

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

FORM 10QSB/A
Amendment No. 2

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 December 31, 2004

Commissions 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, \$0.50 par value, outstanding on February 8, 2005, was 47,280,993 shares.

Transitional Small Business Disclosure Format (check one):

Yes No

EXPLANATORY NOTE

This Amendment No. 2 to Form 10-QSB/A ("Amendment No. 2") amends the amended Quarterly Report of Applied DNA Sciences, Inc. (the "Company") on Form 10-QSB/A

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

for the quarter ended December 31, 2004, as filed with the Securities and Exchange Commission on February 15, 2005 (the "Original Filing"). This Amendment No. 2 is being filed for the purpose of correcting errors in accounting for and disclosing the issuance by the Company of common stock, warrants and options for services and in exchange for previously incurred debt

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

APPLIED DNA SCIENCES, INC

Quarterly Report on Form 10-QSB/A for the
Quarterly Period Ending December 31, 2004

Table of Contents

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

Condensed Consolidated Balance Sheet: December 31, 2004 (Unaudited)	3
Condensed Consolidated Statements of Losses: Three Months Ended December 31, 2004 and 2003 (Unaudited) and the Period from September 16, 2002 (Date of Inception) Through December 31, 2004 (Unaudited)	4
Condensed Consolidated Statement of Stockholder's Equity: For the Period from September 16, 2002 (Date of Inception) Through December 31, 2004 (Unaudited)	5
Condensed Consolidated Statements of Cash Flows: Three Months Ended December 31, 2004 and 2003 (Unaudited) and the Period from September 16, 2002 (Date of Inception) Through December 31, 2004 (Unaudited)	14
Notes to Unaudited Condensed Consolidated Financial Information: December 31, 2004	16-30
Item 2. Management Discussion and Analysis	31
Item 3. Controls and Procedures	43

Part II. OTHER INFORMATION

Item 1. Legal Proceedings	43
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	43
Item 3. Defaults Upon Senior Securities	44
Item 4. Submission of Matters to a Vote of Security Holders	45
Item 5. Other Information	45

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

Item 6. Exhibits	45
Signatures	46

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

APPLIED DNA SCIENCES, INC.
(A DEVELOPMENT STAGE COMPANY)
CONDENSED CONSOLIDATED BALANCE SHEET
RESTATED
(Unaudited)

ASSETS

December 31, 2004

Current assets:

Cash and Equivalents	\$	62,6
Total Current Assets		62,6
Property and Equipment - Net		27,7
Deposits		47,5
Patent Filing - Net		28,1
Restricted Cash		1,065,3
Total Assets	\$	1,231,4

LIABILITIES AND DEFICIENCY IN STOCKHOLDERS' EQUITY

Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$	2,973,6
Accrued Liabilities Due Related Parties (Note C)		168,8
Convertible Notes Payable (Note D)		3,140,0
Due to Related Parties (Note C)		61,9
Notes Payable-related parties (Note C)		1,125,0
Total Current Liabilities		7,469,4
Commitments and contingencies (Note F)		
Deficiency in Stockholders' Equity:		
Preferred Stock, par value \$.0001 per share; 10,000,000 shares authorized; 60,000 issued and outstanding		
Common Stock, par value \$.50 per share; 100,000,000 shares authorized; 32,121,454 shares issued and outstanding		16,060,7
Common Stock Subscription		(755,00
Additional Paid-In-Capital		8,218,5

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

Deficit Accumulated During Development Stage	(29,762,31
Total Deficiency in Stockholders' Equity	(6,238,03
Total Liabilities and Deficiency in Stockholders' Equity	\$ 1,231,4

See accompanying notes to unaudited consolidated financial statements

3

APPLIED DNA SCIENCES, INC.
(A DEVELOPMENT STAGE COMPANY)
CONDENSED CONSOLIDATED STATEMENTS OF LOSSES
(Unaudited)

	For The Three Months Ended December 31		September 16,
	2004	2003	(Date of Ince
	RESTATED		through
			December 31,
			RESTATE
Operating expenses:			
Selling, general and administrative	\$ 5,375,068	\$ 7,407,750	\$ 26,43
Depreciation and amortization	4,721	351	
Total operating expenses	5,379,789	7,408,101	26,44
Loss from operations	(5,379,789)	(7,408,101)	(26,443
Other Income (expense)	315	685	2
Interest (expense)	(1,567,809)	(135,074)	(3,345
Income (taxes) benefit	--	--	
Net loss	\$ (6,947,283)	\$ (7,542,490)	\$ (29,762
Loss per common share (basic and assuming dilution)	\$ (0.37)	\$ (0.41)	\$ (
Weighted average shares outstanding	18,972,160	18,503,162	18,97

See accompanying notes to unaudited condensed consolidated financial statements

4

APPLIED DNA SCIENCES, INC

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

(A development stage company)
 CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)
 FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH DECEMBER 31, 2004
 RESTATED
 (Unaudited)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	S
Issuance of common stock to Founders in exchange for services on September 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							

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

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

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 DECEMBER 31, 2004
RESTATED
(Unaudited)
(Continued)

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

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

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 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

6

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 DECEMBER 31, 2004
RESTATED
(Unaudited)
(Continued)

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

	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 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	-	-	-	-	-	-

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

 Balance at September 30, 2003 - \$ - 17,811,082 \$ 1,781 \$ 2,577,568 \$ 300,000 \$
 =====

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 DECEMBER 31, 2004
 RESTATED
 (Unaudited)
 (Continued)

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

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

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)
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

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 DECEMBER 31, 2004
RESTATED
(Unaudited)
(Continued)

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

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

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	-
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						

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

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

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 DECEMBER 31, 2004
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	-
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						

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

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)	-
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

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 DECEMBER 31, 2004
RESTATED
(Unaudited)
(Continued)

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

	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 \$0.46 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 \$.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 DECEMBER 31, 2004
RESTATED
(Unaudited)
(Continued)

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

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

	Shares	Amount	Shares	Amount	Amount	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 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

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 DECEMBER 31, 2004
RESTATED
(Unaudited)
(Continued)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed
Warrants exercised at \$0.60 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	-
Net Loss	-	-	-	-	-	-
Balance at December 31, 2004	60,000	6	32,121,454	16,060,727	8,218,548	(755,000)

See accompanying notes to unaudited condensed consolidated financial statements

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

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

For the Three Mo
December 31, D
2004

RESTATED

Cash Flows (used in) operating activities:

Net loss	\$ (6,947,283)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:	
Depreciation and amortization	4,721
Organizational expenses	--
Preferred shares issued in exchange for services	--
Fair value of warrants issued to non-employees and consultants in exchange for services	3,169,052
Amortization of beneficial conversion feature	1,515,000
Common stock issued in exchange for services	1,174,300
Common stock canceled--previously issued for services rendered	(642,605)
Increase (decrease) in assets and liabilities:	
Restricted cash	(1,065,318)
Security Deposits	(24,026)
Due related parties, net	1,523
Accounts payable and accrued liabilities	1,203,816
Net cash (used in) operating activities	----- (1,610,820)
Cash flows from investing activities:	
Acquisition of property and equipment	--
Payment of patent filing fees	(4,347)
Net cash (used in) investing activities	----- (4,347)
Cash flows from financing activities:	
Proceeds from sale of common stock, net of cost	--
Proceeds from subscription of common stock	250,000
Proceeds from exercise of options and warrants	36,000
Repayment of related party advances, net	
Net advances from shareholders	--

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

Proceeds from loans	1,390,000

Net cash provided by financing activities	1,676,000

Increase (decrease) in cash and cash equivalents	60,833
Cash and cash equivalents, beginning of period	1,832

Cash and cash equivalents, end of period	\$ 62,665
	=====

See accompanying notes to unaudited condensed consolidated financial statements

14

For the Three Mo
December 31, D
2004

RESTATED

Supplemental Information:

Cash paid during the period for interest --

Cash paid during the year for taxes --

Non--cash disclosures:

Common stock issued for services 1,174,300

Common stock issued in exchange for previously incurred debt --

Fair value of warrants issued to non-employees and consultants
in exchange for services 3,169,052

Amortization of beneficial conversion feature attributed to
convertible notes 1,465,000

Common stock canceled--previously issued for services rendered (642,605)

Preferred shares issued in exchange for services --

Acquisition:

Common stock retained

Assets acquired

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

Total consideration paid

Organization expenses-- note issued in exchange of shares retired

88,500

See accompanying notes to unaudited condensed consolidated financial statements

15

APPLIED DNA SCIENCES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
DECEMBER 31, 2004
(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, 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 month period ended December 31, 2004 are not necessarily indicative of the results that may be expected for the year ended September 30, 2005. The unaudited condensed consolidated financial statements should be read in conjunction with September 30, 2004 financial statements.

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 December 31, 2004, the Company has accumulated losses of \$29,762,317.

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

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 December 31,

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

2004 property and equipment consist of:

Furniture	\$	29,507
Accumulated depreciation		(1,756)

Net	\$	27,751

16

APPLIED DNA SCIENCES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
DECEMBER 31, 2004
(Unaudited)

NOTE A - SUMMARY OF ACCOUNTING POLICIES (continued)

Advertising

The Company follows a policy of charging the costs of advertising to expense as incurred. For the three months ended December 31, 2004 and 2003, the Company incurred \$4,490 and \$0 respectively.

Intangible Assets

Intangible assets are amortized using the straight-line method over their estimated period of benefit, ranging from one to ten years. The Company periodically evaluates the recoverability of intangible assets and takes into account events or circumstances that warrant revised estimates of useful lives or that indicate that impairment exists. All of the Company's intangible assets are subject to amortization..

At December 31, 2004, intangible assets consist of the following:

Intangible assets		\$34,257
Accumulated amortization		(6,126)

		\$28,131

Restricted Cash

Per the terms of the Promissory Note Payable agreement dated December 20, 2004, all proceeds received from note holders remain in escrow subject to (i) the filing of a Definitive Information Statement that increases the authorized common stock of the Company and reduces par value, and (ii) the closing of a Private Placement for \$1,000,000 or more and in the event of such occurrence the Note will automatically without notice to the note holder, convert into common stock of the Company at any time at \$0.50 per share for a period of three years and callable at \$1.25 per share after the underlying stock is registered if said stock trades at above \$1.25 per share for 10 days - See Note .

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

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.

17

APPLIED DNA SCIENCES, INC.
 (A DEVELOPMENT STAGE COMPANY)
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
 DECEMBER 31, 2004
 (Unaudited)

NOTE A - SUMMARY OF ACCOUNTING POLICIES (continued)

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 C):

	For The Three Months ended December 31, 2004 ----	For The Three Months ended December 31, 2003 ----	
Net loss - as reported	\$ (6,947,283)	\$ (7,542,490)	\$
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 based method (SFAS No. 123)	-	-	
Net loss - Pro Forma	\$ (6,947,283)	\$ (7,542,490)	\$

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

Net loss attributable to common stockholders - Pro forma	\$	(6,947,283)	\$	(7,542,490)	\$
	=====				
per share - as reported	\$	(0.37)	\$	(0.41)	\$
	=====				
Basic (and assuming dilution) loss per share - Pro forma	\$	(0.22)	\$	(0.41)	\$
	=====				

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.

18

APPLIED DNA SCIENCES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
DECEMBER 31, 2004
(Unaudited)

NOTE B - MERGER

On October 21, 2002, the Company completed a Plan and Agreement of Reorganization ("Merger") with ProHealth Medical Technologies, Inc. ("ProHealth") an inactive publicly registered shell corporation with no significant assets or operations. For accounting purposes, the Company shall be the surviving entity. The transaction is accounted for using the purchase method of accounting. The total purchase price and carrying value of the net assets acquired was \$880. From November 1988 until the date of the Merger, ProHealth was an inactive entity with no significant asset and liabilities.

Effective with the Merger, all previously outstanding common stock, preferred stock, options and warrants owned by the Company's shareholders were exchanged for an aggregate of 10,178,352 shares of ProHealth common stock. The value of the stock that was issued was the historical cost of the the ProHealth's net tangible assets, which did not differ materially from their fair value. In accordance with SFAS No. 141, the Company is the acquiring entity.

Effective with the Merger, ProHealth changed its name to Applied DNA Sciences, Inc.

The total purchase price and carrying value of the net assets acquired of ProHealth was \$1. The net assets acquired were as follows:

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

Common stock retained by ProHealth shareholders:	\$1,015
Assets acquired:	(135)

Total consideration:	\$ 880

In accordance with SOP 98-5, the Company expensed \$880 as organization costs.

NOTE C - RELATED PARTY TRANSACTIONS

At December 31, 2004, notes payable are as follows:

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.

Note Payable to ex-president, in September, 2004; unsecured and non-interest bearing ;payable on demand

Note payable, ex-officer of the Company; unsecured and non-interest bearing ; due \$100,000 upon first funding. 20% rate of interest, or 100,000 shares at par value of \$0.50

Less; current portion

Note Payable - long-term

19

APPLIED DNA SCIENCES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
DECEMBER 31, 2004
(Unaudited)

NOTE C - RELATED PARTY TRANSACTIONS (continued)

Included in current liabilities is \$61,943 at December 31, 2004, which represents advances from the stockholders of the Company. No formal agreements or repayment terms exist. Additionally, the Company owed \$168,857 at December 31, 2004 to stockholders and other related parties for unreimbursed expenses and advances. The amounts are included in accrued liabilities.

The Company leases office space under a sub lease agreement with an entity controlled by a significant former shareholder of the Company.

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

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 Notes were initially convertible into shares of our common stock at a price of \$2.50 per share. Subsequent to the date of the financial statements, 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 (see Note H).

As additional consideration for the purchase of the Convertible Notes, the Company granted to the holders warrants entitling it to purchase 1,602,500 common 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. 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.

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 \$1,675,000 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, the debt discount attributed to the beneficial conversion feature of \$1,675,000 was charged to interest expense in its entirety during the year ended September 30, 2004.

\$ 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 of a registration statement with the Securities and Exchange Commission.

20

APPLIED DNA SCIENCES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
DECEMBER 31, 2004
(Unaudited)

NOTE D - PRIVATE PLACEMENT OF CONVERTIBLE NOTES (continued)

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

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.

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 holders of Convertible Notes advised the Company they were converting 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 three months ended December 31, 2004.

NOTE E - 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 \$.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.

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

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

21

APPLIED DNA SCIENCES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
DECEMBER 31, 2004
(Unaudited)

NOTE E - CAPITAL STOCK (continued)

In January 2003, the Company issued 1,500,000 shares of common stock in exchange for a licensing agreement (see Note H). 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 B). 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.

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

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 5,123,171 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

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

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.

22

APPLIED DNA SCIENCES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
DECEMBER 31, 2004
(Unaudited)

NOTE E - CAPITAL STOCK (continued)

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.

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.

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

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

\$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.

23

APPLIED DNA SCIENCES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
DECEMBER 31, 2004
(Unaudited)

NOTE E - CAPITAL STOCK (continued)

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.

NOTE F - 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

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

sale of the Company's common stock.

Exercise Prices	Number Outstanding	Warrants Outstanding Remaining Contractual Life (Years)	Weighted Average Exercise Price	Weighted Average Exercise Price
=====	=====	=====	=====	=====
\$0.10	105,464	4.54	\$0.10	3
\$0.20	5,000	3.85	\$0.20	
\$0.50	50,000	4.77	\$0.50	
\$0.60	9,223,750	4.30	\$0.60	9,2
\$0.70	750,000	2.58	\$0.70	7
\$1.00	100,000	0.79	\$1.00	1
	10,234,214			10,2
	=====			=====

Transactions involving warrants are summarized as follows:

	Number of Shares	Weighted Av Price Per
Outstanding at September 30, 2004	4,870,253	\$
Granted	6,063,500	
Exercised	(60,000)	
Canceled or expired	(639,539)	
	-----	-----
Outstanding at December 31, 2004	10,234,214	\$
	=====	=====

24

APPLIED DNA SCIENCES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
DECEMBER 31, 2004
(Unaudited)

NOTE F - STOCK OPTIONS AND WARRANTS (continued)

During the three months ended December 31, 2004, the Company granted 6,063,500 warrants to non-employees in exchange for services and financing expenses.

The estimated fair value of the compensatory warrants granted to the non-employees was determined using the Black-Scholes pricing model and the following assumptions: contractual term of 2 to 5 years, a risk free interest rate of 2.47 to 3.53%, a dividend yield of 0% and volatility of 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 \$3,169,052 for the three months ended December 31, 2004.

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

NOTE G- COMMITMENTS AND CONTINGENCIES

Licensing Agreements

In October, 2002, the Company entered into an exclusive Licensing Agreement ("License") with Biowell Technology, Inc., a company formed under the laws of Taiwan, Republic of Taiwan. The initial term of the License expires in 2007, with renewal options under certain terms and conditions. The License grants the Company exclusive use of certain patented DNA technology along with the rights to future technology in exchange for an initial payment of 1,500,000 shares of the Company's restricted common stock (See Note E). The Company is obligated to order a minimum purchase orders or make future certain minimum annual royalty payments as follows:

Year ended October 8,	Minimum purchase orders	Alternative Minimum Royalty Payable
2005	360,000	-
2006	432,000	-
2007	518,000	-

25

APPLIED DNA SCIENCES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
DECEMBER 31, 2004
(Unaudited)

NOTE G- COMMITMENTS AND CONTINGENCIES (continued)

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. The term of the engagement is one year from the effective date with automatic one year renewals unless either party expresses an intention not to renew within 60 days prior to the expiration of the Agreement

As compensation for GP's performance, the Company will pay GP an aggregate advisory fee of \$2,000,000 payable in increments over the term and renewal term. Two payments of \$500,000 each were made by the Company in September 2004 and January 2005. Thereafter, eight payments of \$125,000 are due monthly over the period February through September 2005. Additionally, the Company will issue a net-exercisable warrant to purchase shares of common stock of the Company at a later date. Fees were placed in escrow during GP's completion of its due diligence review.

Franchising and Distribution Agreements

The Company has entered into a Distribution and Franchising Agreement

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

("Franchise Agreement") in July 2003. Under the terms of the Franchise Agreement, the franchisee is obligated to pay the Company \$3,000,000 payable \$25,000 upon execution of the Franchise Agreement and the balance payable over five (5) years with interest accruing at 8% per annum. Payments under the Franchise Agreement are subject to franchisee's net profits, as defined under the Franchise Agreement.

Note Payable Settlement

In October 2004, the Company defaulted on a note held by a former Company officer and director to the amount of \$88,500 (See Note E) and in accordance with the default, the noteholder had the right to demand his outstanding note be converted back into 7,500,000 shares. The Company subsequently settled the matter for 5,500,000 shares with 3,500,000 shares retained in escrow for negotiations on behalf of another party for future compensation.

Litigation

Ex-officer was named as a defendant in a lawsuit brought by an outside party in the United States District Court for the Central District of California, and in that action, Applied DNA was named as a "nominal defendant". The plaintiff is alleging that the ex-officer violated the short swing rule. The Company believes it has meritorious defenses and will prevail in this matter.

Operating Lease Commitments

The Company leases office space under a operating lease in Los Angeles, California of its corporate use from an entity controlled by a significant former shareholder expiring in November 2006. The total lease rental expenses for the three months ended December 31, 2004 as \$47,194.

Commitments for minimum rentals under the non-cancelable lease at September 30, 2004 were as follows:

Year ended September 30,

2005	\$139,308
2006	143,977
2007	12,031
	\$295,316

26

APPLIED DNA SCIENCES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
DECEMBER 31, 2004
(Unaudited)

NOTE G- COMMITMENTS AND CONTINGENCIES (continued)

Employment and Consulting Agreements

The Company has employment agreements with the Company's officers and certain

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

employees. These employment agreements provide for salaries and benefits including stock options and extend up to seven years. In addition to salary and benefit provisions, the agreements include defined commitments should the employer terminate the employee with or without cause.

The Company has a consulting agreement with an entity controlled by a former significant shareholder of the Company. The consulting agreement provides for compensation and certain benefits including stock options and extends up to seven years. In addition to compensation and benefit provisions, the agreements include defined commitments should the employer terminate the consultant with or without cause.

NOTE H - SUBSEQUENT EVENTS

In January 2005, the Company arranged a \$5,970,000 private placement of 11,940,000 shares of common stock at \$0.50 per share along with 11,940,000 attached warrants with an exercise price of \$0.75 that expires in 5 years.

In January 2005, the Company entered into a stock purchase agreement with Biowell Technology Inc., a Taiwan corporation ("Biowell") whereby a to-be-formed wholly owned subsidiary of the Company would acquire a company to be formed which would own all of the intellectual property of Biowell in exchange for 36,000,000 shares of the Company's common stock to be issued to the shareholders of Biowell. The Acquisition Shares represent 50% of the total shares issued and outstanding on a fully diluted basis on the date of the execution of the Agreement.

In February 2005, the Company in a private placement sold an aggregate of \$1,391,000 in secured convertible promissory notes and 2,782,000 warrants. The notes bear interest at 10% per annum, mature one year from the date of issuance and are convertible into shares of common stock of the Company at a price of \$0.50 per share (i) at the holder's option; or (ii) automatically upon the Company's filing of a registration statement registering the shares underlying the notes and warrants.

During January and February, 2005, the Company issued to the holders of the \$1,675,000 Convertible Notes an aggregate of 4,988,051 shares of its restricted common stock in exchange for debt (see Note D).

NOTE J - RESTATEMENT OF QUARTERLY FINANCIAL STATEMENTS

The accompanying financial statements for the three months ended December 31, 2004 has been restated to correct dating errors with the issuance of common stock for consulting services and conversion of convertible debentures.

Accordingly, the Company has restated their financial statements as of and for the three months ended December 31, 2004 by disclosing the effect of these errors in this amended Form 10-QSB.

The result of the December 31, 2004 Condensed Consolidated Balance Sheet restatement is to:

- Properly reflect the conversion of convertible debentures based on stock issuance date.
- Properly reflect stock issuance for services rendered in the period of actual stock issuance.
- Properly record warrants issued to non employees and consultants

The changes in reported amounts are summarized in the following reconciliations of the Company's restatement of the Condensed Consolidated Balance Sheet as of December 31, 2004.

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

APPLIED DNA SCIENCES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
DECEMBER 31, 2004
(Unaudited)

NOTE G - RESTATEMENT OF QUARTERLY FINANCIAL STATEMENTS (continued)

	December 31, 2004 (As Restated)	December 31, 2004 (As Reported)
ASSETS	\$ 1,231,450	\$ 1,231,450
LIABILITIES AND DEFICIENCY IN STOCKHOLDERS' EQUITY		
Total Current Liabilities	7,469,486	6,004,486
Deficiency in Stockholders' Equity:		
Preferred Stock	6	
Common Stock	16,060,727	20,424,100
Common Stock Subscription	(755,000)	(880,000)
Additional Paid-In-Capital	8,218,548	10,863,000
Deficit Accumulated During Development Stage	(29,762,317)	(35,180,100)
Total Deficiency in Stockholders' Equity	(6,238,036)	(4,773,000)
Total Liabilities and Deficiency in Stockholders' Equity	\$ 1,231,450	\$ 1,231,450

For both the three months ended as well as the period September 16, 2002 through December 31, 2004, the result of the December 31, 2004 Condensed Consolidated Income Statement restatement is to:

- Decrease Selling, General and Administrative for compensation expense by \$5,417,853.

The changes in reported amounts are summarized in the following reconciliations of the Company's restatement of the Condensed Consolidated Income Statement as of March 31, 2005.

APPLIED DNA SCIENCES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
DECEMBER 31, 2004
(Unaudited)

NOTE G - RESTATEMENT OF QUARTERLY FINANCIAL STATEMENTS (continued)

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

	For the Three Months Ended December 31, 2004	
	(As Restated)	(As Reported)
Operating Expenses:		
Selling general and administrative	\$ 5,375,068	10,792,921
Depreciation and amortization	4,721	4,721
Total Operating Expenses	5,379,789	10,797,642
Operating Loss	(5,379,789)	(10,797,642)
Other income (expense)	315	315
Interest income (expense)	(1,567,809)	(1,567,809)
Net Income (Loss)	\$ (6,947,283)	(12,365,136)
Gain (Loss) per common share (basic and assuming dilution)	\$ (0.37)	(0.45)
Weighted average shares outstanding	18,972,160	27,402,160

The result of the Condensed Consolidated Cash Flow restatement is to:

- Decrease loss for the three months December 31, 2004 by \$5,417,853 within operating activities as a result of the correction in dating of stock issuance for services.

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 December 31, 2004.

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 December 31, 2004. See the full Condensed Consolidated Statement of Cash Flows for the periods ended December 31, 2004 for additional details.

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

	For the Three Months Ended December 31, 2004	
	(As Restated)	(As Reported)
Cash Flows from operating activities:		
Net loss	\$ (6,947,283)	\$ (12,365,136)
Summary of adjustments to reconcile net loss to net cash (used in) operating activities:		
Other operating activities - see Cash Flow statement for full details	5,336,463	10,754,316
Net cash (used in) operating activities	(1,610,820)	(1,586,794)
Cash flows from investing activities:		
- see Cash Flow statement for full details	(4,347)	(28,373)
Net cash (used in) investing activities	(4,347)	(28,373)
Cash flows from financing activities:		
- see Cash Flow statement for full details	286,000	286,000
Proceeds from loans	1,390,000	1,390,000
Net cash provided by financing activities:	1,676,000	1,676,000
Increase (decrease) in cash and cash equivalents	60,833	60,833
Cash and cash equivalents-beginning of period	1,832	1,832
Cash and cash equivalents-end of period	\$ 62,665	\$ 62,665

30

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

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

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

Liquidity and Capital Resources

As of December 31, 2004, we had a deficiency in working capital of \$7,406,821. For the three months ended December 31, 2004, we generated a net cash flow deficit from operating activities of \$1,610,820, consisting primarily of year to date losses of \$6,947,283, \$531,695 in net stock issued for consulting services, \$1,515,000 for beneficial conversion of convertible notes payable and warrants, \$3,169,052 for warrants issued to non employees and consultants as well as a net increase in current liabilities and other of \$144,000.

Cash used in investing activities totaled \$4,347, which was utilized for patent filings.

Cash provided by financing activities totaled \$1,676,000 consisting of \$1,390,000 in proceeds from loans, and \$250,000 and \$36,000 in common stock and exercised options proceeds, respectively.

We expect capital expenditures to be nominal for fiscal 2005. These anticipated expenditures are for continued investments in property and equipment used in our business.

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.

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

During the three months ended December 31, 2004 and 2003 and from September 16, 2002 (inception) through December 31 2003, the Company's priorities were to recruit and build its team, organize its new infrastructure and to develop a successful strategy how best to exploit its exclusive Biowell license agreement. No revenues were generated. Although the management of the Company is of the opinion that continuing to develop and finance the Company's present business of providing DNA anti-counterfeit technology may ultimately be successful, management nevertheless expects that the Company will need substantial additional capital before the Company's operations can be fully implemented.

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

From our inception through December 31, 2004, we have incurred losses of \$29,762,317. These expenses were associated principally with equity-based compensation to employees and consultants, product development costs and professional services.

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 are seeking financing in the form of equity through a Private Placement Memorandum in order to provide the necessary working capital. 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 the Company's operating results was not significant. The Company's operations are located in North America and there are no seasonal aspects that would have a material effect on the Company's financial condition or results of operations.

The Company's independent certified public accountant has stated in their report included in the Company's September 30, 2004 Form 10-KSB, that the Company has incurred operating losses from its inception, and that the Company is dependent upon management's ability to develop profitable operations. These factors among others may raise substantial doubt about the Company's ability to continue as a going concern.

Bridge Unit Offering

From November through December 2004, we sold 33.5 units (the "Units") to accredited investors at a price of \$50,000 per Unit (the "Offering") for a total of \$1,675,000. Each Unit consists of (i) a \$50,000 Principal Amount 10% Secured Convertible Promissory Note ("Note" or "Notes"), (ii) warrants to purchase 50,000 shares of our common stock, exercisable for a period of five years at a price of \$3.20 per share ("\$3.20 Warrant") and (iii) warrants to purchase 10,000 shares of our common stock, exercisable for a period of five years at a price of \$0.10 per share ("\$0.10 Warrant" and together with the \$3.20 Warrant, the "Warrants"). The Notes are convertible into shares of our common stock at a price of \$2.50 per share.

December Promissory Notes Payable

In December 2004, the Company received \$1,065,318 in proceeds subject to the terms of the December Promissory Notes Payable agreement. The Company held the proceeds in escrow and classified the amount as Restricted Cash - See Note A, Restricted Cash.

The aggregate principal amount of Notes sold was \$1,375,000. The Notes are secured and bear interest at 10% per annum, computed on the basis of a 365-day year, accruing from the date an investor's subscription was closed upon by the Company. Principal and all accrued interest will be payable in full on the earlier of (i) the 9-month anniversary date of the initial closing of the Offering, or (ii) the completion of any equity financing of \$3,000,000 or more. The Company, in its sole discretion, may prepay principal at any time without penalty. The Notes are convertible into shares of common stock of the Company at a price of \$2.50 per share.

The Notes are secured by a security agreement giving the Holder a security interest in all the patents, licenses, equipment, fixtures, and inventory and accounts receivable of the Company, and/or any of its subsidiaries.

The following events constitute events of default under the Notes:

- (i) Default in the payment of the principal or accrued interest on any Note or

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

upon any other indebtedness of the Company that is greater than \$100,000, as and when the same shall become due, whether by default or otherwise, which Default shall have continued for a period of five (5) business days; or

(ii) Any representation or warranty made by the Company or any officer of the Company in the Notes, or in any agreement, report, certificate or other document delivered to the Holder pursuant to the Notes shall have been incorrect in any material respect when made which shall not have been remedied ten (10) days after written notice thereof shall have been given by the Holder; or

32

(iii) The Company shall fail to perform or observe any affirmative covenant contained in Section 4 of the Notes and such Default, if capable of being remedied, shall not have been remedied ten (10) days after written notice thereof shall have been given by the Holder; or

(iv) The Company or any subsidiary (A) shall institute any proceeding or voluntary case seeking to adjudicate it bankrupt or insolvent, or seeking dissolution, liquidation, winding up, reorganization, arrangement, adjustment, protection, relief or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of any order for relief or the appointment of a receiver, trustee, custodian or other similar official for such Company or any subsidiary or for any substantial part of its property, or shall consent to the commencement against it of such a proceeding or case, or shall file an answer in any such case or proceeding commenced against it consenting to or acquiescing in the commencement of such case or proceeding, or shall consent to or acquiesce in the appointment of such a receiver, trustee, custodian or similar official; (B) shall be unable to pay its debts as such debts become due, or shall admit in writing its inability to apply its debts generally; (C) shall make a general assignment for the benefit of creditors; or (D) shall take any action to authorize or effect any of the actions set forth above ; or

(v) Any proceeding shall be instituted against the Company seeking to adjudicate it bankrupt or insolvent, or seeking dissolution, liquidation, winding up, reorganization, arrangement, adjustment, protection, relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee, custodian or other similar official for the Company or for any substantial part of its property, and either such proceeding shall not have been dismissed or shall not have been stayed for a period of sixty (60) days or any of the actions sought in such proceeding (including, without limitation, the entry of any order for relief against it or the appointment of a receiver, trustee, custodian or other similar official for it or for any substantial part of its property) shall occur; or

(vi) One or more final judgments, arbitration awards or orders for the payment of money in excess of \$100,000 in the aggregate shall be rendered against the Company, which judgment remains unsatisfied for thirty (30) days after the date of such entry; or

(vii) Delisting of the Common Stock from the principal market or exchange on which the Common Stock is listed for trading; Company's failure to comply with the conditions for listing; or notification that the Company is not in compliance with the conditions for such continued listing; or

(viii) The issuance of an SEC stop trade order or an order suspending trading of the Common Stock from the principal market or exchange on which the Common Stock

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

is listed for trading for longer than five (5) trading days; or

(ix) The failure by the Company to issue shares of Common Stock to the Holder upon exercise by the Holder of the conversion rights of the Holder in accordance with the terms of the Notes, or the failure to transfer or cause its transfer agent to transfer (electronically or in certificated form) any certificate for shares of Common Stock issued to the Holder upon conversion of or otherwise pursuant to the Notes as and when required by the Notes, or the failure to remove any restrictive legend (or to withdraw any stop transfer instructions in respect thereof) on any certificate for any shares of Common Stock issued to the Holder upon conversion of or otherwise pursuant to the Notes as and when required by the Notes, and any such failure shall continue uncured for ten (10) days after the Company shall have been notified thereof in writing by the Holder; or

(x) The failure by the Company to file the Registration Statement within forty-five (45) days following the Closing Date (as defined in the Subscription Agreement) or obtain effectiveness with the Securities and Exchange Commission of the Registration Statement within one hundred thirty five (135) days following the Closing Date (as defined in the Subscription Agreement) or such Registration Statement lapses in effect (or sales cannot otherwise be made thereunder effective, whether by reason of the Company's failure to amend or supplement the prospectus included therein) for more than twenty (20) consecutive days or forty (40) days in any twelve month period after the Registration Statement becomes effective; or

(xi) The Company shall encumber or hypothecate the collateral subject to the Security Agreement to any party; or

33

(xii) A default by the Company of a material term, covenant, warranty or undertaking of any other agreement to which the Company and Holder are parties, or the occurrence of an event of default under any such other agreement.

Holder shall, at any time prior to the Maturity Date, have the right to convert the Note into Shares of the Company at \$2.50 per such Share, which right shall be exercised in the Holder's sole and absolute discretion. Holders shall, with respect to any Shares acquired thereby, be granted the same demand and piggy-back registration rights as if such Shares were purchased as part of the Units.

In the event of and immediately upon the occurrence of an "Event of Default," the Notes shall become immediately due and payable without any action by the Holder and the Notes shall bear interest until paid at the rate of 12% per annum or such amount as shall be allowed by law.

In the event that the sum due under the Note is not repaid on the Maturity Date, the Holder will have the option to either have the Note accrue interest at 12% or such amount as legally allowed until paid, or to convert the entirety of the debt then outstanding under the Note into the number of shares derived by dividing the sum of such debt by the dollar value equal to 80% of the closing ask price of the shares on the last trading day immediately preceding the Maturity Date as reported on the market upon which the shares shall then be trading, provided, however, that the conversion price shall never be less than \$1.00 per share. Any shares acquired thereby shall carry with them the demand and piggy back registration rights granted to the Holder under the terms of the Note.

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

Bridge Offering Warrants

Each Unit, or \$50,000 principal amount of the Note, entitles the holder to 50,000 warrants exercisable on a one for one basis into shares of Common Stock at an exercise price of \$3.20 during a five-year period commencing on the initial closing of the Offering (which was December 15, 2003, 2003) per share. In addition, each Unit also entitles the holder to 10,000 warrants exercisable on a one for one basis into shares of Common Stock at an exercise price of \$0.10 per share during a five-year period commencing on the initial closing of the Offering (which was December 15, 2003) In the event a holder of Warrants fails to exercise the Warrants prior to their expiration, the Warrants will expire, and the holder thereof will have no further rights with respect to the Warrants.

The Warrants expire at 5:00 p.m., New York time, on the fifth anniversary after the initial closing of the Offering. In the event a holder of Warrants fails to exercise the Warrants prior to their expiration, the Warrants will expire and the holder thereof will have no further rights with respect to the Warrants.

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

Without substantial financial resources we do not anticipate incurring material research and development costs during the next twelve months.

34

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 December 31, 2004, we have primarily relied on the services of outside consultants for services The Company has employment agreements with the Company's officers and certain employees. In order for us to attract and retain quality personnel, we anticipate we will have

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

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. 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 September 30, 2003. For the three months ended December 31, 2004, we incurred a net loss of \$6,947,283. 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 \$555,000 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.

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 September 30, 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 \$22,815,035 during the period September 16, 2002 through September 30, 2004. 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 loss 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

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

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.

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

36

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 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.

We Rely on Our License Agreement With Biowell Technology for the Development of Our Products, and the Termination of the License Would Have a Material Adverse Impact on Our Business.

We have executed a licensing agreement with Biowell Technology and we intend to focus our business on the products developed under this licensing agreement. We will rely upon Biowell Technology to develop, test and produce products under this licensing agreement. As a result of the license agreement, we will not incur expenses with developing products for sale; however, we will be responsible for marketing the product and building brand recognition in our licensed territories. Our license could terminate if we fail to perform any material term or covenant under the license agreement. The termination of our

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

license agreement would have a material adverse impact on our business, such as the loss of products and services, which would reduce or eliminate most of our potential revenue source.

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 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.

37

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

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

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 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.

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

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. Hutchison, Brocklesby, Butash 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. Rob Hutchison, our Chief Executive Officer, Mr. Peter Brocklesby, our President, Mr. Adrian Butash, 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. Hutchison, Brocklesby, Butash or Klemm. Loss of the services of Messrs. Hutchison, Brocklesby, Butash or Klemm could have a material adverse effect on our growth, revenues, and prospective business. We do not maintain key-man insurance on the life of Messrs. Hutchison, Brocklesby, Butash or Klemm. Besides Mr. Hutchison's desire to retire within the next few months, 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 are 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.

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

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.

39

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 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. Also, it is also impossible to determine market size and market data information because companies are secretive about what security methods they utilize and how much they spend on such measures. 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.

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

- 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

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

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, 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.

40

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.

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

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

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 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.

There Are a Large Number of Shares Underlying Our Warrants That May be Available 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 April 26, 2005, we had 68,371,025 shares of common stock issued and outstanding and outstanding warrants to purchase 25,248,717 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.

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

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 15g-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.

Disclosure also has to be made about the risks of investing in penny stocks in

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

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

42

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 December 31, 2004, the Company's management carried out an evaluation, under the supervision of the Company's Chief Executive Officer and the Chief Financial Officer of the effectiveness of the design and operation of the Company's 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 upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective, as of the date of their evaluation, for the purposes of recording, processing, summarizing and timely reporting material information required to be disclosed in reports filed by the Company under the Securities Exchange Act of 1934.

Changes in internal controls. There were no changes in internal controls over financial reporting, known to the Chief Executive Officer or Chief Financial Officer that occurred during the period covered by this report that has materially affected, or is likely to materially effect, the Company's internal control over financial reporting.

PART II--OTHER INFORMATION

Item 1. Legal Proceedings

NONE

Item 2. Changes in Securities and Use of Proceeds

On October 1, 2004, we issued a total of 199,999 shares to parties related to an investment banker with which we have a non-exclusive engagement.

On October 13, 2004, we issued a total of 257,500 shares to two consultants for financial advisory and marketing services.

On October 18, 2004, we issued a total of 347,500 shares to previous investors as consideration for our agreement to extend our registration commitment.

On October 19, 2004, we issued 1,000,000 shares to a single investor for total proceeds of \$500,000.

On October 26, 2004, we issued a total of 500,000 shares to parties related to our investment banker in settlement for various breaches made in our Placement Agent Agreement.

On November 4, 2004, we issued 100,000 to an employee as compensation for services previously rendered.

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

On November 15, 2004 through December 17, 2004, we issued a total of 415,000 shares to a consultant for financial advisory services.

On December 17, 2004, we issued 5,000 shares to an employee for services previously rendered.

To obtain funding for our ongoing operations, we sold \$1,465,000 in convertible promissory notes to 13 investors in December 2004. Each promissory note was automatically convertible into shares of our common stock, at a price of \$0.50 per share, upon the closing of a private placement for \$1 million or more. In connection with the sale of the convertible promissory notes, we issued 2,930,000 warrants to purchase shares of common stock. The warrants are exercisable until three years from the date of issuance at a purchase price of \$0.75 per share. This issuance is considered exempt under Regulation D of the Securities Act of 1933 and Rule 506 promulgated thereunder.

43

Subsequent Sale of Equity Securities

On January 4, 2005, we issued 12,500 shares as a result of an investor's exercise of his \$0.10 warrants. This issuance is considered exempt under Regulation D of the Securities Act of 1933 and Rule 506 promulgated thereunder.

Also on January 10, 2005, we issued additional shares to our investors in accordance with an adjustment provision in our private placement and placement agent agreement. We issued a total of 3,249,750 shares of Common Stock to 24 investors. This issuance is considered exempt under Regulation D of the Securities Act of 1933 and Rule 506 promulgated thereunder.

On January 13, 2005, we issued additional shares to two consultants in accordance with an adjustment provision in their consulting agreements. A total of 662,000 shares were issued. This issuance is considered exempt under Regulation D of the Securities Act of 1933 and Rule 506 promulgated thereunder.

To obtain funding for our ongoing operations, we conducted a private placement offering in January and February 2005, in which we sold \$7,311,000 of 10% Secured Convertible Promissory Notes to 61 investors. The 10% Secured Convertible Promissory Notes automatically convert into shares of our common stock, at a price of \$0.50 per share, upon the filing of this registration statement. In connection with the private placement offering, we have issued 15,222,000 warrants. The warrants are exercisable until five years from the date of issuance at a purchase price of \$0.75 per share. This issuance is considered exempt under Regulation D of the Securities Act of 1933 and Rule 506 promulgated thereunder.

On January 28, 2005, we closed upon a private placement transaction in excess of \$1 million, and on February 2, 2005, the promissory notes issued in December 2004 were converted into an aggregate of 2,930,000 shares of common stock. This issuance is considered exempt under Regulation D of the Securities Act of 1933 and Rule 506 promulgated thereunder.

The following table provides information about purchases by us and our affiliated purchasers during the quarter ended December 31, 2004 of equity securities that are registered by us pursuant to Section 12 of the Securities Exchange Act of 1934:

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

Period	ISSUER PURCHASES OF EQUITY SECURITIES		
	(a) Total Number of Shares (or units) Purchased	(b) Average Price Paid per share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (
10/01/04-			
10/31/04	0	\$0	0
11/01/04-			
11/30/04	0	\$0	0
12/01/04-			
12/31/04	0	\$0	0

(1) We have not entered into any plans or programs under which we may repurchase its common stock.

On December 17, 2003, we issued a total of 1,850,000 shares to ten consultants in connection with our agreement with the company's investment bankers, Vertical Capital Partners, Inc. These issuances are considered exempt from registration by reason of the Section 4(2) of the Securities Act of 1933.

Item 3. Defaults Upon Senior Securities

None.

44

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

None

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)

45

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Amendment No. 2 to Form 10QSB/A to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: October 10, 2006

APPLIED DNA SCIENCES, INC.

By: /s/ JAMES A. HAYWARD

Chief Executive Officer
(Principal Executive
Officer, Principal
Financial Officer and
Principal Accounting Officer)

46