

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

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

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

Amendment No. 1 to  
FORM 10-QSB

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

For the Quarterly period ended June 30, 2006

Commission file number 002-90519

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

Nevada  
(State or other jurisdiction of  
incorporation or organization)

59-2262718  
(I.R.S. Employer  
Identification Number)

25 Health Sciences Drive, Suite 113  
Stony Brook, New York  
(Address of Principal Executive Offices)

11790  
(Zip Code)

(631) 444-6861  
(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

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

Yes  No

The number of shares of Common Stock, \$0.001 par value, outstanding on August 16, 2006, was 120,982,385 shares, held by approximately 1,341 shareholders.

Transitional Small Business Disclosure Format (check one):

Yes  No

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

## EXPLANATORY NOTE

This Amendment No. 1 to Form 10-QSB/A (this "Amendment") amends the Quarterly Report of Applied DNA Sciences, Inc. (the "Company") on Form 10-QSB for the quarter ended June 30, 2006, as filed with the Securities and Exchange Commission on August 17, 2006 (the "Original Filing"). This Amendment is being filed for the purpose of correcting errors in accounting for and disclosing the issuance by the Company of warrants to acquire the Company's common stock.

We have not updated the information contained herein for events occurring subsequent to August 17, 2006, the filing date of the Original Filing.

APPLIED DNA SCIENCES, INC  
Amendment No. 1 to Quarterly Report on Form 10-QSB/A for the  
Quarterly Period Ending June 30, 2006

## Table of Contents

### PART I. FINANCIAL INFORMATION

#### Item 1. Financial Statements

Condensed Consolidated Balance Sheet: June 30, 2006 (Unaudited)	3
Condensed Consolidated Statements of Losses: Three Months Ended June 30, 2006 and 2005 (Unaudited) and the Period from September 16, 2002 (Date of Inception) Through June 30, 2006 (Unaudited)	4
Condensed Consolidated Statement of Stockholder's Equity (Deficiency): For the Period from September 16, 2002 (Date of Inception) Through June 30 2006 (Unaudited)	5
Condensed Consolidated Statements of Cash Flows: Three Months Ended June 30, 2006 and 2005 (Unaudited) and the Period from September 16, 2002 (Date of Inception) Through June 30, 2006 (Unaudited)	19
Notes to Unaudited Condensed Consolidated Financial Information: June 30, 2006	21-45

Item 2. Management Discussion and Analysis	46
--------------------------------------------	----

Item 3 Controls and Procedures	64
--------------------------------	----

### PART II. OTHER INFORMATION

Item 1. Legal Proceedings	65
---------------------------	----

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	65
---------------------------------------------------------------------	----

Item 3. Defaults Upon Senior Securities	65
-----------------------------------------	----

Item 4. Submission of Matters to a Vote of Security Holders	66
-------------------------------------------------------------	----

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

Item 5. Other Information	66
Item 6. Exhibits	66
Signatures	67

-ii-

PART 1. FINANCIAL INFORMATION  
ITEM I. FINANCIAL STATEMENTS (UNAUDITED)

APPLIED DNA SCIENCES, INC.  
(A DEVELOPMENT STAGE COMPANY)  
CONDENSED CONSOLIDATED BALANCE SHEET  
JUNE 30, 2006  
RESTATED  
(Unaudited)

ASSETS

Current assets:

Cash and cash equivalents  
Accounts receivable  
Advances and other receivables  
Prepaid expenses

Total current assets

Property, plant and equipment-net of accumulated depreciation of \$10,315  
Deposits  
Capitalized finance costs

Intangible assets:

Patients, net of accumulated amortization of \$16,881  
Intellectual property, net of accumulated amortization of \$1,347,271

Total Assets

LIABILITIES AND DEFICIENCY IN STOCKHOLDERS' EQUITY

Current liabilities:

Accounts payable and accrued liabilities  
Note payable- Related Party (Note G)

Total current liabilities

Convertible notes payable, net of unamortized discount (Note C)  
Debt derivative and warrant liability (Note F)

Commitments and contingencies (Note H)

Deficiency in Stockholders' Equity

Preferred stock, par value \$0.001 per share; 10,000,000 shares authorized; 60,000 issued and outstanding

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

Common stock, par value \$0.001 per share; 250,000,000 shares authorized; 118,582,385 issued and outstanding  
 Common stock subscription  
 Additional paid in capital  
 Accumulated deficit

Total deficiency in stockholders' equity

Total liabilities and Deficiency in Stockholders' Equity

See the accompanying notes to the unaudited condensed consolidated financial statements

-3-

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

	For the Three Months Ended June 30, 2006 ----- RESTATED -----	2005 ----- RESTATED -----	For the Month Ended 2006 ----- RESTATED -----
Sales	\$ 18,900	\$ -	\$ 18,900
Cost of sales	15,639	-	15,639
Gross Profit	3,261	-	3,261
Operating expenses:			
Selling, general and administrative	1,580,967	1,865,631	4,391,300
Research and development	-	88,870	75,200
Depreciation and amortization	336,824	3,160	1,021,100
Total operating expenses	1,917,791	1,957,661	5,487,700
NET LOSS FROM OPERATIONS	(1,914,530)	(1,957,661)	(5,484,500)
Net gain (loss) in fair value of debt derivative and warrant liabilities	3,493,961	5,679,175	14,250,600
Other income (expenses)	8,483	241	17,900
Interest income (expense)	(826,827)	(21,557)	(3,177,200)

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

Net income (loss) before provision for income taxes	761,087	3,700,198	5,043,0
Income taxes (benefit)	-	-	-
NET INCOME (LOSS)	\$ 761,087	\$ 3,700,198	\$ 5,606,8
Net income (loss) per share-basic	\$ 0.01	\$ 0.06	\$ 0.
Net income (loss) per share-fully diluted	\$ 0.01	\$ 0.04	\$ 0.
Weighted average shares outstanding- Basic	118,582,385	66,308,115	115,852,5
Fully diluted	177,501,849	109,223,832	181,716,9

See the accompanying notes to the unaudited condensed consolidated financial statements

-4-

APPLIED DNA SCIENCES, INC  
(A development stage company)  
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)  
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2006  
(Unaudited)  
RESTATED

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

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

21, 2002	-	-	(100,000)	(10)	(1,000)	-
Issuance of common stock in exchange for services in October 2002 at \$ 0.65 per share	-	-	602,000	60	39,070	-
Issuance of common stock in exchange for subscription in November and December 2002 at \$ 0.065 per share	-	-	876,000	88	56,852	-
Cancellation of common stock in January 2003 previously issued in exchange for consulting services	-	-	(836,000)	(84)	(54,264)	-
Issuance of common stock in exchange for licensing services valued at \$ 0.065 per share in January 2003	-	-	1,500,000	150	97,350	-
Issuance of common stock in exchange for consulting services valued at \$ 0.13 per share in January 2003	-	-	586,250	58	76,155	-
Issuance of common stock in exchange for consulting services at \$ 0.065 per share in February 2003	-	-	9,000	1	584	-
Issuance of common stock to Founders in exchange for services valued at \$0.0001 per share in March 2003	-	-	10,140,000	1,014	-	-
Issuance of common stock in exchange for consulting services valued at \$2.50 per share in March 2003	-	-	91,060	10	230,624	-

See accompanying notes to the financial statements

-5-

APPLIED DNA SCIENCES, INC  
(A development stage company)  
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)  
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2006  
(Unaudited)  
RESTATED  
(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

Issuance of common stock in exchange for consulting services valued at \$ 0.065 per share in March 2003	-	-	6,000	1	389	-
Common stock subscribed in exchange for cash at \$1 per share in March 2003	-	-	-	-	18,000	-
Common stock issued in exchange for consulting services at \$ 0.065 per share on April 1, 2003	-	-	860,000	86	55,814	-
Common stock issued in exchange for cash at \$ 1.00 per share on April 9, 2003	-	-	18,000	2	-	-
Common stock issued in exchange for consulting services at \$ 0.065 per share on April 9, 2003	-	-	9,000	1	584	-
Common stock issued in exchange for consulting services at \$ 2.50 per share on April 23, 2003	-	-	5,000	1	12,499	-
Common stock issued in exchange for consulting services at \$ 2.50 per share, on June 12, 2003	-	-	10,000	1	24,999	-
Common stock issued in exchange for cash at \$ 1.00 per share on June 17, 2003	-	-	50,000	5	49,995	-
Common stock subscribed in exchange for cash at \$ 2.50 per share pursuant to private placement on June 27, 2003	-	-	-	-	-	24,000
Common stock retired in exchange for note payable at \$0.0118 per share, in 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

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

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 the 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 JUNE 30, 2006  
(Unaudited)  
RESTATED  
(Continued)

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



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

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 per share in September 2003	-	-	95,000	10	94,991	-
Common stock subscription receivable reclassification adjustment	-	-	-	-	-	-
Common Stock subscribed to at \$2.50 per share in September 2003	-	-	-	-	-	300,000
Net Loss for the year ended September 30, 2003	-	-	-	-	-	-
	-----	-----	-----	-----	-----	-----
Balance at September 30, 2003	-	\$ -	17,811,082	\$ 1,781	\$2,577,568	\$ 300,000
	=====	=====	=====	=====	=====	=====

See accompanying notes to the financial statements

-7-

APPLIED DNA SCIENCES, INC  
(A development stage company)  
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)  
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2006  
(Unaudited)  
RESTATED  
(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						

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

for services rendered at \$2.50 per share	-	-	(100,000)	(10)	(249,990)	-
Common stock issued in exchange for consulting services at approximately \$3 per share, November 2003	-	-	100,000	10	299,990	-
Common stock subscribed in exchange for cash at \$2.50 per share pursuant to private placement, November, 2003	-	-	100,000	10	249,990	-
Common stock subscribed in exchange for cash at \$2.50 per share pursuant to private placement, December, 2003	-	-	6,400	1	15,999	-
Common stock issued in exchange for consulting services at approximately \$2.59 per share, December 2003	-	-	2,125,500	213	5,504,737	-
Common Stock subscribed to at \$2.50 per share in December 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 in December 2004	-	-	-	10,223,166	(10,223,166)	-
Common Stock issued pursuant to subscription at \$2.50 share in January 2004	-	-	41,600	20,800	83,200	(104,000)
Common stock issued in exchange for consulting services at \$2.95 per share, January 2004	-	-	13,040	6,520	31,948	-
Common stock issued in exchange for consulting services at \$2.60 per share, January 2004	-	-	123,000	61,500	258,300	-

See accompanying notes to the financial statements

-8-

APPLIED DNA SCIENCES, INC  
(A development stage company)  
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)  
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2006  
(Unaudited)  
RESTATEd  
(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 \$3.05 per share, January 2004	-	-	1,000	500	2,550	-
Common stock issued in exchange for employee services at \$3.07 per share, February 2004	-	-	6,283	3,142	16,147	-
Common stock issued in exchange for consulting services at \$3.04 per share, March 2004	-	-	44,740	22,370	113,640	-
Common Stock issued for options exercised at \$1.00 per share in March 2004	-	-	55,000	27,500	27,500	-
Common stock issued in exchange for employee services at \$3.00 per share, March 2004	-	-	5,443	2,722	13,623	-
Common stock issued in exchange for employee services at \$3.15 per share, March 2004	-	-	5,769	2,885	15,292	-
Preferred shared converted to common shares for consulting services at \$3.00 per share, March 2004	(5,000)	(5)	125,000	62,500	312,500	-
Common stock issued in exchange for employee services at \$3.03 per share, March 2004	-	-	8,806	4,400	22,238	-
Common Stock issued pursuant to subscription at \$2.50 per share in March 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, April 2004	-	-	9,860	4,930	20,511	-
Common stock issued in exchange for consulting services at \$2.35 per share, April 2004	-	-	11,712	5,856	21,667	-
Common stock issued in						

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

exchange for consulting services at \$1.50 per share, April 2004	-	-	367,500	183,750	367,500	-
Common stock returned to treasury at \$0.065 per share, April 2004	-	-	(50,000)	(25,000)	21,750	-
Preferred stock converted to common stock for consulting services at \$1.01 per share in May 2004	(4,000)	(4)	100,000	50,000	51,250	-
Common stock issued per subscription May 2004	-	-	10,000	5,000	(4,000)	-

See accompanying notes to the financial statements

-9-

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

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

Common stock issued pursuant to private placement at \$1.00 per share in June 2004	-	-	250,000	125,000	125,000	-
Common stock issued in exchange for consulting services at \$0.54 per share in July 2004	-	-	100,000	50,000	4,000	-
Common stock issued in exchange for consulting services at \$0.72 per share in July 2004	-	-	5,000	2,500	1,100	-
Common stock issued in exchange for consulting services at \$0.47 per share in July 2004	-	-	100,000	50,000	(2,749)	-
Common stock issued in exchange for consulting services at \$0.39 per share in August 2004	-	-	100,000	50,000	(11,000)	-
Preferred stock converted to common stock for consulting services at \$0.39 per share in August 2004	(2,000)	(2)	50,000	25,000	(5,500)	-
Common stock issued in exchange for consulting services at \$0.50 per share in August 2004	-	-	100,000	50,000	250	-
Common stock issued in exchange for consulting services at \$0.56 per share in August 2004	-	-	200,000	100,000	12,500	-
Common stock issued in exchange for consulting services at \$0.41 per share in August 2004	-	-	92,500	46,250	(8,605)	-
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 the financial statements

-10-

APPLIED DNA SCIENCES, INC  
(A development stage company)  
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)  
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2006  
(Unaudited)  
RESTATEd  
(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 \$0.71 per warrant in September 2004	-	-	-	-	2,019,862	-
Net Loss	-	-	-	-	-	-
Balance at September 30, 2004	60,000	\$ 6	23,981,054	\$11,990,527	\$6,118,993	\$ -

See accompanying notes to the financial statements

-11-

APPLIED DNA SCIENCES, INC  
(A development stage company)  
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)  
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2006  
(Unaudited)  
RESTATEd  
(Continued)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed
Common stock issued in exchange for consulting services at \$0.68 per share in October 2004	-	-	200,000	100,000	36,000	-

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

Common stock returned to treasury at \$0.60 per share in October 2004	-	-	(1,069,600)	(534,800)	(107,297)	-
Common stock issued in exchange for consulting services at \$0.60 per share in October 2004	-	-	82,500	41,250	8,250	-
Common Stock issued pursuant to subscription at \$0.60 per 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 per share in October 2004	-	-	500,000	250,000	-	-
Common Stock issued pursuant to subscription at \$0.45 per 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 per share in November 2004	-	-	100,000	50,000	(3,000)	-
Common Stock issued in exchange for consulting services at \$0.80 per share in November 2004	-	-	300,000	150,000	90,000	-
Common Stock issued in exchange for consulting services at \$1.44 per share in November 2004	-	-	115,000	57,500	108,100	-
Common Stock issued in exchange for employee services at \$1.44 per share in November 2004	-	-	5,000	2,500	4,700	-

See accompanying notes to the financial statements

-12-

APPLIED DNA SCIENCES, INC  
(A development stage company)  
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)  
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2006  
(Unaudited)  
RESTATED  
(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
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)	-
Common stock issued in settlement of debt at \$0.50 per share in December 2004	-	-	2,930,000	1,465,000	-	(125,000)
Fair value of 6,063,500 warrants issued to non employees and consultants for services rendered at \$0.52 per warrant in October and December 2004	-	-	-	-	3,169,052	-
Warrants exercised at \$0.10 per share in January 2005	-	-	25,000	12,500	(10,000)	-
Common Stock issued in settlement of debt at \$0.33 per share in January 2005	-	-	1,628,789	814,395	(276,895)	-
Warrants exercised at \$0.10 per share in January 2005	-	-	17,500	8,750	(7,000)	-
Common Stock issued in settlement of debt at \$0.33 per share in January 2005	-	-	2,399,012	1,199,504	(407,830)	-
Common Stock issued in exchange for consulting services at \$1.30 per share in January 2005	-	-	315,636	157,818	252,508	-
Fair value of warant liability reclassified due to registration rights granted in February 2005	-	-	-	-	(3,108,851)	-
Common Stock issued in exchange for consulting services at \$1.44 per share in February 2005	-	-	5,796,785	2,898,393	5,418,814	-
Fair value of 55,000 warrants issued to consultants for services at \$1.31 per warrant in February 2005	-	-	-	-	72,017	-



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

Common Stock issued in settlement of debt at \$0.33 per share in February 2005	-	-	75,757	37,879	(12,879)	-
--------------------------------------------------------------------------------	---	---	--------	--------	----------	---

See accompanying notes to the financial statements

-13-

APPLIED DNA SCIENCES, INC  
(A development stage company)  
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)  
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2006  
(Unaudited)  
RESTATED  
(Continued)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed
Warrants exercised at \$0.10 per share in February 2005	-	-	20,000	10,000	(8,000)	-
Common Stock issued in settlement of debt at \$0.33 per share in February 2005	-	-	606,060	303,030	(103,030)	-
Warrants exercised at \$0.10 per share in February 2005	-	-	45,000	22,500	(18,000)	-
Common Stock issued in exchange for related party debt at \$1.31 per share in February 2005	-	-	1,500,000	750,000	1,215,000	-
Common Stock issued in settlement of debt at \$0.33 per share in February 2005	-	-	278,433	139,217	(47,334)	-
Common Stock issued in exchange for consulting services at \$1.17 per share in February 2005	-	-	17,236	8,618	11,548	-
Common stock issued in exchange for debt at \$0.50 per share in February 2005	-	-	300,000	150,000	-	-
Common Stock issued in exchange for consulting services at \$0.95 per share in February 2005	-	-	716,500	358,250	322,425	-
Common Stock issued in exchange for consulting services at \$0.95 per share	-	-				

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

in February 2005	-	-	10,500	5,250	4,725	-
Common stock issued in exchange for debt at \$0.50 per share in March 2005	-	-	13,202,000	6,601,000	-	-
Common Stock issued in exchange for consulting services at \$1.19 per share in March 2005	-	-	185,000	92,500	127,650	-
Options exercised at \$0.60 per share in March 2005	-	-	100,000	50,000	10,000	-
Common Stock issued in exchange for consulting services at \$0.98 per share in March 2005	-	-	1,675,272	837,636	804,131	-

See accompanying notes to the financial statements

-14-

APPLIED DNA SCIENCES, INC  
(A development stage company)  
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)  
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2006  
(Unaudited)  
RESTATED  
(Continued)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed
Common Stock issued in exchange for consulting services at \$0.92 per share in March 2005	-	-	24,333	12,167	10,219	-
Common Stock issued in exchange for consulting services at \$0.99 per share in March 2005	-	-	15,000	7,500	7,350	-
Common stock issued in exchange for debt at \$0.50 per share in March 2005	-	-	1,240,000	620,000	-	-
Common stock canceled for shares issued in exchange of debt in March 2005	-	-	(500,000)	(250,000)	-	-
Common stock subscribed Canceled in March 2005	-	-	-	-	-	750,000
Common Stock issued in						

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

exchange for consulting services at \$0.89 per share in March 2005	-	-	10,000	5,000	3,900	-
Adjust common stock par value from \$0.50 to \$0.001 per share, per amendment of articles dated Mar-05	-	-	-	(32,312,879)	32,312,879	-
Beneficial Conversion discount relating to Notes Payable in March 2005	-	-	-	-	7,371,000	-
Stock options granted to employees in exchange for services rendered, at exercise price below fair value of common stock in March 2005	-	-	-	-	180,000	-
Common Stock issued in exchange for consulting services at \$0.80 per share in April 2005	-	-	160,000	160	127,840	-
Common Stock issued in exchange for consulting services at \$0.80 per share in April 2005	-	-	40,000	40	31,960	-

See accompanying notes to the financial statements

-15-

APPLIED DNA SCIENCES, INC  
(A development stage company)  
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)  
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2006  
(Unaudited)  
RESTATEd  
(Continued)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed
Common Stock issued in exchange for consulting services at \$0.75 per share in April 2005	-	-	850,000	850	636,650	-
Common Stock issued in exchange for consulting services at \$0.33 per share in April 2005	-	-	500,000	500	164,500	-
Common Stock canceled during April 2005, previously issued for services rendered at \$3.42 per share	-	-	(10,000)	(10)	(34,190)	-
Common Stock issued in						

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

settlement of debt at \$0.33 per share in April 2005	-	-	75,758	77	24,923	(25,000)
Common Stock issued in exchange for consulting services at \$0.68 per share in April 2005	-	-	50,000	50	33,950	-
Proceeds received against subscription Payable in June 2005	-	-	-	-	-	118,000
Common Stock canceled in June 2005, previously issued for services rendered at \$0.50 per share	-	-	(10,000)	(10)	(4,990)	-
Cancellation of previously granted stock options granted to employees for services rendered, at exercise price below fair value of common stock	-	-	-	-	(180,000)	-
Common Stock issued in exchange for consulting services at \$0.60 per share in July 2005	-	-	157,000	157	94,043	-
Common Stock issued in exchange for intellectual property at \$0.67 per share in July 2005	-	-	36,000,000	36,000	24,084,000	-
Common Stock issued in exchange for consulting services at \$0.60 per share in July 2005	-	-	640,000	640	383,360	-
Common Stock issued in exchange for employee services at \$0.48 per share in July 2005	-	-	8,000,000	8,000	3,832,000	-

See accompanying notes to the financial statements

-16-

APPLIED DNA SCIENCES, INC  
(A development stage company)  
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)  
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2006  
(Unaudited)  
RESTATED  
(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						

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

services at \$0.94 per share in July 2005	-	-	121,985	121	168,217	-
Common Stock issued in exchange for consulting services at \$0.48 per share in August 2005	-	-	250,000	250	119,750	-
Common Stock penalty shares issued pursuant to pending SB-2 registration at \$0.62 per share in September 2005	-	-	814,158	814	501,858	-
Common Stock penalty shares issued pursuant to pending SB-2 registration at \$0.70 per share in September 2005	-	-	391,224	391	273,466	-
Common Stock issued in exchange for consulting services at \$0.94 per share in September 2005	-	-	185,000	185	173,715	-
Common Stock returned in September 2005, previously issued for services rendered at \$0.40 per share	-	-	(740,000)	(740)	(453,232)	56,000
Net Loss	-	-	-	-	-	-
Balance as of September 30, 2005	60,000	\$ 6	112,230,392	\$ 112,230	\$82,320,715	\$ 20,000
	=====	=====	=====	=====	=====	=====

See accompanying notes to the financial statements

-17-

APPLIED DNA SCIENCES, INC  
(A development stage company)  
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)  
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2006  
(Unaudited)  
RESTATED  
(Continued)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed
	-----	-----	-----	-----	-----	-----
Common stock issued pursuant to subscription at \$0.50 per share in October 2005	-	-	400,000	400	199,600	(200,000)
Common Stock issued in						

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

exchange for consulting services at \$0.75 per share in October 2005	-	-	100,000	100	74,900	-
Common Stock returned in October 2005, previously issued for services rendered at \$0.60 per share	-	-	(350,000)	(350)	(209,650)	-
Common stock issued pursuant to subscription at \$0.50 per share in December 2005	-	-	40,000	40	19,960	(20,000)
Common Stock to investors pursuant to registration rights agreement at \$0.51 per share in December 2005	-	-	505,854	506	257,480	-
Common Stock returned in January 2006, previously issued for services rendered at \$0.60 per share	-	-	(250,000)	(250)	(149,750)	-
Common Stock issued to investors pursuant to registration rights agreement at \$0.32 per share in January 2006	-	-	806,212	806	257,182	-
Common Stock issued to investors pursuant to registration rights agreement at \$0.20 per share in January 2006	-	-	1,289,927	1,290	256,695	-
Fair value of 200,000 warrants issued to consultants for services at \$0.22 per warrant in January 2006	-	-	-	-	43,098	-
Common Stock issued in exchange for consulting services at \$0.17 per share in February 2006	-	-	160,000	160	27,040	-
Common Stock issued in exchange for consulting services at \$0.16 per share in February 2006	-	-	3,800,000	3,800	604,200	-
Common Stock returned in March 2006, previously issued for services rendered at \$0.80 per share	-	-	(150,000)	(150)	(119,850)	-
Previously issued warrants reclassified to warrant liability	-	-	-	-	(1,584,614)	-
Net Income	-	-	-	-	-	-
Balance as of June 30, 2006	60,000	6	118,582,385	118,582	81,997,006	(200,000)
	=====	=====	=====	=====	=====	=====

See accompanying notes to unaudited condensed consolidated financial statements

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

	For the nine months ended 2006	RE
	----- RESTATED	-----
Cash flows from operating activities:		
Net income (loss)	\$ 5,606,849	\$ (40
Adjustments to reconcile net loss to net used in operating activities:		
Depreciation and amortization	1,021,199	
Organization expenses		
Preferred shares issued in exchange for services	-	
Warrants issued to consultants	43,100	3
Income attributable to repricing of warrants and debt derivatives	(14,250,621)	(16
Financing costs attributable to issuance of warrants	2,271,000	23
Amortization of beneficial conversion feature-convertible notes		8
Amortization of capitalized financing costs	247,238	
Amortization of debt discount attributable to convertible debenture	276,090	
Fair value of common stock issued to related party in excess of previously incurred debt	-	1
Common stock issued in exchange for services	710,200	13
Common stock exchanged for intellectual property in connection with costs of acquiring intangible assets	-	
Common stock issued as penalty in connection financing	773,958	
Common stock canceled-previously issued for services rendered	(480,000)	
Change in assets and liabilities:		
Increase in accounts receivable	(18,900)	
Increase in prepaid expenses and deposits	(145,849)	
Decrease in other assets	5,940	
Decrease in due related parties	(52,662)	
Increase (decrease) in accounts payable and accrued liabilities	1,685,792	
Net cash used in operating activities	(2,306,666)	(7
Cash flows from investing activities:		
Payments for patent filing	-	
Capital expenditures	(35,851)	
Net cash used in investing activities	(35,851)	
Cash flows from financing activities:		
Proceeds from sale of common stock, net of cost		
Proceeds from issuance of convertible notes	4,242,500	9
Proceeds from exercise of options and warrants	-	
Payment of debt	-	

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

Proceeds from loans	-	
Advances from shareholders	-	
	-----	-----
Net cash provided by financing activities	4,242,500	9
Net increase in cash and cash equivalents	1,899,983	1
Cash and cash equivalents at beginning of period	31,190	
	-----	-----
Cash and cash equivalents at end of period	\$ 1,931,173	\$ 1
	=====	=====

See the accompanying notes to the unaudited condensed consolidated financial statements

-19-

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

	For the nine months ended 2006	
	-----	-----
	RESTATED	RE
Supplemental Disclosures of Cash Flow Information:		
Cash paid during period for interest	-	
Cash paid during period for taxes	-	
Non-cash transactions:		
Common stock issued for services	710,200	13
Common stock issued in exchange for previously incurred debt	-	2
Common stock canceled-previously issued for services rendered	(480,000)	
Beneficial conversion feature attributable to convertible notes		8
Preferred shares in exchange for services	-	
Warrants issued to consultants	43,100	3
Warrants issued in exchange for financing costs	2,271,000	23
Acquisition:		
Common stock retained	-	
Assets acquired	-	
	-----	-----
Total consideration paid	-	
	-----	-----
Organizational expenses-note issued in exchange for shares retired		
Common stock issued in exchange for note payable		

See the accompanying notes to the unaudited condensed consolidated financial statements



APPLIED DNA SCIENCES, INC.  
 (A DEVELOPMENT STAGE COMPANY)  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION  
 JUNE 30, 2006  
 (Unaudited)

NOTE A - SUMMARY OF ACCOUNTING POLICIES

General

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

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine month periods ended June 30, 2006 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2006. The unaudited condensed consolidated financial statements should be read in conjunction with the consolidated September 30, 2005 financial statements and footnotes thereto included in the Company's SEC Form 10-KSB, as amended.

Business and Basis of Presentation

On September 16, 2002, Applied DNA Sciences, Inc. (the "Company") was incorporated under the laws of the State of Nevada. The Company is in the development stage, as defined by Statement of Financial Accounting Standards No. 7 ("SFAS No. 7") and its efforts have been principally devoted to developing DNA embedded biotechnology security solutions in the United States. To date, the Company has generated nominal sales revenues, has incurred expenses and has sustained losses. Consequently, its operations are subject to all the risks inherent in the establishment of a new business enterprise. For the period from inception through June 30, 2006, the Company has accumulated losses of \$84,317,703.

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 June 30, 2006 property and equipment consist of:

Computer equipment	\$ 15,328
Furniture	33,273
Accumulated depreciation	(10,315)
	-----

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

Net \$ 38,286

Stock Based Compensation

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

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

-21-

APPLIED DNA SCIENCES, INC.  
 (A DEVELOPMENT STAGE COMPANY)  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION  
 JUNE 30, 2006  
 (Unaudited)

NOTE A - SUMMARY OF ACCOUNTING POLICIES (continued)

	For The Three Months ended June 30, 2006	For The Three Months ended June 30, 2005	For The Nine Months ended June 30, 2006	For The Nine Months ended June 30, 2005
Net income (loss) - as reported	\$ 761,087	\$ 3,700,198	\$ 5,606,849	\$ (40,464,827)
Add: Total stock based employee compensation expense as reported under intrinsic value method (APB No. 25)	--	--	--	--
Deduct: Total stock based employee compensation expense as reported under fair value method (APB No.				

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

123)		(1,406,350)		(1,406,350)
	-----	-----	-----	-----
Net income (loss) - Pro Forma	\$ 761,087	\$ 2,293,848	\$ 5,606,849	\$ (41,871,177)
	=====	=====	=====	=====
Net income (loss) attributable to common stockholders - Pro Forma	\$ 761,087	\$ 2,293,848	\$ 5,606,849	\$ (41,871,177)
	=====	=====	=====	=====
Basic income (loss) per share - as reported	\$ 0.01	\$ 0.06	\$ 0.05	\$ (0.83)
	=====	=====	=====	=====
Basic income (loss) per share - Pro Forma	\$ 0.01	\$ 0.04	\$ 0.04	\$ (0.86)
	=====	=====	=====	=====
Fully diluted income per share - as reported	\$ 0.01	\$ 0.04	\$ 0.03	N/A
	=====	=====	=====	=====
Fully diluted income per share - Pro Forma	\$ 0.01	\$ 0.03	\$ 0.03	N/A
	=====	=====	=====	=====

-22-

APPLIED DNA SCIENCES, INC.  
(A DEVELOPMENT STAGE COMPANY)  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION  
JUNE 30, 2006  
(Unaudited)

NOTE A - SUMMARY OF ACCOUNTING POLICIES (continued)

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 Company's consolidated financial statements.

Revenue Recognition

Revenues are recognized in the period that services are provided. For revenue from product sales, the Company recognizes revenue in accordance with Staff Accounting Bulletin No. 104, REVENUE RECOGNITION ("SAB104"), which superseded Staff Accounting Bulletin No. 101, REVENUE RECOGNITION IN FINANCIAL STATEMENTS ("SAB101"). SAB 101 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the selling price is fixed and determinable; and (4)

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

collectibility is reasonably assured. Determination of criteria (3) and (4) are based on management's judgments regarding the fixed nature of the selling prices of the products delivered and the collectibility of those amounts. Provisions for discounts and rebates to customers, estimated returns and allowances, and other adjustments are provided for in the same period the related sales are recorded. The Company defers any revenue for which the product has not been delivered or is subject to refund until such time that the Company and the customer jointly determine that the product has been delivered or no refund will be required. At June 30, 2006 the Company did not have any deferred revenue.

SAB 104 incorporates Emerging Issues Task Force 00-21 ("EITF 00-21"), MULTIPLE DELIVERABLE REVENUE ARRANGEMENTS. EITF 00-21 addresses accounting for arrangements that may involve the delivery or performance of multiple products, services and/or rights to use assets. The effect of implementing EITF 00-21 on the Company's financial position and results of operations was not significant.

### Concentrations of Credit Risk

Financial instruments and related items which potentially subject the Company to concentrations of credit risk consist primarily of cash, cash equivalents and trade receivables. The Company places its cash and temporary cash investments with credit quality institutions. At times, such investments may be in excess of the FDIC insurance limit. The Company periodically reviews its trade receivables in determining its allowance for doubtful accounts. At June 30, 2006, allowance for doubtful receivable was \$0.

### Derivative Financial Instruments

The Company's derivative financial instruments consist of embedded derivatives related to the 10% Secured Convertible Promissory Notes (the "Serial Notes") entered into in 2006 (see Note D). These embedded derivatives include certain conversion features, variable interest features, call options and default provisions. The accounting treatment of derivative financial instruments requires that the Company recorded the derivatives and related warrants at their fair values as of the inception date of the Note Agreement (estimated at \$2,419,719) and at fair value as of each subsequent balance sheet date. In addition, under the provisions of EITF Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock," as a result of entering into the Notes, the Company is required to classify all other non-employee stock options and warrants as derivative liabilities and mark them to market at each reporting date. The fair value of such options and warrants that were reclassified as liabilities from additional paid-in capital in the nine months ended June 30, 2006 totaled \$1,584,614. Any change in fair value will be recorded as non-operating, non-cash income or expense at each reporting date. If the fair value of the derivatives is higher at the subsequent balance sheet date, the Company will record a non-operating, non-cash charge. If the fair value of the derivatives is lower at the subsequent balance sheet date, the Company will record non-operating, non-cash income. Conversion-related derivatives were valued using the Binomial Option Pricing Model with the following assumptions: dividend yield of 0%; annual volatility of 111 to 112%; and risk free interest rate of 4.96 to 5.15% as well as probability analysis related to trading volume restrictions. The remaining derivatives were valued using discounted cash flows and probability analysis. The derivatives are classified as long-term liabilities (see Note F).

-23-

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

JUNE 30, 2006  
(Unaudited)

## NOTE A - SUMMARY OF ACCOUNTING POLICIES (continued)

### New Accounting Pronouncements

In March 2005, the FASB issued FASB Interpretation (FIN) No. 47, "Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143," which requires an entity to recognize a liability for the fair value of a conditional asset retirement obligation when incurred if the liability's fair value can be reasonably estimated. The Company is required to adopt the provisions of FIN 47 no later than the first quarter of fiscal 2006. The Company adopted this interpretation from January 1, 2006. The adoption of this Interpretation did not have a material impact on its consolidated financial position, results of operations or cash flows.

In May 2005 the FASB issued Statement of Financial Accounting Standards (SFAS) No. 154, "Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3." SFAS 154 requires retrospective application to prior periods' financial statements for changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 also requires that retrospective application of a change in accounting principle be limited to the direct effects of the change. Indirect effects of a change in accounting principle, such as a change in non-discretionary profit-sharing payments resulting from an accounting change, should be recognized in the period of the accounting change. SFAS 154 also requires that a change in depreciation, amortization, or depletion method for long-lived, non-financial assets be accounted for as a change in accounting estimate affected by a change in accounting principle. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Early adoption is permitted for accounting changes and corrections of errors made in fiscal years beginning after the date this Statement is issued. The Company adopted of this SFAS with its restatements included within.

On February 16, 2006 the Financial Accounting Standards Board (FASB) issued SFAS 155, "Accounting for Certain Hybrid Instruments," which amends SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," and SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS 155 allows financial instruments that have embedded derivatives to be accounted for as a whole (eliminating the need to bifurcate the derivative from its host) if the holder elects to account for the whole instrument on a fair value basis. SFAS 155 also clarifies and amends certain other provisions of SFAS 133 and SFAS 140. This statement is effective for all financial instruments acquired or issued in fiscal years beginning after September 15, 2006. The Company does not expect its adoption of this new standard to have a material impact on its financial position, results of operations or cash flows.

In March 2006, the FASB issued FASB Statement No. 156, Accounting for Servicing of Financial Assets - an amendment to FASB Statement No. 140. Statement 156 requires that an entity recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a service contract under certain situations. The new standard is effective for fiscal years beginning after September 15, 2006. The Company does not expect its adoption of this new standard to have a material impact on its financial position, results of operations or cash flows.

## NOTE B - INTANGIBLE ASSETS AND AMORTIZATION

The Company has adopted SFAS No. 142, Goodwill and Other Intangible Assets,

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

whereby the Company periodically test its intangible assets for impairment. On an annual basis, and when there is reason to suspect that their values have been diminished or impaired, these assets are tested for impairment, and write-downs will be included in results from operations.

Biowell Technology, Inc.

On July 12, 2005, the Company acquired certain intellectual properties from Biowell Technology, Inc. ("Biowell") through an Asset Purchase Agreement ("Agreement") in exchange for 36 million shares of the Company's restricted common stock having an aggregate fair value at the date of issuance of \$24,120,000. The intangible assets acquired consist of proprietary DNA anti-counterfeit trade secrets created by Biowell that are intended to protect intellectual property from counterfeiting, fraud, piracy, product diversion and unauthorized intrusion.

-24-

APPLIED DNA SCIENCES, INC.  
(A DEVELOPMENT STAGE COMPANY)  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION  
JUNE 30, 2006  
(Unaudited)

NOTE B - INTANGIBLE ASSETS AND AMORTIZATION (continued)

The purchase price has been allocated as follows:

Amortizable intangible assets acquired are comprised of:

Developed core technologies	\$ 2,260,900
Developed product technologies	7,170,000
	-----
Total amortizable intangible assets	\$ 9,430,900
Transaction costs	14,869,100
	-----
Total purchase price	\$24,120,000
	=====

In Process Research & Development

The Company concluded as of the date of acquisition, the acquired intangible assets, consisting of developed core and product technologies had reached full development and that it was not the intention of the Company's management to utilize the asset in specific research and development activities as defined in SFAS No. 2 Accounting for Research & Development Costs, As a result, the Company determined there was no in-process research and development ("IPR& D") projects in place related to the technology acquired, nor any future research and development activities planned. Accordingly, there is no charge to operations during the year ended September 30, 2005 for IPR&D in connection with the acquisition of the assets.

Transaction costs

The amount of the purchase price that could not be allocated to acquired identifiable intangible assets or IPR & D was \$14,689,100 and was charged to

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

operations as a cost of the transaction during the year ended September 30, 2005.

The identifiable intangible assets acquired and their carrying value at June 30, 2006 are:

	Gross Carrying Amount	Accumulated Amortization	Net	Residual Value	Weighted Average Amortization Period (Years)
Amortizable Intangible Assets:					
Trade secrets and developed technologies	\$ 9,430,900	\$ 1,347,271	\$ 8,083,629	-	
Patents	34,237	16,881	17,376	-	
	-----	-----	-----	-----	-----
Total Amortized Identifiable Intangible Assets	\$ 9,465,137	\$ 1,364,152	\$ 8,101,005	-	

Total amortization expense charged to operations for the nine months ended June 30, 2006 and 2005 was \$1,015,571 and \$7,748, respectively.

-25-

APPLIED DNA SCIENCES, INC.  
(A DEVELOPMENT STAGE COMPANY)  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION  
JUNE 30, 2006  
(Unaudited)

NOTE C - PRIVATE PLACEMENT OF CONVERTIBLE NOTES

Convertible notes payable as of June 30, 2006 are as follows:

10% Secured Convertible Notes Payable dated March 8, 2006, net of unamortized debt discount of \$680,110 (see below)	\$ 819,890
10% Secured Convertible Notes Payable dated May 2, 2006, net of unamortized debt discount of \$395,158 (see below)	604,842
10% Secured Convertible Notes Payable dated June 15, 2006, net of unamortized debt discount of \$1,068,361 (see below)	1,881,639
	\$ 3,306,371
	=====

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

10% Secured Convertible Promissory Notes dated March 8, 2006

On March 8, 2006, in connection with a private placement, the Company issued 10% Secured Convertible Promissory Notes in the aggregate principal amount of \$1,500,000 (the "Serial Notes") and warrants to purchase 3,000,000 shares of the Company's common stock to accredited investors. The Serial Notes bear interest at 10%, mature on September 7, 2007 and are convertible into the Company's common stock, at the holder's option, at fifty cents (\$.50) per share during the period from the date of issuance (March 8, 2006) through March 7, 2007. Should the holder of the Serial Note elect not to convert to the Company's common stock on or before March 7, 2007, the outstanding principal, along with accrued and unpaid interest automatically converts to the Company's common stock at an amount equal to 80% of the average bid price of the Company's common stock on the Over-The-Counter Bulletin Board for a period equal to ten (10) days prior to conversion on the maturity date of September 7, 2007. The full principal amount of the Serial Notes is due upon a default under the terms of the Note Agreement. In addition, the Company granted the Investors a security interest in all of its assets (see Note B). The Company agreed to file a registration statement with the SEC to effect the registration of the shares of its common stock underlying the Serial Notes and the warrants within 30 days of the effective date of the Company's pending Registration Statement (SEC File 333 - 122848) being declared effective. The Company also agreed to use its reasonable best efforts to cause the registration statement to be declared effective no later than 180 days after its filing. If the Registration Statement is not filed and declared effective as described above, the Company will be required to pay liquidated damages in the form of cash to the holders of the Serial Notes, in an amount equal to 2% of the unpaid principal balance per month if the above deadlines are not met. In the event of a default on the Serial Notes, the Serial Notes will bear interest at twelve percent (12%) per annum until paid.

The warrants are exercisable until five years from March 8, 2006 until March 7, 2011 at a price of \$0.50 per share. The Company has the right, but not the obligation, to call these warrants for \$1.25 per share at the earlier of (i) one year from issuance or (ii) the date that shares of common stock issuable upon conversion of the Serial Notes and exercise of the warrants are registered for resale and the Company's common stock trades at or above \$1.25 per share for twenty (20) consecutive trading days. The Notes include certain features that are considered embedded derivative financial instruments, such as a variety of conversion options, a variable interest rate feature, events of default and a variable liquidated damages clause.

The initial relative fair value assigned to the embedded derivatives was \$346,500.

In conjunction with the Notes, the Company issued warrants to purchase 3,000,000 shares of common stock. The accounting treatment of the derivatives and warrants requires that the Company record the warrants at their fair values as of the inception date of the debt issuance, which totaled \$512,100.

The Company recorded the fair value of the derivatives (\$346,500) and warrants (\$512,100) to debt discount, aggregating \$858,600, which will be amortized to interest expense over the term of the Notes. Amortization of \$178,490 was recorded for the nine months ended June 30, 2006.

-26-



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

JUNE 30, 2006

(Unaudited)

### NOTE C - PRIVATE PLACEMENT OF CONVERTIBLE NOTES (continued)

The market price of the Company's common stock significantly impacts the extent to which the Company may be required or may be permitted to convert the Serial Notes into shares of the Company's common stock. The lower the market price of the Company's common stock at the due date of September 7, 2007, the more shares the Company will need to issue to convert the principal and interest payments then due on the Notes.

#### 10% Secured Convertible Promissory Notes dated May 2, 2006

On May 2, 2006, in connection with a private placement, the Company issued 10% Secured Convertible Promissory Notes in the aggregate principal amount of \$1,000,000 (the "Serial Notes") and warrants to purchase 2,000,000 shares of the Company's common stock to accredited investors. The Serial Notes bear interest at 10%, mature on August 2, 2007 and are convertible into the Company's common stock, at the holder's option, at fifty cents (\$.50) per share during the period from the date of issuance (May 2, 2006) through May 2, 2007. Should the holder of the Serial Note elect not to convert to the Company's common stock on or before May 2, 2007, the outstanding principal, along with accrued and unpaid interest automatically converts to the Company's common stock at an amount equal to 80% of the average bid price of the Company's common stock on the Over-The-Counter Bulletin Board for a period equal to ten (10) days prior to conversion on the maturity date of May 2, 2007. The full principal amount of the Serial Notes is due upon a default under the terms of the Note Agreement. In addition, the Company granted the Investors a security interest in all of its assets (see Note B). The Company agreed to file a registration statement with the SEC to effect the registration of the shares of its common stock underlying the Serial Notes and the warrants within 30 days of the effective date of the Company's pending Registration Statement (SEC File 333 - 122848) being declared effective. The Company also agreed to use its reasonable best efforts to cause the registration statement to be declared effective no later than 180 days after its filing. In the event of a default on the Serial Notes, the Serial Notes will bear interest at twelve percent (12%) per annum until paid.

The warrants are exercisable until four years from May 2, 2007 until May 2, 2011 at a price of \$0.50 per share. The Company has the right, but not the obligation, to call these warrants for \$0.001 per share at the earlier of (i) one year from issuance and (ii) the date that shares of common stock issuable upon conversion of the Serial Notes and exercise of the warrants are registered for resale and the Company's common stock trades at and above \$1.00 per share for twenty (20) consecutive trading days. The Notes include certain features that are considered embedded derivative financial instruments, such as a variety of conversion options, a variable interest rate feature, events of default and a variable liquidated damages clause.

The initial relative fair value assigned to the embedded derivatives was \$82,358.

In conjunction with the Notes, the Company issued warrants to purchase 2,000,000 shares of common stock. The accounting treatment of the derivatives and warrants requires that the Company record the warrants at their fair values as of the inception date of the debt issuance, which totaled \$373,600.

The Company recorded the fair value of the derivatives (\$82,358) and warrants (\$373,600) to debt discount, aggregating \$455,958, which will be amortized to interest expense over the term of the Notes. Amortization of \$60,800 was recorded for the nine months ended June 30, 2006.

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

The market price of the Company's common stock significantly impacts the extent to which the Company may be required or may be permitted to convert the Serial Notes into shares of the Company's common stock. The lower the market price of the Company's common stock at the due date of September 7, 2007, the more shares the Company will need to issue to convert the principal and interest payments then due on the Notes.

-27-

APPLIED DNA SCIENCES, INC.  
(A DEVELOPMENT STAGE COMPANY)  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION  
JUNE 30, 2006  
(Unaudited)

NOTE C - PRIVATE PLACEMENT OF CONVERTIBLE NOTES (continued)

10% Secured Convertible Promissory Notes dated June 15, 2006

On June 15, 2006, in connection with a private placement, the Company issued 10% Secured Convertible Promissory Notes in the aggregate principal amount of \$2,950,000 (the "Serial Notes") and warrants to purchase 5,900,000 shares of the Company's common stock to accredited investors. The Serial Notes bear interest at 10%, mature on August 2, 2007 and are convertible into the Company's common stock, at the holder's option, at fifty cents (\$.50) per share during the period from the one years from the date of issuance (June 15, 2006) through June 15, 2007. Should the holder of the Serial Note elect not to convert to the Company's common stock on or before June 15, 2007, the outstanding principal, along with accrued and unpaid interest automatically converts to the Company's common stock at an amount equal to 80% of the average bid price of the Company's common stock on the Over-The-Counter Bulletin Board for a period equal to ten (10) days prior to conversion on the maturity date of June 15, 2007. The full principal amount of the Serial Notes is due upon a default under the terms of the Note Agreement. In addition, the Company granted the Investors a security interest in all of its assets (see Note B). The Company agreed to file a registration statement with the SEC to effect the registration of the shares of its common stock underlying the Serial Notes and the warrants within 30 days of the effective date of the Company's pending Registration Statement (SEC File 333 - 122848) being declared effective. The Company also agreed to use its reasonable best efforts to cause the registration statement to be declared effective no later than 180 days after its filing. In the event of a default on the Serial Notes, the Serial Notes will bear interest at twelve percent (12%) per annum until paid.

The warrants are exercisable until four years from June 15, 2007 until June 15, 2011 at a price of \$0.50 per share. The Company has the right, but not the obligation, to call these warrants for \$0.001 per share at the earlier of (i) one year from issuance and (ii) the date that shares of common stock issuable upon conversion of the Serial Notes and exercise of the warrants are registered for resale and the Company's common stock trades at and above \$1.00 per share for twenty (20) consecutive trading days. The Notes include certain features that are considered embedded derivative financial instruments, such as a variety of conversion options, a variable interest rate feature, events of default and a variable liquidated damages clause.

The initial relative fair value assigned to the embedded derivatives was \$175,321.

In conjunction with the Notes, the Company issued warrants to purchase 5,900,000 shares of common stock. The accounting treatment of the derivatives and warrants requires that the Company record the warrants at their fair values as of the

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

inception date of the debt issuance, which totaled \$929,840.

The Company recorded the fair value of the derivatives (\$175,321) and warrants (\$929,840) to debt discount, aggregating \$1,105,161, which will be amortized to interest expense over the term of the Notes. Amortization of \$36,800 was recorded for the nine months ended June 30, 2006.

The market price of the Company's common stock significantly impacts the extent to which the Company may be required or may be permitted to convert the Serial Notes into shares of the Company's common stock. The lower the market price of the Company's common stock at the due date of September 7, 2007, the more shares the Company will need to issue to convert the principal and interest payments then due on the Notes.

### \$ 1,675,000 Convertible Notes

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

-28-

APPLIED DNA SCIENCES, INC.  
(A DEVELOPMENT STAGE COMPANY)  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION  
JUNE 30, 2006  
(Unaudited)

### NOTE C - PRIVATE PLACEMENT OF CONVERTIBLE NOTES (continued)

#### \$ 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.

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

The Company filed the registration statement on February 15, 2005 and the Convertible Notes were converted to an aggregate of 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

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

liquidated damages, which approximate \$ 51,275 per month, may be paid, at the Company's option, in cash or unregistered shares of the Company's common stock.

In accordance with Emerging Issues Task Force Issue 98-5, Accounting for Convertible Securities with a Beneficial Conversion Features or Contingently Adjustable Conversion Ratios ("EITF 98-5"), the Company recognized an imbedded beneficial conversion feature present in the Convertible Notes. The Company allocated a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital. The Company recognized and measured an aggregate of \$1,465,000 of the proceeds, which is equal to the intrinsic value of the imbedded beneficial conversion feature, to additional paid-in capital and a discount against the Convertible Notes. Since the Convertible Notes were converted to the Company's common stock in December 2004, the debt discount attributed to the beneficial conversion feature of \$ 1,465,000 was charged to interest expense in its entirety during the six months ended March 31, 2005.

In conjunction with raising capital through the issuance of Convertible Notes, the Company has issued a warrant in February, 2005 that has registration rights for the underlying shares. As the contract must be settled by the delivery of registered shares and the delivery of the registered shares is not controlled by the Company, pursuant to EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock", the net value of the warrants at the date of issuance was recorded as a warrant liability on the balance sheet \$23,148,214 and charged to operations as interest expense. Upon the registration statement being declared effective, the fair value of the warrant on that date will be reclassified to equity. The Company initially valued the warrants using the Black-Scholes pricing model with the following assumptions: (1) dividend yield of 0%; (2) expected volatility of 152.59%, (3) risk-free interest rate of 3.67%, and (4) expected life of 5 years. In connection with the placement of the \$1,465,000 of convertible notes as described above, the Company agreed to registered shares of the Company's common stock underlying certain previously issued and outstanding warrants that were not subject to a registration rights agreement at the time the warrants were issued. These warrants consist of following:

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

As a result, the Company is required to classify the warrants as derivative liabilities and mark them to market at each reporting date. The fair value of the warrants that were subject to registration reclassified as liabilities from additional paid in capital at March 31, 2005 totaled \$3,108,851. Upon the registration statement being declared effective, the fair value of the warrants on that date will be reclassified to equity. The Company initially valued the warrants using the Black-Scholes pricing model with the following assumptions: (1) dividend yield of 0%; (2) expected volatility of 148.66%, (3) risk-free interest rate of 3.21%, and (4) expected life of 3 years.

-29-

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

JUNE 30, 2006

(Unaudited)

### NOTE C - PRIVATE PLACEMENT OF CONVERTIBLE NOTES (continued)

#### \$ 7,371,000 Convertible Notes

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

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

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

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

In accordance with Emerging Issues Task Force Issue 98-5, Accounting for Convertible Securities with a Beneficial Conversion Features or Contingently Adjustable Conversion Ratios ("EITF 98-5"), the Company recognized an imbedded beneficial conversion feature present in the Convertible Notes. The Company allocated a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital. The Company recognized and measured an aggregate of \$ 7,731,000 of the proceeds, which is equal to the intrinsic value of the imbedded beneficial conversion feature, to additional paid-in capital and a discount against the Convertible Notes. Since the Convertible Notes were converted to the Company's common stock in February, 2005, 2005, the debt discount attributed to the beneficial conversion feature of \$ 7,371,000 was charged to interest expense in its entirety during the six months ended March 31, 2005.

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

### NOTE D - CAPITAL STOCK

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

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.

-30-

APPLIED DNA SCIENCES, INC.  
(A DEVELOPMENT STAGE COMPANY)  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION  
JUNE 30, 2006  
(Unaudited)

NOTE D - CAPITAL STOCK (continued)

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

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

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

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

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