

In March 2005, the Company received \$60,000 in exchange for previously issued options to purchase the Company's common stock at \$0.60 per share.

In March 2005, the Company issued 1,675,272 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately \$0.98 per share for a total of \$ 1,641,767, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

In March 2005, the Company issued 24,333 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately \$0.92 per share for a total of \$ 22,386, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

In March 2005, the Company issued 15,000 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately \$0.99 per share for a total of \$ 14,850, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

In March 2005, the Company issued 1,240,000 shares of common stock at \$0.50 per share pursuant to the exercise terms of a note payable. This issuance is considered exempt under Regulation D of the Securities Act of 1933 and Rule 506 promulgated thereunder. (See note D)

In March 2005, the Company canceled 500,000 shares of common stock related to a debt exchange for shares valued at \$0.50 per share.

In March 2005, the Company issued 10,000 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately \$0.89 per share for a total of \$ 8,900, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

27

APPLIED DNA SCIENCES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
JUNE 30, 2005
(Unaudited)

NOTE B - CAPITAL STOCK (continued)

In April 2005, the Company issued 160,000 shares of common stock in exchange for

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

consulting services. The Company valued the shares issued at approximately \$0.80 per share for a total of \$ 128,000, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

In April 2005, the Company issued 40,000 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately \$0.80 per share for a total of \$ 32,000, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

In April 2005, the Company issued 850,000 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately \$0.75 per share for a total of \$ 637,000, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

In April 2005, the Company issued 500,000 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately \$0.33 per share for a total of \$ 165,000, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

In April 2005, the Company cancelled 10,000 shares previously issued for services valued at \$34,200 in exchange for a cash settlement.

In April 2005, the Company retired \$25,000 of convertible notes payable for 75,758 shares of common stock. The Notes are convertible into shares of our common stock at a price of \$0.33 per share.

In April 2005, the Company issued 50,000 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately \$0.68 per share for a total of \$ 34,000, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

In June 2005, the Company cancelled 10,000 shares previously issued for services valued at \$5,000.

In accordance with EITF 96-18 the measurement date to determine fair value was the date at which a commitment for performance by the counter party to earn the equity instrument was reached. The Company valued the shares issued for consulting services at the rate which represents the fair value of the services received which did not differ materially from the value of the stock issued.

28

APPLIED DNA SCIENCES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
JUNE 30, 2005
(Unaudited)

NOTE C - RELATED PARTY TRANSACTIONS

At June 30, 2005, notes payable are as follows:

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

June 30, 20
(Unaudited)

Note payable, unsecured, related party, payable from August 1, 2005, right to convert to restricted stock in lieu of cash, rate of interest 4%, 160,000 shares prior to October 31, 2005 or 180,000 shares after that date.

425,
=====
425,

425,
\$
=====

Less; current portion
Note Payable - long-term

The Company issued 1,500,000 shares of its restricted common stock to a Company officer and Director in exchange for \$600,000 of previously incurred debt. The debt was in the form of a promissory note.

The Company valued the shares at \$1.31 per share for a total of \$1,965,000, which represents the fair value of the common stock on the date of the exchange. The difference between the fair value of the common stock of \$1,965,000 and the face value of the debt of \$600,000 or \$1,365,000, has been charged to current period interest expense.

The Company's officers have advanced funds to the Company for travel related and working capital purposes. No formal repayment terms or arrangements exist. The amount of the advances due at June 30, 2005 was \$136,474.

NOTE D - PRIVATE PLACEMENT OF CONVERTIBLE NOTES

\$ 1,675,000 Convertible Notes

Convertible notes payable ("Bridge Unit Offering") in quarterly installments of interest only at 10% per annum, secured by all assets of the Company and due on the earlier of the 9 month anniversary date of the initial closing of the offering or the completion of any equity financing of \$3,000,000 or more; the Company, at its sole discretion may prepay principal at any time without penalty. The Bridge Unit Offering Notes unpaid principal and accrued and unpaid interest were converted to an aggregate of 4,988,051 shares of the Company's common shares at a price equal to approximately \$. 33 per share during the quarter ended March 31, 2005 (see Note B).

\$ 1,465,000 Convertible Notes

Beginning in December, 2004, the Company sold a 10% convertible debenture in the aggregate amount of \$1,465,000 in a private placement and exempt offerings to sophisticated investors, net of costs and fees ("Convertible Notes").

The Convertible Note's terms called for the debt to automatically convert at \$.50 per share upon the filing a of a registration statement with the Securities and Exchange Commission.

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

APPLIED DNA SCIENCES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
JUNE 30, 2005
(Unaudited)

NOTE D - PRIVATE PLACEMENT OF CONVERTIBLE NOTES (continued)

The Company filed the registration statement on February 15, 2005 and the Convertible Notes were converted to an aggregate of 2,930,000 shares of the Company's common stock during the quarter ended March 31, 2005 (see Note B).

As additional consideration for the purchase of the Convertible Notes, the Company granted to the holders warrants entitling it to purchase 2,930,000 common shares of the Company's common stock at the price of \$.75 per share. These warrants were issued in February, 2005 and lapse if unexercised by February, 2010. A registration rights agreement was executed in December 2004 and consummated in February, 2005 requiring the Company to register the shares of its common stock underlying the Convertible Notes and warrants so as to permit the public resale thereof. The registration rights agreement provided for the payment of liquidated damages of 3.5% of the aggregate Convertible Note financing per month if the stipulated registration deadlines were not met. The liquidated damages, which approximate \$ 51,275 per month, may be paid, at the Company's option, in cash or unregistered shares of the Company's common stock.

In accordance with Emerging Issues Task Force Issue 98-5, Accounting for Convertible Securities with a Beneficial Conversion Features or Contingently Adjustable Conversion Ratios ("EITF 98-5"), the Company recognized an imbedded beneficial conversion feature present in the Convertible Notes. The Company allocated a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital. The Company recognized and measured an aggregate of \$1,465,000 of the proceeds, which is equal to the intrinsic value of the imbedded beneficial conversion feature, to additional paid-in capital and a discount against the Convertible Notes. Since the Convertible Notes were converted to the Company's common stock in December 2004, the debt discount attributed to the beneficial conversion feature of \$ 1,465,000 was charged to interest expense in its entirety during the six months ended June 30, 2005.

In conjunction with raising capital through the issuance of Convertible Notes, the Company has issued a warrant in February, 2005 that has registration rights for the underlying shares. As the contract must be settled by the delivery of registered shares and the delivery of the registered shares is not controlled by the Company, pursuant to EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock", the net value of the warrants at the date of issuance was recorded as a warrant liability on the balance sheet \$23,148,214 and charged to operations as interest expense. Upon the registration statement being declared effective, the fair value of the warrant on that date will be reclassified to equity. The Company initially valued the warrants using the Black-Scholes pricing model with the following assumptions: (1) dividend yield of 0%; (2) expected volatility of 152.59%, (3) risk-free interest rate of 3.67%, and (4) expected life of 5 years.

In connection with the placement of the \$1,465,000 of convertible notes as described above, the Company agreed to registered shares of the Company's common stock underlying certain previously issued and outstanding warrants that were not subject to a registration rights agreement at the time the warrants were issued. These warrants consist of following:

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

APPLIED DNA SCIENCES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
JUNE 30, 2005
(Unaudited)

NOTE D - PRIVATE PLACEMENT OF CONVERTIBLE NOTES (continued)

- o 105,464 warrants entitling the holder to purchase 105,464 shares of the Company's common stock at the price of \$.10 per share. These warrants were issued in July, 2004 and lapse if unexercised by July, 2009.
- o 1,602,500 warrants entitling the holder to purchase 1,602,500 shares of the Company's common stock at the price of \$.60 per share. These warrants were issued in October, 2003 and lapse if unexercised by October, 2008.

As a result, the Company is required to classify the above referenced warrants as derivative liabilities and mark them to market at each reporting date. The fair value of the warrants that were subject to registration reclassified as liabilities from additional paid in capital in February, 2005 totaled \$3,108,851. Upon the registration statement being declared effective, the fair value of the warrants on that date will be reclassified to equity. The Company initially valued the warrants using the Black-Scholes pricing model with the following assumptions: (1) dividend yield of 0%; (2) expected volatility of 148.66%, (3) risk-free interest rate of 3.21%, and (4) expected life of 3 years.

\$ 7,371,000 Convertible Notes

In January and February, 2005, the Company sold an 10% convertible debenture in the aggregate amount of \$7,371,000 in a private placement and exempt offerings to sophisticated investors, net of costs and fees ("Convertible Notes").

The Convertible Note's terms called for the debt to automatically convert at \$.50 per share upon the filing a of a registration statement with the Securities and Exchange Commission.

The Company filed the registration statement on February 15, 2005 and the Convertible Notes were converted to an aggregate of 14,742,000 shares of the Company's common stock (see Note B).

As additional consideration for the purchase of the Convertible Notes, the Company granted to the holders warrants entitling it to purchase 14,742,000 common shares of the Company's common stock at the price of \$.75 per share. These warrants lapse if unexercised by February, 2010. A registration rights agreement was executed and consummated in January, 2005 requiring the Company to register the shares of its common stock underlying the Convertible Notes and warrants so as to permit the public resale thereof. The registration rights agreement provided for the payment of liquidated damages of 3.5% of the aggregate Convertible Note financing per month if the stipulated registration deadlines were not met. The liquidated damages, which approximate \$ 257,985 per month, may be paid, at the Company's option, in cash or unregistered shares of the Company's common stock.

In accordance with Emerging Issues Task Force Issue 98-5, Accounting for Convertible Securities with a Beneficial Conversion Features or Contingently Adjustable Conversion Ratios ("EITF 98-5"), the Company recognized an imbedded beneficial conversion feature present in the Convertible Notes. The Company

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

allocated a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital. The Company recognized and measured an aggregate of \$ 7,731,000 of the proceeds, which is equal to the intrinsic value of the imbedded beneficial conversion feature, to additional paid-in capital and a discount against the Convertible Notes. Since the Convertible Notes were converted to the Company's common stock in February, 2005, 2005, the debt discount attributed to the beneficial conversion feature of \$ 7,371,000 was charged to interest expense in its entirety during the six months ended March 31, 2005.

31

APPLIED DNA SCIENCES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
JUNE 30, 2005
(Unaudited)

NOTE D - PRIVATE PLACEMENT OF CONVERTIBLE NOTES (continued)

In conjunction with raising capital through the issuance of Convertible Notes, the Company has issued a warrant that has registration rights for the underlying shares. As the contract must be settled by the delivery of registered shares and the delivery of the registered shares is not controlled by the Company, pursuant to EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock", the net value of the warrants at the date of issuance was recorded as a warrant liability on the balance sheet \$23,148,214 and charged to operations as interest expense. Upon the registration statement being declared effective, the fair value of the warrant on that date will be reclassified to equity. The Company initially valued the warrants using the Black-Scholes pricing model with the following assumptions: (1) dividend yield of 0%; (2) expected volatility of 152.59%, (3) risk-free interest rate of 3.67%, and (4) expected life of 5 years.

Revaluation of Warrant Liability

In accordance with SFAS 133 "Accounting for Derivative Instruments and Hedging Activities", the Company revalued the warrants issued subject to registration rights as of June 30, 2005 using the Black-Scholes option pricing model. Assumptions regarding the life, the expected dividend yield and volatility were left unchanged but the Company did apply a risk free interest rate from 3.67% to 3.72%, a volatility of 144.181% and a deemed fair value of common stock of \$0.60, which was the closing price of the Company's common stock on June 30, 2005. The difference of \$5,679,175 between the fair value of the warrants as of June 30, 2005 and the previous valuation as of March 31, 2005 has been recorded as a gain on revaluation of warrant liability, and included in the accompanying consolidated financial statements.

NOTE E - STOCK OPTIONS AND WARRANTS

Warrants

The following table summarizes the changes in warrants outstanding and the related prices for the shares of the Company's common stock issued to non-employees of the Company. These warrants were granted in lieu of cash compensation for services performed or financing expenses in connection with the sale of the Company's common stock.

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

Exercise Prices =====	Number Outstanding =====	Warrants Outstanding Remaining Contractual Life (Years) =====	Weighted Average Exercise Price =====	Weight Avera Exercis =====
\$0.10	105,464	4.04	\$0.10	105
\$0.20	5,000	3.39	\$0.20	5
\$0.50	50,000	4.27	\$0.50	50
\$0.55	9,000,000	3.00	\$0.55	9,000
\$0.60	9,132,000	3.89	\$0.60	9,132
\$0.70	750,000	2.09	\$0.70	750
\$0.75	17,727,000	4.24	\$0.75	17,727
\$1.00	100,000	1.30	\$1.00	100
	36,869,464 =====			36,869 =====

32

APPLIED DNA SCIENCES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
JUNE 30, 2005
(Unaudited)

NOTE E - STOCK OPTIONS AND WARRANTS (continued)

Transactions involving warrants are summarized as follows:

	Number of Shares	Weighted Average Price Per Share
Outstanding at September 30, 2004	4,870,253	\$0.63
Granted	32,873,000	0.71
Exercised	(142,500)	0.10
Canceled or expired	(731,289)	0.60
	-----	-----
Outstanding at June 30, 2005	36,869,464 =====	\$0.70 =====

During the nine months ended June 30, 2005, the Company granted 6,118,500 warrants to non-employees in exchange for services and financing expenses.

The estimated fair value of the compensatory warrants granted to non-employees in exchange for services and financing expenses was determined using the Black-Scholes pricing model and the following assumptions: contractual term of 2 to 5 years, a risk free interest rate from 2.47 to 3.53%, a dividend yield of 0% and volatility from 65.7% to 148.7%. The amount of the expense charged to operations for compensatory warrants granted in exchange for services and financing expenses was \$3,241,069 for the nine months ended June 30, 2005.

Options

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

The following table summarizes the changes in options outstanding and the related prices for the shares of the Company's common stock issued to shareholders at June 30, 2005.

Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$.68	3,660,000	7	\$.68	1,830,000	\$ 1.35
	3,660,000	7	\$.68	1,830,000	\$ 0.60

Transactions involving the Company's options issuance are summarized as follows:

	Number of Shares	Weighted Average Price Per Share
Outstanding at October 1, 2004	-	\$ -
Granted	300,000	0.60
Exercised	3,660,000	1.35
Canceled or expired	(300,000)	(.60)
Outstanding at June 30, 2005	3,660,000	\$ 1.35

APPLIED DNA SCIENCES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
JUNE 30, 2005
(Unaudited)

NOTE E - STOCK OPTIONS AND WARRANTS (continued)

During the three months ended March 31, 2005, the Company granted an aggregate of 300,000 stock options to directors that vested immediately. The exercise prices of the stock options granted were below the fair value of the Company's common stock at the grant date. Compensation expense of \$180,000 was charged to operations during the period ended March 30, 2005. In the quarter ended June 30, 2005, the Company canceled the unexercised 300,000 stock options and credited

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

expense for the previously recorded \$180,000 in compensation.

The weighted-average fair value of stock options granted to employees during the six months ended June 30, 2005 and 2004 and the weighted-average significant assumptions used to determine those fair values, using a Black-Scholes option pricing model are as follows:

	2005	2004
	----	----
Significant assumptions (weighted-average):		
Risk-free interest rate at grant date	3.5%	N/A
Expected stock price volatility	85%	N/A
Expected dividend payout	-	-
Expected option life (in years)	5.0	N/A

If the Company recognized compensation cost for the non-qualified employee stock option plan in accordance with SFAS No. 123, the Company's pro forma net loss and net loss per share would have been \$(2,293,848) and \$(0.06), respectively, for the nine months ended June 30, 2005.

NOTE F- COMMITMENTS AND CONTINGENCIES

Consulting Agreements

On August 6, 2004 the Company retained Giuliani Partners, on a non-exclusive basis, to provide advice and assistance to the Company regarding issues associated with Applied DNA's proprietary DNA embedded security. On April 8, 2005 Giuliani Partners terminated the agreement with the Company. Total compensation paid to Giuliani Partners through June 30, 2005 was \$1,250,000.

On March 24, 2005, the Company amended its existing Cooperative Research and Development Agreement ("CRADA") with Battelle Energy Alliance, LLC, the Department of Energy's National Laboratory in Idaho Falls, Idaho (the "Amendment"). The Amendment adds additional joint research projects, including development of marker applications for textiles, inks, gasoline, and explosive materials. Per the Amendment and at the Company's discretion, the Company can spend up to \$1,701,216 to further develop and refine selected DNA and related applications.

Litigation

Stern & Co. v. Applied DNA Sciences, Inc., Case No.: 05 CV 00202

Plaintiff Stern & Co. commenced this action against us in the United States District Court for the Southern District of New York on or about January 10, 2005. In this action, Stern & Co. alleges that it entered into a contract with us to perform media and investor relations for a monthly fee of \$5,000 and stock options. Stern & Co. claims that we failed to make certain payments pursuant to the contract and seeks damages in the amount of \$96,042.00. Although our time to answer the complaint has not expired, we dispute the allegations of the complaint in its entirety and intend on vigorously defending this matter. Management believes the ultimate outcome of this matter will not have a material adverse effect on the Company's consolidated financial position or results of operations

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

APPLIED DNA SCIENCES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
JUNE 30, 2005
(Unaudited)

NOTE F- COMMITMENTS AND CONTINGENCIES (continued)

Oceanic Consulting, S.A. v. Applied DNA Sciences, Inc., Index No.: 603974/04

Plaintiff Oceanic Consulting, S.A. commenced this action against us in the Supreme Court of the State of New York, County of New York. Oceanic Consulting, S.A. asserts a cause of action for breach of contract based upon the allegation that we failed to make payments pursuant to a consulting agreement. Oceanic Consulting, S.A. also asserts a causes of action in which it seeks reimbursement of its expenses and attorneys' fees. Oceanic Consulting, S.A. seeks damages in the amount of \$137,500.00. Oceanic Consulting, S.A. moved for a default judgment, which we have opposed based upon Oceanic Consulting, S.A.'s failure to properly serve the complaint as well as our meritorious defenses. We intend on vigorously defending this matter. Management believes the ultimate outcome of this matter will not have a material adverse effect on the Company's consolidated financial position or results of operations

Crystal Research Associates, LLC v. Applied DNA Sciences, Inc., Docket No.: L-7947-04

On April 29, 2005, Crystal Research Associates, LLC obtained a default judgment against us in the Superior Court of New Jersey, Middlesex County. We intend to move to vacate the default judgment on various grounds. We dispute the allegations of the complaint and we intend to vigorously defend this matter. Management believes the ultimate outcome of this matter will not have a material adverse effect on the Company's consolidated financial position or results of operations

NOTE G - RESTATEMENT OF QUARTERLY FINANCIAL STATEMENTS

The accompanying financial statements for the three and nine months ended June 30, 2005 as well as the period September 16, 2002 (date of inception) through June 30, 2005 have been restated for the purpose of correcting errors in accounting for and the disclosing the issuance by the Company of common stock, warrants, and options to acquire the Company's common stock for services and in exchange for previously incurred debt. In addition the Company is correcting certain errors in accounting for the exchange of its common stock for previously incurred debt with a Company Director.

Accordingly, the Company restated the financial statements as of and for the nine months ended June 30, 2005 by disclosing the effect of these errors in this amended Form 10-QSB/A.

The result of the June 30, 2005 Condensed Consolidated Balance Sheet restatement is to:

- Increase liabilities by \$54,951 for additional compensation expenses
- Reflect the reclassification of warrants from equity to liability resulting in a \$9,802,137 increase to Warrant Liability compared to the previous filing.
- Reduced Additional Paid in Capital by \$100,000 as a result of the \$750,000 subscription adjustment and the \$100,000 additional compensation recorded in the restatement

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

- Increased Accumulated Deficit by \$9,757,088
- Net Deficiency in Shareholder Equity decreased by \$9,857,088 as the result of the combination of factors described above.

The changes in reported amounts are summarized in the following reconciliations of the Company's restatement of the Condensed Consolidated Balance Sheet as of June 30, 2005.

35

APPLIED DNA SCIENCES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
JUNE 30, 2005
(Unaudited)

NOTE G - RESTATEMENT OF QUARTERLY FINANCIAL STATEMENTS (continued)

	For the Period Ended June 30, 2005 (As Restated)	(As Reported)
ASSETS	\$ 1,294,731	1,294,731
LIABILITIES AND DEFICIENCY IN STOCKHOLDERS' EQUITY		
Total Current Liabilities	1,599,499	1,544,548
Warrant Liability	9,802,137	-
Deficiency in Stockholders' Equity:		
Preferred Stock	6	6
Common Stock	66,412	66,412
Common Stock Subscription	(37,000)	(37,000)
Additional Paid-In-Capital	53,143,538	54,355,065
Deficit Accumulated During Development Stage	(63,279,861)	(54,634,300)
Total Deficiency in Stockholders' Equity	(10,106,905)	(249,817)
Total Liabilities and Deficiency in Stockholders' Equity	\$ 1,294,731	1,294,731

For both the nine months ended as well as the period September 16, 2002 through June 30, 2005, the result of the June 30, 2005 Condensed Consolidated Income Statement restatement is to:

- Increase Selling, General and Administrative for compensation expense by \$1,952,275, primarily from correction of warrant valuation issuance to non-employees.
- Reflect a net loss on the revaluation of warrants of \$9,802,136 as a result of reclassifying warrants from equity to a liability for the nine months ended June 30, 2005 as well as the period September 16, 2002 through June 30, 2005. A net gain on the adjustment to fair value of the warrants of \$5,679,175 for the three months ended June 30, 2005.

Net loss increased by \$9,757,088 for the nine months ended as well as the period September 16, 2002 through June 30, 2005 as a result of the combination of factors described above. Net loss for the three months ended June 30, 2005 was

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

reduced by \$5,624,224 to a Net Income of \$2,851,151.

The changes in reported amounts are summarized in the following reconciliations of the Company's restatement of the Condensed Consolidated Income Statement as of June 30, 2005.

36

APPLIED DNA SCIENCES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
JUNE 30, 2005
(Unaudited)

NOTE G - RESTATEMENT OF QUARTERLY FINANCIAL STATEMENTS (continued)

	For the Three Months Ended June 30, 2005		For the Nine Months Ended June 30, 2005	
	(As Restated)	(As Reported)	(As Restated)	(As Reported)
Operating Expenses:				
Selling general and administrative	\$ 1,865,631	\$ 2,659,727	\$ 24,188,882	\$ 22,236,607
Research and development	88,870	88,870	345,958	345,958
Depreciation and amortization	3,160	3,160	15,187	15,187
	-----	-----	-----	-----
Total Operating Expenses	1,957,661	2,751,757	24,550,027	22,597,752
	-----	-----	-----	-----
Operating Loss	(1,957,661)	(2,751,757)	(24,550,027)	(22,597,752)
Net gain/(loss) on revaluation of warrant liability	5,679,175	--	16,454,929	--
Other income (expense)	241	241	3,415	3,415
Interest income (expense)	(21,557)	(21,557)	(32,373,143)	(9,224,929)
	-----	-----	-----	-----
Net Income (Loss)	\$ 3,700,198	\$ (2,773,073)	\$ (40,464,827)	\$ (31,819,266)
	=====	=====	=====	=====
Net income (loss) per common share-basic	\$ 0.06	\$ (0.04)	\$ (0.83)	\$ (0.65)
	=====	=====	=====	=====
Weighted average shares outstanding-basic	66,308,115	66,298,115	48,810,559	48,806,398
Net income per common share-fully diluted	\$ 0.04			
	=====			
Weighted average shares outstanding-fully diluted	109,223,832			

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

The result of the Cash Flow restatement is to:

- Increase loss for the nine months June 30, 2005 by \$8,645,561 as described above
- Reflect the \$9,802,137 warrant valuation and the \$100,000 compensation expense revision within operating activities and adjust valuation of warrants issued to non-employees by \$1,997,324

37

APPLIED DNA SCIENCES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
JUNE 30, 2005
(Unaudited)

NOTE G - RESTATEMENT OF QUARTERLY FINANCIAL STATEMENTS (continued)

- Reflect \$849,460 in common stock, subscription and Additional Paid in Capital revisions - see the summarized Other Operating Activities items within operating activities below
- Net cash flow used in operating activities decreased by \$2,911,764 primarily as a result of equity revisions involving stock subscriptions as described in the above balance sheet restatement
- Net cash flow from financing activities decreased by \$3,716,784 as a result of the combination of factors described above. See preceding comment.

The changes in reported amounts are summarized in the following reconciliations of the Company's restatement of the Condensed Consolidated Statement of Cash Flows for the periods ended June 30, 2005.

Consistent with the original summary presentation, following is a reconciliation of the Company's restatement of the Condensed Consolidated Statement of Cash Flows for the periods ended June 30, 2005. See the full Condensed Consolidated Statement of Cash Flows for the periods ended June 30, 2005 for additional details.

	For the Nine Months Ended June 30, 2005 (As Restated)	For the Nine Months Ended June 30, 2005 (As Reported)	For the Period September 1, 2004 to June 30, 2005 (Date of Inception) Through June 30, 2005 (As Restated)
Cash Flows from operating activities:			
Net loss from operating activities	\$ (40,464,827)	\$ (31,819,266)	\$ (63,279,861)
Summary of adjustments to reconcile net loss to net cash (used in) operating activities:			
Change in fair value of warrant liabilities	6,693,285	-	6,693,285
Other operating activities - see Cash Flow statement for			

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

full details	25,784,772	20,920,732	45,004,408
	-----	-----	-----
Net cash (used in) operating activities	(7,986,770)	(10,898,534)	(11,582,168)
	-----	-----	-----
Cash flows from investing activities: - see Cash Flow statement for full details			
Net cash (used in) investing activities	(4,347)	(37,638)	(55,205)
	-----	-----	-----

38

APPLIED DNA SCIENCES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
JUNE 30, 2005
(Unaudited)

NOTE G - RESTATEMENT OF QUARTERLY FINANCIAL STATEMENTS (continued)

	For the Nine Months Ended June 30, 2005		For the Period September 1, 2004 to September 30, 2005
	(As Restated)	(As Reported)	(As Restated)
Cash flows from financing activities: - see Cash Flow statement for full details			
Proceeds from loans	9,181,750	12,898,534	12,829,838
	-----	-----	-----
Net cash provided by financing activities			
Increase (decrease) in cash and cash equivalents	1,190,633	1,190,633	1,192,465
Cash and cash equivalents, beginning of year	1,832	1,832	-
	-----	-----	-----
Cash and cash equivalents, end of year	\$ 1,192,465	\$ 1,192,465	\$ 1,192,465
	=====	=====	=====

NOTE H- SUBSEQUENT EVENTS

On July 15, 2005, Applied DNA Sciences, Inc. (the "Company") closed upon the stock purchase agreement (the "Agreement") with Biowell Technology Inc., a Taiwan corporation ("Biowell") that was executed on January 28, 2005. Pursuant to the Agreement, the Company, through its wholly-owned subsidiary, APDN (B.V.I.) Inc., a British Virgin Islands company, acquired all of the issued and

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

outstanding shares of Rixflex Holdings Limited, a British Virgin Islands company ("Rixflex"). Pursuant to an asset purchase agreement, Biowell transferred all of its intellectual property (the "Biowell Technology") to Rixflex prior to the Company's acquisition of Rixflex. In exchange for all of the issued and outstanding shares of Rixflex, we issued to the shareholders of Rixflex 36 million shares of our common stock. As of August 15, 2005, the Company has received some of the intellectual property but is still awaiting the transfer of certain intellectual property and related paperwork.

In connection with the closing, the Company terminated the October 2002 license agreement with Biowell, replacing it with a new Biowell license agreement granting an exclusive license in selected Asian countries for an initial period through December 31, 2010. If Biowell meets its performance goals, the license agreement extends for an additional five year term. Sub-license payments due to the Company are 50% for all fees, payments and consideration received. Biowell is required to pay a royalty of 10% on all net sales made and is required to meet certain minimum annual net sales in its various territories.

On July 15, 2005, Mr. Robin Hutchison, resigned as Chief Executive Officer and Chairman of the Board of Directors with Jun-Jei Sheu elected as Chairman of the Board.

39

APPLIED DNA SCIENCES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
JUNE 30, 2005
(Unaudited)

NOTE H- SUBSEQUENT EVENTS (continued)

As part of the Biowell acquisition, the Company entered into a consulting agreement with Timpix International Limited for the consulting services of three former Biowell employees, Jun-Jei Sheu, Ben Liang and Johnson Chen. The consulting agreement is for the shorter of two years, or until all of the consultants have obtained a visa to work in the United States and execute employment agreements with the Company. Such consulting agreement shall automatically renew for one year periods until terminated. Pursuant to the consulting agreement, the Company shall pay \$47,000 per month, which is apportioned at \$20,000 per month for Mr. Sheu, \$15,000 per month for Mr. Liang and \$12,000 per month for Mr. Chen. In the event that either of Messrs. Sheu, Liang or Chen becomes employed by the Company, the monthly consulting fee shall be reduced accordingly.

On June 20, 2005, the Company entered into an agreement with Trilogy Capital Partners, Inc. ("Trilogy") to provide marketing services to the Company for a term of one year, and terminable thereafter by either party upon 30 days prior written notice. In connection with the agreement, we agreed to pay Trilogy a monthly fee of \$12,500. The Company also issued to Trilogy a warrant to purchase 7.5 million shares of common stock at \$0.55 per share, exercisable for a period of three years from issuance. The warrant contains a "cashless" exercise provision. The shares underlying the warrants contain registration rights. The holder has contractually agreed to restrict its ability to convert or exercise the warrants and receive shares of our common stock such that the number of shares of common stock held by it after such conversion or exercise does not exceed 5% of the then issued and outstanding shares of common stock.

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

In connection with the 7,371,000 million convertible debt financing in the quarter ended March 30, 2005, the Company was obligated to complete a stock registration by July 2005. Since the registration was not effective by July 2005, the Company anticipates paying the required \$257,985 of liquidated damages in shares of Company stock accruing at the rate of 3.5% per month on the face value of the Notes. The Company will continue accruing liquidated damages until the stock registration is declared effective.

Subsequent to June 30, 2005, the Company issued 8 million S-8 shares to various employees with an approximate market value of \$4.8 million. These fully registered shares are included within the total authorized 16 million Employee Stock Ownership Plan shares, as approved on February 14, 2005.

40

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

FORWARD-LOOKING STATEMENTS

The following discussion should be read in conjunction with the Company's Consolidated Financial Statements and Notes thereto, included elsewhere within this report. The quarterly report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements using terminology such as "can", "may", "believe", "designated to", "will", "expect", "plan", "anticipate", "estimate", "potential" or "continue", or the negative thereof or other comparable terminology regarding beliefs, plans, expectations or intentions regarding the future. Forward looking statements involve risks and uncertainties and actual results could differ materially from those discussed in forward-looking statements. All forward looking statements and risk factors included in this document are made as of the date hereof, based on information available to the Company as of the date thereof, and the Company assumes no obligations to update any forward-looking statement or risk factor, unless the Company is required to do so by law.

Plan of Operation

Revenues

From our inception on September 16, 2002, we have not generated revenues from operations. We believe we will begin generating revenues from operations in the fiscal year as the Company transitions from a development stage enterprise to that of an active growth and acquisition stage company.

Costs and Expenses

From our inception through June 30, 2005, we have incurred losses of \$63,279,861. These expenses were associated principally with equity-based compensation to employees and consultants, warrant revaluation, product development costs and professional services.

Selling, general and administrative expenses for the nine month period ended June 30, 2005 compared to same period in 2004 increased \$13.200 million or 220% to \$24.189 million from \$10.989 million in the prior period due to financing and related costs incurred during the March and June 2005 quarters.

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

Research and Development

In the nine month period ended June 30, 2005, research and development increased to \$346,000 from zero for the same period in 2004.

Depreciation and Amortization

In the nine month period ended June 30, 2005, depreciation and amortization increased to \$15,000 from \$1,000 for the same period in 2004.

Total Operating Expenses

Total operating expenses during the nine month period ended June 30, 2005 increased to \$24.550 million from \$10.990 million, or an increase of \$13.560 million as a result of the combination of factors listed above.

Other income/expense

The Company realized a fiscal year to date gain from change in fair value of warrant liability of \$16.455 million which compared to zero the same period in 2004.

Interest Expenses

41

Interest expense for the nine month period ended June 30, 2005 increased to \$32.373 million from \$1.221 million in the same period of 2004, an increase of \$31.152 million primarily resulting from \$23.148 million initial warrant valuation charged to interest expense and \$8.004 million in increased financing in 2005 as compared to 2004.

Net Loss

Net Loss for the nine month period ended June 30, 2005 increased to \$40.465 million from a net loss of \$12.2 million in the nine months ended June 30, 2004 as a result of the combination of factors described above.

Liquidity and Capital Resources

For the nine month period ended June 30, 2005, we generated a net cash flow deficit from operating activities of \$7,986,000, consisting primarily of fiscal year to date losses of \$40,464,827, \$16,454,929 in gain from warrant revaluation, \$23,148,214 loss in initial warrant valuation, \$13,396,202 in net stock issued for consulting services, \$8,836,000 for beneficial conversion of convertible notes payable and warrants, \$1,365,000 in stock issued for debt, \$3,241,068 for warrants issued to consultants.

Cash used in investing activities totaled \$4,347, which was utilized for patent filings. Cash provided by financing activities totaled \$9,182,000 consisting of \$9,079,000 in proceeds from common stock subscribed and \$103,000 from warrants and options.

From our inception to June 30, 2005 we have incurred an operating cash flow deficit of \$11,582,168. Cash flows used in investing activities was \$55,205 during the period from September 16, 2002 (date of inception) through June 30, 2005. We met our cash flow requirements through the issuance of capital and other notes payable (net of repayments), private placement of our common stock

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

and advances from our shareholders and officers.

By adjusting our operations and development to the level of capitalization, we believe we have sufficient capital resources to meet projected cash flow deficits. However, if during that period or thereafter, we are not successful in generating sufficient liquidity from operations or in raising sufficient capital resources, on terms acceptable to us, this could have a material adverse effect on our business, results of operations liquidity and financial condition.

We presently do not have any available credit, bank financing or other external sources of liquidity. Due to our brief history and historical operating losses, our operations have not been a source of liquidity. We will need to obtain additional capital in order to expand operations and become profitable. We intend to pursue the building of a re-seller network outside the United States, and if successful, the re-seller agreements would constitute a source of liquidity and capital over time. In order to obtain capital, we may need to sell additional shares of our common stock or borrow funds from private lenders. There can be no assurance that we will be successful in obtaining additional funding and execution of re-seller agreements outside the United States.

From our inception, our priorities were to recruit and build our team, organize our new infrastructure and to develop a successful strategy how best to exploit our exclusive Biowell license agreement. No revenues were generated. Although our management is of the opinion that continuing to develop and finance our present business of providing DNA anti-counterfeit technology may ultimately be successful, management nevertheless expects that we will need substantial additional capital before our operations can be fully implemented.

While we have raised capital to meet our working capital and financing needs in the past, additional financing is required in order to meet our current and projected cash flow deficits from operations and development. We currently have no commitments for financing. There is no guarantee that we will be successful in raising the funds required.

The effect of inflation on our operating results was not significant. Our operations are located in North America and there are no seasonal aspects that would have a material effect on our financial condition or results of operations.

Our independent certified public accountant has stated in their report included in our September 30, 2004 Form 10-KSB, that we have incurred operating losses from our inception, and that we are dependent upon management's

42

ability to develop profitable operations. These factors among others may raise substantial doubt about our ability to continue as a going concern.

To obtain funding for our ongoing operations, we conducted a private placement offering in January and February 2005, in which we sold \$7,371,000 of 10% Secured Convertible Promissory Notes to 61 investors. The 10% Secured Convertible Promissory Notes automatically converted into shares of our common stock, at a price of \$0.50 per share, upon the filing of the registration statement on February 15, 2005. In connection with the private placement offering, we have issued 14,742,000 warrants. The warrants are exercisable until five years from the date of issuance at a purchase price of \$0.75 per share.

We will still need additional investments in order to continue operations to

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

cash flow break even. Additional investments are being sought, but we cannot guarantee that we will be able to obtain such investments. Financing transactions may include the issuance of equity or debt securities, obtaining credit facilities, or other financing mechanisms. However, the trading price of our common stock and the downturn in the U.S. stock and debt markets could make it more difficult to obtain financing through the issuance of equity or debt securities. Even if we are able to raise the funds required, it is possible that we could incur unexpected costs and expenses, fail to collect significant amounts owed to us, or experience unexpected cash requirements that would force us to seek alternative financing. Further, if we issue additional equity or debt securities, stockholders may experience additional dilution or the new equity securities may have rights, preferences or privileges senior to those of existing holders of our common stock. If additional financing is not available or is not available on acceptable terms, we will have to curtail our operations.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Product Research and Development

As a result of the recent financings, the Company anticipates expending \$2,764,000 of available cash towards research and development activities during the next twelve (12) months. The anticipated development programs consist of Petro Chemical Marker, Ink/Substrates and Hologram projects with planned spending of \$1,245,000, \$747,000 and \$772,000, respectively.

Acquisition of Plant and Equipment and Other Assets

We do not anticipate the sale of any material property, plant or equipment during the next 12 months. We do not anticipate the acquisition of any material property, plant or equipment during the next 12 months.

Number of Employees

From our inception through the period ended June 30, 2005, we have mainly relied on the services of outside consultants for services. We currently have eight employees. In order for us to attract and retain quality personnel, we anticipate we will have to offer competitive salaries to future employees. We anticipate that it may become desirable to add additional full and or part time employees to discharge certain critical functions during the next 12 months. This projected increase in personnel is dependent upon our ability to generate revenues and obtain sources of financing. There is no guarantee that we will be successful in raising the funds required or generating revenues sufficient to fund the projected increase in the number of employees. As we continue to expand, we will incur additional cost for personnel.

Going Concern

The financial statements included in this filing have been prepared in conformity with generally accepted accounting principles that contemplate the continuance of the Company as a going concern. The Company's cash position may be inadequate to pay all of the costs associated with testing, production and marketing of products. Management intends to use borrowings and security sales to mitigate the effects of its cash position, however no assurance can be given that debt or equity financing, if and when required will be available.

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets and classification of liabilities that might be necessary should the Company be unable to continue existence.

Trends, Risks and Uncertainties

We have sought to identify what we believe to be the most significant risks to our business, but we cannot predict whether, or to what extent, any of such risks may be realized nor can we guarantee that we have identified all possible risks that might arise. Investors should carefully consider all of such risk factors before making an investment decision with respect to the Company's Common Stock.

RISK FACTORS

Much of the information included in this quarterly report includes or is based upon estimates, projections or other "forward-looking statements". Such forward-looking statements include any projections or estimates made by us and our management in connection with our business operations. While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect our current judgment regarding the direction of our business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions or other future performance suggested herein.

Such estimates, projections or other "forward-looking statements" involve various risks and uncertainties as outlined below. We caution the reader that important factors in some cases have affected and, in the future, could materially affect actual results and cause actual results to differ materially from the results expressed in any such estimates, projections or other "forward-looking statements".

Our common shares are considered speculative. Prospective investors should consider carefully the risk factors set out below.

We Have a History Of Losses Which May Continue, Which May Negatively Impact Our Ability to Achieve Our Business Objectives.

We incurred net losses of \$19,358,259 for the year ended September 30, 2004 and \$3,445,164 for the year ended December 31, 2003. For the fiscal nine month period ending June 30, 2005, we incurred a net loss of \$40,464,827. We cannot assure you that we can achieve or sustain profitability on a quarterly or annual basis in the future. Our operations are subject to the risks and competition inherent in the establishment of a business enterprise. There can be no assurance that future operations will be profitable. Revenues and profits, if any, will depend upon various factors, including whether we will be able to generate revenue. As a result of continuing losses, we may exhaust all of our resources prior to completing the development of our products. Additionally, as we continue to incur losses, our accumulated deficit will continue to increase, which might make it harder for us to obtain financing in the future. We may not achieve our business objectives and the failure to achieve such goals would have an adverse impact on us, which could result in reducing or terminating our operations.

If We Are Unable to Obtain Additional Funding Our Business Operations Will be Harmed and If We Do Obtain Additional Financing Our Then Existing Shareholders May Suffer Substantial Dilution.

We will require additional funds to sustain and expand our research and development activities. We anticipate that we will require up to approximately

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

\$2,800,000 to fund our anticipated research and development operations for the next twelve months, depending on revenue from operations. Additional capital will be required to effectively support the operations and to otherwise implement our overall business strategy. Even if we do receive additional financing, it may not be sufficient to sustain or expand our research and development operations or continue our business operations.

There can be no assurance that financing will be available in amounts or on terms acceptable to us, if at all. The inability to obtain additional capital will restrict our ability to grow and may reduce our ability to continue to conduct business operations. If we are unable to obtain additional financing, we will likely be required to curtail our research and development plans. Any additional equity financing may involve substantial dilution to our then existing shareholders.

44

Our Independent Auditors Have Expressed Substantial Doubt About Our Ability to Continue As a Going Concern, Which May Hinder Our Ability to Obtain Future Financing.

In their report dated January 11, 2005, our independent auditors stated that our financial statements for the year ended December 31, 2004 were prepared assuming that we would continue as a going concern. Our ability to continue as a going concern is an issue raised due to our incurring net losses of \$22,815,034 during the period September 16, 2002 (date of inception) through September 30, 2004. In addition, we have a deficiency in stockholder's equity of \$407,034. We continue to experience net operating losses. Our ability to continue as a going concern is subject to our ability to generate a profit and/or obtain necessary funding from outside sources, including obtaining additional funding from the sale of our securities, generating sales or obtaining loans and grants from various financial institutions where possible. Our continued net operating losses increases the difficulty in meeting such goals and there can be no assurances that such methods will prove successful.

Our Research and Development Efforts for New Products May be Unsuccessful.

We will incur significant research and development expenses to develop new products and technologies. There can be no assurance that any of these products or technologies will be successfully developed or that if developed they will be commercially successful. In the event that we are unable to develop commercialized products from our research and development efforts or we are unable or unwilling to allocate amounts beyond our currently anticipated research and development investment, we could lose our entire investment in these new products and this may materially and adversely affect our business operations, which would result in loss of revenues and greater operating expenses.

Our Acquired Technology Has Yet to be Independently Validated In July 2005, we acquired certain intellectual property. Such intellectual property relating to the botanical DNA, encapsulation methods, integrity of the technology and all other stated claims by the seller need to be independently validated by a third party. Satisfactory completion of this independent validation will be required prior to their being available for commercial sale. In the event that some or all of the technology cannot be independently validated, we will be unable to commercially develop products utilizing such technology, which could have a materially adverse effect on our business and results of operations.

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

Failure to License New Technologies Could Impair Our New Product Development.

To generate broad product lines, it is advantageous to sometimes license technologies from third parties rather than depend exclusively on our own employees. As a result, we believe our ability to license new technologies from third parties is and will continue to be important to our ability to offer new products.

In addition, from time to time we are notified or become aware of patents held by third parties that are related to technologies we are selling or may sell in the future. After a review of these patents, we may decide to seek a license for these technologies from these third parties or discontinue our products. There can be no assurance that we will be able to continue to successfully identify new technologies developed by others. Even if we are able to identify new technologies of interest, we may not be able to negotiate a license on favorable terms, or at all. If we lose the rights to patented technology, we may need to discontinue selling certain products or redesign our products, and we may lose a competitive advantage. Potential competitors could license technologies that we fail to license and potentially erode our market share for certain products. Our licenses typically subject us to various commercializations, sublicensing, minimum payment, and other obligations. If we fail to comply with these requirements, we could lose important rights under a license. In addition, certain rights granted under the license could be lost for reasons beyond our control. We may not receive significant indemnification from a licensor against third party claims of intellectual property infringement.

We Currently Have no or Limited Manufacturing, Sales, Marketing or Distribution Capabilities.

We currently have no in-house manufacturing capability. We rely on third-party vendors for this service. We do not currently have any arrangements with any distributors and we may not be able to enter into arrangements with qualified distributors on acceptable terms or at all. We currently have a limited sales and marketing team. If we are

45

not able to develop greater sales, marketing or distribution capacity, we may not be able to generate revenue or sufficient revenue to support our operations.

If We Fail to Introduce New Products, or Our existing Products are not Accepted by Potential Customers, We May Not Gain or May Lose Market Share.

Rapid technological changes and frequent new product introductions are typical for the markets we serve. Our future success will depend in part on continuous, timely development and introduction of new products that address evolving market requirements. We believe successful new product introductions provide a significant competitive advantage because customers invest their time in selecting and learning to use new products, and are often reluctant to switch products. To the extent we fail to introduce new and innovative products, we may lose market share to our competitors, which will be difficult or impossible to regain. Any inability, for technological or other reasons, to successfully develop and introduce new products could reduce our growth rate or damage our business.

We may experience delays in the development and introduction of products. We cannot assure that we will keep pace with the rapid rate of change in life sciences research or that our new products will adequately meet the requirements

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

of the marketplace or achieve market acceptance. Some of the factors affecting market acceptance of new products include:

- o Availability, quality and price relative to competitive products;
- o The timing of introduction of the product relative to competitive products;
- o Customers' opinions of the products' utility;
- o Ease of use;
- o Consistency with prior practices;
- o Scientists' opinions of the products' usefulness;
- o Citation of the product in published research; and
- o General trends in life sciences research.

We have not experienced any difficulties with the preceding factors, however, there can be no assurance that we will not experience difficulties in the future. The expenses or losses associated with unsuccessful product development or lack of market acceptance of our new products could materially adversely affect our business, operating results and financial condition.

A Manufacturer's Inability to Produce Our Goods on Time and to Our Specifications Could Result in Lost Revenue and Net Losses

We do not own or operate any manufacturing facilities and therefore depend upon independent third parties for the manufacture of all of our products. Our products are manufactured to our specifications. The inability of a manufacturer to ship orders of our products in a timely manner or to meet our quality standards could cause us to miss the delivery date requirements of our customers for those items, which could result in cancellation of orders, refusal to accept deliveries or a reduction in purchase prices, any of which could have a material adverse effect as our revenues would decrease and we would incur net losses as a result of sales of the product, if any sales could be made. Because of our business, the dates on which customers need and require shipments of our security products from us are critical.

If We Need to Replace Manufacturers, Our Expenses Could Increase Resulting in Smaller Profit Margins

We compete with other companies for the production capacity of our manufacturers and import quota capacity. Some of these competitors have greater financial and other resources than we have, and thus may have an advantage in the competition for production and import quota capacity. If we experience a significant increase in demand, or if an existing manufacturer of ours must be replaced, we may have to expand our third-party manufacturing capacity. We cannot assure you that this additional capacity will be available when required on terms that are acceptable to us

or similar to existing terms which we have with our manufacturers, either from a production standpoint or a financial standpoint. We do not have long-term contracts with any manufacturer. None of the manufacturers we use produces our products exclusively.

Should we be forced to replace one or more of our manufacturers, we may experience an adverse financial impact, or an adverse operational impact, such as being forced to pay increased costs for such replacement manufacturing or

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

delays upon distribution and delivery of our products to our customers, which could cause us to lose customers or lose revenues because of late shipments.

If a Manufacturer of Ours Fails to Use Acceptable Labor Practices, We Might Have Delays in Shipments or Face Joint Liability for Violations, Resulting in Decreased Revenue and Increased Expenses

While we require our independent manufacturers to operate in compliance with applicable laws and regulations, we have no control over the ultimate actions of our independent manufacturers. While our internal and vendor operating guidelines promote ethical business practices and our staff and buying agents periodically visit and monitor the operations of our independent manufacturers, we do not control these manufacturers or their labor practices. The violation of labor or other laws by an independent manufacturer of ours, or by one of our licensing partners, or the divergence of an independent manufacturer's or licensing partner's labor practices from those generally accepted as ethical in the United States, could interrupt, or otherwise disrupt the shipment of finished products to us or damage our reputation. Any of these, in turn, could have a material adverse effect on our financial condition and results of operations, such as the loss of potential revenue and incurring additional expenses.

The Failure To Manage Our Growth In Operations And Acquisitions Of New Product Lines And New Businesses Could Have A Material Adverse Effect On Us.

The expected growth of our operations (as to which no representation can be made) will place a significant strain on our current management resources. To manage this expected growth, we will need to improve our: o operations and financial systems; o procedures and controls; and o training and management of our employees.

Our future growth may be attributable to acquisitions of and new product lines and new businesses. We expect that future acquisitions, if successfully consummated, will create increased working capital requirements, which will likely precede by several months any material contribution of an acquisition to our net income.

Our failure to manage growth or future acquisitions successfully could seriously harm our operating results. Also, acquisition costs could cause our quarterly operating results to vary significantly. Furthermore, our stockholders would be diluted if we financed the acquisitions by incurring convertible debt or issuing securities.

Although we currently only have operations within the United States, if we were to acquire an international operation; we will face additional risks, including:

- o difficulties in staffing, managing and integrating international operations due to language, cultural or other differences;
- o Different or conflicting regulatory or legal requirements;
- o foreign currency fluctuations; and
- o diversion of significant time and attention of our management.

If We Are Unable to Retain the Services of Messrs. Sheu, Brocklesby, Botash or Klemm, or If We Are Unable to Successfully Recruit Qualified Managerial and Sales Personnel Having Experience in Business, We May Not Be Able to Continue Our Operations.

Our success depends to a significant extent upon the continued service of Mr. Jun-Jei Sheu, our Chairman of the Board of Directors, Mr. Peter Brocklesby, our President, Mr. Adrian Botash, our Chief Marketing Officer and Ms. Karin Klemm, our Chief Operating Officer and Interim Chief Financial Officer. We do not have employment agreements with Messrs. Sheu, Brocklesby, Botash or Klemm. Loss of

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

the services of Messrs. Sheu, Brocklesby, Botash or Klemm could have a material adverse effect on our growth, revenues, and prospective business. We do

47

not maintain key-man insurance on the life of Messrs. Sheu, Brocklesby, Botash or Klemm. We are not aware of any other named executive officer or director who has plans to leave us or retire. In addition, in order to successfully implement and manage our business plan, we will be dependent upon, among other things, successfully recruiting qualified managerial and sales personnel having experience in business. Competition for qualified individuals is intense. There can be no assurance that we will be able to find, attract and retain existing employees or that we will be able to find, attract and retain qualified personnel on acceptable terms.

Failure to Attract and Retain Qualified Scientific or Production Personnel Could Have a Material Adverse Effect On Us.

Recruiting and retaining qualified scientific and production personnel to perform research and development work and product manufacturing is critical to our success. Because the industry in which we compete is very competitive, we face significant challenges attracting and retaining a qualified personnel base. Although we believe we have been and will be able to attract and retain these personnel, there is no assurance that we will be able to continue to successfully attract qualified personnel. In addition, our anticipated growth and expansion into areas and activities requiring additional expertise, such as clinical testing, government approvals, production, and marketing will require the addition of new management personnel and the development of additional expertise by existing management personnel. The failure to attract and retain these personnel or, alternatively, to develop this expertise internally would adversely affect our business as our ability to conduct research and development will be reduced or eliminated, resulting in fewer or no products for sale and lower revenues. We generally do not enter into employment agreements requiring these employees to continue in our employment for any period of time.

We Need to Expand Our Sales and Support Organizations to Increase Market Acceptance of Our Products.

We currently have a small customer service and support organization and will need to increase our staff to support new customers and the expanding needs of existing customers. The employment market for sales personnel, and customer service and support personnel in this industry is very competitive, and we may not be able to hire the kind and number of sales personnel, customer service and support personnel we are targeting. Our inability to hire qualified sales, customer service and support personnel may materially adversely affect our business, operating results and financial condition.

The Biomedical Research Products Industry is Very Competitive, and We may be Unable to Continue to Compete Effectively in this Industry in the Future.

We are engaged in a segment of the biomedical research products industry that is highly competitive. We compete with many other suppliers and new competitors continue to enter the market. Many of our competitors, both in the United States and elsewhere, are major pharmaceutical, chemical and biotechnology companies, and many of them have substantially greater capital resources, marketing experience, research and development staff, and facilities than we do. Any of these companies could succeed in developing products that are more effective than the products that we have or may develop and may be more successful than us

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

in producing and marketing their products. It is impossible to quantify the number of competitors since they include both the companies we attempt to sell our products and services to through their use of internal security and various other security product companies. Some of the anti-counterfeiting and fraud protection competitors that we are aware of include: Authentix, InkSure, DNA Technologies, Inc., Art Guard International, Theft Protection Systems, Tracetag and November AG. Although it is impossible to determine the total market size and market data information because companies are secretive about what security methods they utilize and how much they spend on such measures, we have determined that annual sales by some of our competitors have been as follows:

Authentix - \$4.7 million
Inksure - \$2.0 million
DNA Technologies, Inc. - \$26 million
Suretrace - \$4.3 million
November AG - \$7 million

We expect this competition to continue and intensify in the future. Competition in our markets is primarily driven by:

48

- o Product performance, features and liability;
- o Price;
- o Timing of product introductions;
- o Ability to develop, maintain and protect proprietary products and technologies;
- o Sales and distribution capabilities;
- o Technical support and service;
- o Brand loyalty;
- o Applications support; and
- o Breadth of product line.

If a competitor develops superior technology or cost-effective alternatives to our products, our business, financial condition and results of operations could be materially adversely affected.

Our Trademark and Other Intellectual Property Rights May not be Adequately Protected Outside the United States, Resulting in Loss of Revenue.

We believe that our trademarks, whether licensed or owned by us, and other proprietary rights are important to our success and our competitive position. In the course of our international expansion, we may, however, experience conflict with various third parties who acquire or claim ownership rights in certain trademarks. We cannot assure that the actions we have taken to establish and protect these trademarks and other proprietary rights will be adequate to prevent imitation of our products by others or to prevent others from seeking to block sales of our products as a violation of the trademarks and proprietary rights of others. Also, we cannot assure you that others will not assert rights in, or ownership of, trademarks and other proprietary rights of ours or that we will be able to successfully resolve these types of conflicts to our satisfaction. In addition, the laws of certain foreign countries may not protect proprietary rights to the same extent, as do the laws of the United States.

Intellectual Property Litigation Could Harm Our Business.

Litigation regarding patents and other intellectual property rights is extensive in the biotechnology industry. In the event of an intellectual property dispute,

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

we may be forced to litigate. This litigation could involve proceedings instituted by the U.S. Patent and Trademark Office or the International Trade Commission, as well as proceedings brought directly by affected third parties. Intellectual property litigation can be extremely expensive, and these expenses, as well as the consequences should we not prevail, could seriously harm our business.

If a third party claims an intellectual property right to technology we use, we might need to discontinue an important product or product line, alter our products and processes, pay license fees or cease our affected business activities. Although we might under these circumstances attempt to obtain a license to this intellectual property, we may not be able to do so on favorable terms, or at all. We are currently not aware of any intellectual property rights that are being infringed nor have we received notice from a third party that we may be infringing on any of their patents.

Furthermore, a third party may claim that we are using inventions covered by the third party's patent rights and may go to court to stop us from engaging in our normal operations and activities, including making or selling our product candidates. These lawsuits are costly and could affect our results of operations and divert the attention of managerial and technical personnel. There is a risk that a court would decide that we are infringing the third party's patents and would order us to stop the activities covered by the patents. In addition, there is a risk that a court will order us to pay the other party damages for having violated the other party's patents. The biotechnology industry has produced a proliferation of patents, and it is not always clear to industry participants, including us, which patents cover various types of products or methods of use. The coverage of patents is subject to interpretation by the courts, and the interpretation is not always uniform. If we are sued for patent infringement, we would need to demonstrate that our products or methods of use either do not infringe the patent claims of the relevant patent and/or that the patent claims are invalid, and we may not be able to do this. Proving invalidity, in particular, is difficult since it requires a showing of clear and convincing evidence to overcome the presumption of validity enjoyed by issued patents.

49

Because some patent applications in the United States may be maintained in secrecy until the patents are issued, because patent applications in the United States and many foreign jurisdictions are typically not published until eighteen months after filing, and because publications in the scientific literature often lag behind actual discoveries, we cannot be certain that others have not filed patent applications for technology covered by our licensors' issued patents or our pending applications or our licensors' pending applications or that we or our licensors were the first to invent the technology. Our competitors may have filed, and may in the future file, patent applications covering technology similar to ours. Any such patent application may have priority over our or our licensors' patent applications and could further require us to obtain rights to issued patents covering such technologies. If another party has filed a United States patent application on inventions similar to ours, we may have to participate in an interference proceeding declared by the United States Patent and Trademark Office to determine priority of invention in the United States. The costs of these proceedings could be substantial, and it is possible that such efforts would be unsuccessful, resulting in a loss of our United States patent position with respect to such inventions.

Some of our competitors may be able to sustain the costs of complex patent litigation more effectively than we can because they have substantially greater

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

resources. In addition, any uncertainties resulting from the initiation and continuation of any litigation could have a material adverse effect on our ability to raise the funds necessary to continue our operations.

Accidents Related to Hazardous Materials Could Adversely Affect Our Business.

Some of our operations require the controlled use of hazardous materials. Although we believe our safety procedures comply with the standards prescribed by federal, state, local and foreign regulations, the risk of accidental contamination of property or injury to individuals from these materials cannot be completely eliminated. In the event of an accident, we could be liable for any damages that result, which could seriously damage our business and results of operations.

Potential Product Liability Claims Could Affect Our Earnings and Financial Condition.

We face a potential risk of liability claims based on our products and services, and we have faced such claims in the past. We currently do not have any product liability coverage but are attempting to obtain coverage which we will believe to be adequate. We cannot assure, however, that we will be able to obtain or maintain this insurance at reasonable cost and on reasonable terms. We also cannot assure that this insurance, if obtained, will be adequate to protect us against a product liability claim, should one arise. In the event that a product liability claim is successfully brought against us, it could result in a significant decrease in our liquidity or assets, which could result in the reduction or termination of our business.

We are Obligated to Pay Liquidated Damages As a Result of Our Failure to Have this Registration Statement Declared Effective Prior to July 15, 2005, and the Payment of Liquidated Damages Will Either Result in Depleting Our Working Capital or Issuance of Shares of Common Stock Which Would Cause Dilution to Our Existing Shareholders.

Pursuant to the terms of our private placement that closed in January and February 2005, if we did not have a registration statement registering the shares underlying the convertible notes and warrants declared effective on or before July 15, 2005, we are obligated to pay liquidated damages in the amount of 3.5% per month of the face amount of the notes, which equals \$257,985, until the registration statement is declared effective. At our option, these liquidated damages can be paid in cash or restricted shares of our common stock. We have currently decided to pay the liquidated damages due at this point in common stock, although any future payments of liquidated damages could be made in cash. If we decide to pay the liquidated damages in cash, we would be required to use our limited working capital and potentially raise additional funds. If we decide to pay the liquidated damages in shares of common stock, the number of shares issued would depend on our stock price at the time that payment is due. Based on the closing market price of \$0.66 for our common stock on July 15, 2005, which is when our first payment of liquidate damages was due, a month of liquidated damages would result in the issuance of approximately 390,887 shares of common stock. The issuance of shares upon payment of liquidated damages will have the effect of further diluting the proportionate equity interest and voting power of holders of our common stock, including investors in this offering.

There Are a Large Number of Shares Underlying Our Warrants That May be Available

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

for Future Sale and the Sale of These Shares May Depress the Market Price of Our Common Stock and Will Cause Immediate and Substantial Dilution to Our Existing Stockholders.

As of August 9, 2005, we had 110,653,025 shares of common stock issued and outstanding and outstanding warrants to purchase 28,713,717 shares of common stock. All of the shares issuable upon exercise of our warrants may be sold without restriction. The sale of these shares may adversely affect the market price of our common stock. The issuance of shares upon exercise of warrants will cause immediate and substantial dilution to the interests of other stockholders since the selling stockholders may convert and sell the full amount issuable on exercise.

If We Fail to Remain Current on Our Reporting Requirements, We Could be Removed From the OTC Bulletin Board Which Would Limit the Ability of Broker-Dealers to Sell Our Securities and the Ability of Stockholders to Sell Their Securities in the Secondary Market.

Companies trading on the OTC Bulletin Board, such as us, must be reporting issuers under Section 12 of the Securities Exchange Act of 1934, as amended, and must be current in their reports under Section 13, in order to maintain price quotation privileges on the OTC Bulletin Board. If we fail to remain current on our reporting requirements, we could be removed from the OTC Bulletin Board. As a result, the market liquidity for our securities could be severely adversely affected by limiting the ability of broker-dealers to sell our securities and the ability of stockholders to sell their securities in the secondary market. Prior to May 2001 and new management, we were delinquent in our reporting requirements, having failed to file our quarterly and annual reports for the years ended 1998 - 2000 (except the quarterly reports for the first two quarters of 1999). We have been current in our reporting requirements for the last three years, however, there can be no assurance that in the future we will always be current in our reporting requirements.

Our Common Stock is Subject to the "Penny Stock" Rules of the SEC and the Trading Market in Our Securities is Limited, Which Makes Transactions in Our Stock Cumbersome and May Reduce the Value of an Investment in Our Stock.

The Securities and Exchange Commission has adopted Rule 15c-9 which establishes the definition of a "penny stock," for the purposes relevant to us, as any equity security that has a market price of less than \$5.00 per share or with an exercise price of less than \$5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, the rules require:

- o that a broker or dealer approve a person's account for transactions in penny stocks; and
- o the broker or dealer receive from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased.

In order to approve a person's account for transactions in penny stocks, the broker or dealer must:

- o obtain financial information and investment experience objectives of the person; and
- o make a reasonable determination that the transactions in penny stocks are suitable for that person and the person has sufficient knowledge and experience in financial matters to be capable of evaluating the risks of transactions in penny stocks.

The broker or dealer must also deliver, prior to any transaction in a penny stock, a disclosure schedule prescribed by the Commission relating to the penny stock market, which, in highlight form:

- o sets forth the basis on which the broker or dealer made the suitability determination; and
- o that the broker or dealer received a signed, written agreement from the investor prior to the transaction.

Generally, brokers may be less willing to execute transactions in securities subject to the "penny stock" rules. This may make it more difficult for investors to dispose of our common stock and cause a decline in the market value of our stock.

51

Disclosure also has to be made about the risks of investing in penny stocks in both public offerings and in secondary trading and about the commissions payable to both the broker-dealer and the registered representative, current quotations for the securities and the rights and remedies available to an investor in cases of fraud in penny stock transactions. Finally, monthly statements have to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks.

Item 3. Controls and Procedures

Evaluation of Disclosure Controls and Procedures: As of June 30, 2005, our management carried out an evaluation, under the supervision of our Chief Executive Officer and Chief Financial Officer of the effectiveness of the design and operation of our system of disclosure controls and procedures pursuant to the Securities and Exchange Act, Rule 13a-15(e) and 15d-15(e) under the Exchange Act). Based on that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are not effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is not accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure. Please see the subsection "Significant Deficiencies In Disclosure Controls And Procedures Or Internal Controls" below.

Changes in internal controls: There were no changes in internal controls over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially effect, our internal control over financial reporting. As described below, as a result of our evaluation of our disclosure controls and procedures as of June 30, 2005, we determined that our controls and procedures are not effective and subsequent to the period of this report, began to implement changes to our internal controls.

Significant Deficiencies In Disclosure Controls And Procedures Or Internal Controls

On July 11, 2005, we determined there were errors in accounting for the valuation of equity consulting service transactions during the January through March 2005 time period. The valuation resulted in the overstatement of approximately \$2.9 million in services provided. The errors were discovered in connection with a comment raised by the Securities and Exchange Commission ("SEC") in their review and comment on our registration statement on Form SB-2. The SEC requested that we provided additional disclosure regarding issuances of common stock to non-employees in exchange for services. Upon reviewing and

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

updating our disclosure, we discovered our errors. We have implemented the following procedures and policies to resolve these weaknesses and deficiencies:

- 1 Establish and maintain a separate binder of all board authorized activities and a binder with forward looking "budget" of anticipated or contemplated activity for each of the following:
 - a. shares issued for services;
 - b. shares issued for employees;
 - c. warrant exercises;
 - d. option exercises;
 - e. authorized shares and warrant re-pricing;
 - f. shares issued in exchange for debt; and
 - g. upcoming ESOP grants and exercises;
- 2 Require the signature of the principal executive and accounting officers for all issuances of securities;

52

- 3 Require monthly review of share issuances compared to binders; and
- 4 Authorize our transfer agent to handle and track all warrants and ESOP grants.

We believe that these actions will correct the material deficiencies and significant weaknesses in our controls and procedures.

53

PART II--OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. Except as described below, we are currently not aware of any such legal proceedings or claims that we believe will have, individually or in the aggregate, a material adverse affect on our business, financial condition or operating results.

Stern & Co. v. Applied DNA Sciences, Inc., Case No.: 05 CV 00202

Plaintiff Stern & Co. commenced this action against us in the United States District Court for the Southern District of New York on or about January 10, 2005. In this action, Stern & Co. alleges that it entered into a contract with us to perform media and investor relations for a monthly fee of \$5,000 and

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

stock options. Stern & Co. claims that we failed to make certain payments pursuant to the contract and seeks damages in the amount of \$96,042.00. We answered the complaint on May 12, 2005, denying Stern & Co.'s allegations and we asserted a number of defenses. This action is in the early stages of discovery and we intend to vigorously defend this matter.

Oceanic Consulting, S.A. v. Applied DNA Sciences, Inc., Index No.: 603974/04

Plaintiff Oceanic Consulting, S.A. commenced this action against us in the Supreme Court of the State of New York, County of New York. Oceanic Consulting, S.A. asserts a cause of action for breach of contract based upon the allegation that we failed to make payments pursuant to a consulting agreement. Oceanic Consulting, S.A. also asserts a cause of action in which it seeks reimbursement of its expenses and attorneys' fees. Oceanic Consulting, S.A. seeks damages in the amount of \$137,500.00. Oceanic Consulting, S.A. moved for a default judgment, which we have opposed based upon Oceanic Consulting, S.A.'s failure to properly serve the complaint as well as our meritorious defenses. Thereafter, Oceanic Consulting, S.A. agreed to withdraw its motion for a default judgment and accepted service of our answer on May 23, 2005. We dispute the allegations of the complaint. This action is in the early stages of discovery and we intend to vigorously defend this matter.

Crystal Research Associates, LLC v. Applied DNA Sciences, Inc., Docket No.: L-7947-04

On April 29, 2005, Crystal Research Associates, LLC obtained a default judgment against us in the Superior Court of New Jersey, Middlesex County. We intend to move to vacate the default judgment on various grounds. We dispute the allegations of the complaint and we intend to vigorously defend this matter.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the three months ended June 30, 2005, we issued 575,758 shares of common stock in exchange for debt. We valued the shares issued at approximately \$0.29 per share for a total of \$165,000. Such issuances were considered exempt from registration by reason of Section 4(2) of the Securities Act of 1933.

During the three months ended June 30, 2005, we issued 1,080,000 shares of common stock in exchange for consulting services valued at \$792,300, which represents the fair value of the services received which did not differ materially from the value of the stock issued. Such issuances were considered exempt from registration by reason of Section 4(2) of the Securities Act of 1933.

During the three months ended June 30, 2005, we granted 3,660,000 options as part of the authorized Employee Stock Ownership Plan (ESOP) we adopted on February 14, 2005. Such issuances were considered exempt from registration by reason of Section 4(2) of the Securities Act of 1933.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

Item 5. Other Information

None.

Item 6. Exhibits

- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14 and Rule 15d-14(a), promulgated under the Securities and Exchange Act of 1934, as amended
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14 and Rule 15d 14(a), promulgated under the Securities and Exchange Act of 1934, as amended
- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer)
- 32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Financial Officer)

55

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Amendment No. 1 to Form 10-QSB report to be signed on its behalf by the undersigned, thereunto duly authorized.

APPLIED DNA SCIENCES, INC.

Date: October 10, 2006

By: /s/ JAMES A. HAYWARD

James A. Hayward
Chief Executive Officer (Principal
Executive Officer and Principal
Accounting Officer)

56