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

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

Amendment No. 1 to
FORM 10-KSB

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended September 30, 2005

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

For the Transition Period From _____ to _____

Commission File Number 002-90539

APPLIED DNA SCIENCES, INC.
(Exact name of small business issuer 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	(631) 444-6862
(Address of principal executive office)	(Postal Code)	(Issuer's telephone number)

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act: None

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 [X] No [_]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No [X]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [ ]

State issuer's revenues for its most recent fiscal year. None

State the aggregate market value of the voting stock held by non-affiliates computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within the past 60 days. $29,662,093.50 as of December 5, 2005.

Number of outstanding shares of the registrant's par value $0.001 common stock as of December 5, 2005: 112,380,392

APPLIED DNA SCIENCES, INC.
AMENDMENT NO. 1 ON FORM 10-KSB/A
For the Fiscal Year Ended September 30, 2005

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-KSB/A ("Amendment No. 1") amends the Annual Report of Applied DNA Sciences, Inc. (the "Company") on Form 10-KSB for the fiscal year ended September 30, 2005, as filed with the Securities and Exchange Commission on January 12, 2006 (the "Original Filing"). This Amendment No. 1 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. In addition the Company is correcting certain errors in accounting for the exchange of its common stock for previously incurred debt with a Company Director.

We have not updated the information contained herein for events occurring subsequent to January 12, 2006, the filing date of the Original Filing.

PART I

Forward-looking Information

This Annual Report on Form 10-KSB/A (including the section regarding Management's Discussion and Analysis of Financial Condition and Results of Operations) contains forward-looking statements regarding our business, financial condition, results of operations and prospects. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and similar expressions or variations of such words are intended to identify forward-looking statements, but are not deemed to represent an all-inclusive means of identifying forward-looking statements as denoted in this Annual Report on Form 10-KSB/A. Additionally, statements concerning future matters are forward-looking statements.

Although forward-looking statements in this Annual Report on Form 10-KSB reflect the good faith judgment of our management, such statements can only be based on facts and factors currently known by us. Consequently, forward-looking statements are inherently subject to risks and uncertainties and actual results and outcomes may differ materially from the results and outcomes discussed in or anticipated by the forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include, without limitation, those specifically addressed under the heading "Risks Related to Our Business" below, as well as those discussed elsewhere in this Annual Report on Form 10-KSB. Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this Annual Report on Form 10-KSB. We file reports with the Securities and Exchange Commission ("SEC"). We make available on our website under "Investor Relations/SEC Filings," free of charge, our annual reports on Form 10-KSB, quarterly reports on Form 10-QSB, current reports on Form 8-K and amendments to those reports as soon as reasonably practicable after we electronically file such materials with or furnish them to the SEC. Our website address is www.adnas.com. You can also read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC 20549. You can obtain additional information about the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site (www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including us.

We undertake no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of this Annual Report on Form 10-KSB. Readers are urged to carefully review and consider the various disclosures made throughout the entirety of this Annual Report, which attempt to advise interested parties of the risks and factors that may affect our business, financial condition, results of operations and prospects.

Item 1. Description of Business.

Corporate History

We are a Nevada corporation, which was initially formed under the laws of the state of Florida as Datalink Systems, Inc. in 1983. We changed names and then redomesticated to Nevada in 1998, and in 1999, became ProHealth Medical Technologies, Inc. In November of 2002, we changed our corporation name to Applied DNA Sciences, Inc. in connection with a reverse merger. As a result of the reverse merger, we changed our business to that of our acquirer, which involves researching, developing and selling security and anti-counterfeiting products that utilize plant DNA for verification purposes. During this time, most of our efforts were focused on research and development and the execution of an exclusive license, as described further herein.

OVERVIEW

Every living organism has a unique genetic composition (DNA code or DNA sequence) that determines the character and composition of its cells. Genetic specificity is determined by the sequence of nucleotides in the organism's DNA. Our technical platform involves isolation of botanical genes that are fragmented and then reconstituted to form unique "chimers" whose sequences are known only to us. These chimers are stabilized for use for hundreds of years by a unique encapsulation system that is compatible with a broad universe of chemistries. This adaptability allows us to embed our unique DNA primers in petroleum and petroleum derivatives, inks, dyes, laminates, glues, threads, textiles and other materials. Once embedded in a product, we offer proprietary methods to free the unique chimers from encapsulation and embedment, whereupon the chimers are detected by our

complimentary primers using methods well established in molecular biology. Detection of the chimeric sequence unique to a particular item allows us to authenticate its origination

We provide a platform of proprietary, embedded DNA products that protect consumers, corporations and governments from counterfeiting, fraud, piracy, product diversion and unauthorized intrusion. Our technologies are protected by a broad array of intellectual property. We offer a cost effective method to detect, deter, interdict and prosecute counterfeiting enterprises.. This technology can also be used to authenticate microchips and circuit boards that contain them. The DNA AC (anti-counterfeit) biochip is a product in which DNA is embedded into a microchip. When biochips are embedded into circuitry, the biological data can be read electronically and the component can be authenticated. The biochip acts like a gatekeeper to guard the access to the device; only once an authorized user is verified, can the device be accessed. Without authentication, the device will not operate.

Sectors of commerce that could benefit from our products include: corporations, federal government agencies, information technology, security and surveillance, entertainment media, the arts, cosmetics, pharmaceutical and biometrics, as well as vertical retail markets. Our applications can also enhance capabilities of product origination, identification verification, and validation of the source of components for critical manufacturing, defense, medical and other highly-integrity or secure products.

Our mission is to become the recognized standard in providing total security

solutions to protect consumers, corporate and intellectual property from counterfeiting and fraud. We intend to deliver our products to a global market by selling directly to manufacturers, and via strategic business development agreements with recognized leaders in the security industry and through collaborations with leading security consultancy companies.

We believe that we have a very seasoned and experienced management team. Our combined executive team has extensive professional experience in the areas of anti-counterfeiting technology, microchip development, printing, marketing, IP development and exploitation, and cross-corporate -license development. Dr. Hayward is a molecular biologist and has spent 20 years commercializing biotechnologies and has successfully developed several companies. Dr. Sheu is trained as a molecular biologist and has more than 10 years of experience in developing and commercializing DNA related applications, including DNA security and DNA vaccines. He has been a consultant for many well-known biotechnology companies and he is the founder of Biowell Technology Inc. Dr. Liang is the chief scientist involved in developing DNA security-related applications. He was also a founding member of Biowell.

AGREEMENT WITH HOLOGRAMMAS S.A. DE C.V. (HOLOMEX)

On November 10, 2004, we entered into a joint product development and marketing agreement with Holomex, pursuant to which we agreed to work together to jointly develop products utilizing Holomex's holographic packaging and label products and our DNA security products. All products developed will be jointly owned by the companies. All costs, expenses and revenues will be divided between the parties as established on a product-by-product basis. The agreement remains in full force and effect until such time as patents for jointly developed products and their extensions expire and/or as long as both parties continue to produce and market the products, whichever is longer. Either party may terminate the agreement upon 120 days written notice, during which time the non-terminating party has the right to purchase from the terminating part all rights to the products and intellectual property jointly owned.

COOPERATIVE RESEARCH AND DEVELOPMENT AGREEMENT (CRADA) WITH THE DEPARTMENT OF ENERGY

On September 2, 2004, we entered into a CRADA with Bechtel BWXT Idaho, LLC, a national laboratory contractor with the Department of Energy. As allowed pursuant to the CRADA, we received notice from the DOE that they have decided to terminate the CRADA, effective January 23, 2006. The DOE laboratories have provided third party detection and authentication of items which had been tagged with embedded DNA sequences by us.

Sub-licensing Agreement

In July of 2003, we, Biowell and G. A. Corporate Finance Ltd. entered into a Sub-License Agreement for the United Kingdom in exchange for $3,000,000. G. A. Corporate Finance Ltd. paid $25,000 upon its execution of the

Agreement, and the remaining $2,975,000 is subject to an interest bearing promissory note, payable in twenty (20) consecutive quarterly installments of Principal and Interest in the amount equal to the lower of $185,937.50 or 35% of gross revenues for that quarter due on the final day of the quarter.

The minimum guarantees that G. A. Corporate Finance, LLC must meet each year

of the license agreement to retain the exclusive license for the technologies are as follows:

Year	Minimum Guarantee
1st year	$ 50,000 gross purchase orders
2nd year	$ 150,000 gross purchase orders
3rd year	$ 300,000 gross purchase orders
4th year	$ 360,000 gross purchase orders
5th year	$ 432,000 gross purchase orders

Due to the lack of marketable products since execution of this agreement, we suspended the payment under the note and the minimum guarantees owed to us. We are currently in negotiations with this sub-licensee to either amend or terminate this agreement.

As with our Exclusive License Agreement with Biowell, our UK Sub-Licensee will have the opportunity to apply for new product licenses, which can remain exclusive in its territory for the first eighteen months.

Recent Developments

On July 15, 2005, we closed upon the stock purchase agreement with Biowell Technology Inc., a Taiwan corporation that was executed on January 28, 2005. Pursuant to the agreement, through our wholly-owned subsidiary, APDN (B.V.I.) Inc., a British Virgin Islands company, we acquired all of the issued and outstanding shares of Rixflex Holdings Limited, a British Virgin Islands company. Pursuant to an asset purchase agreement, Biowell Technology, Inc. transferred all of its intellectual property to Rixflex prior to our acquisition of Rixflex. In exchange for all of the issued and outstanding shares of Rixflex, we issued to the shareholders of Rixflex 36 million shares of our common stock.

The intellectual property governs the use of plant-derived, but biosynthetically modified DNA sequences to identify original commercial and consumer products, private and government documents, artwork and other items. The intellectual property uses synthetically created DNA fragments that have unique characteristics and one-of-a-kind sequences. Our proprietary DNA-embedded biotechnology solutions protect these items from counterfeiting, fraud, piracy, product diversion and unauthorized intrusions. Our technologies are applicable to a large percentage of global trade. The technologies offer a cost effective method to detect, deter, interdict and prosecute global counterfeiting organizations. Our platform may be integrated with pre-existing alternative anti-counterfeit technologies, such as inks, thread, labels, microchips, glues, paints and holograms. The intellectual property defines methods that tag and authenticate the DNA fragments to ensure that the product has not been tampered with or counterfeited.

In connection with the closing with Biowell, we terminated the license agreement that we had previously entered into with Biowell in October 2002, under which we had the exclusive right to sell, market, and sub-license Biowell's technology within the United States, the European Union, Canada, Mexico, Colombia, Saudi Arabia and the United Arab Emirates.

In connection with the closing with Biowell, we entered into a license agreement with Biowell, whereby we granted Biowell an exclusive license to sell, market, and sub-license our products in selected Asian countries. The exclusive license for such selected territories is for an initial period of until December 31, 2010, and if Biowell meets its performance goals, the license agreement will extend for an additional five year term. The license agreement gives Biowell the

initial rights to future anti-fraud biotechnologies we develop and also new applications for the existing technology that may be developed for the marketplace as long as the license agreement remains in effect. In the event that Biowell shall sub-license the products within its territories, Biowell shall pay us 50% of all fees, payments or consideration or any kind received in connection with the grant of the sublicense. Biowell is required to pay a royalty of 10% on all net sales made and is required to meet certain minimum annual net sales in its various territories. The territories and minimum net sales are as follows:

Country	Minimum Annual Net Sales (Us Dollars)				
	Year 1	Year 2	Year 3	Year 4	Year 5
AUSTRALIA	200,000	250,000	500,000	750,000	1,000,000
AFGHANISTAN	ZERO	25,000	50,000	100,000	100,000
BANGLADESH	ZERO	25,000	50,000	100,000	100,000
BHUTAN	ZERO	25,000	50,000	100,000	100,000
BRUNEI	ZERO	100,000	250,000	400,000	500,000
CAMBODIA	ZERO	100,000	250,000	400,000	500,000
CHINA	1,000,000	2,000,000	4,000,000	6,000,000	8,000,000
INDIA	500,000	1,000,000	2,000,000	3,000,000	4,000,000
INDONESIA	500,000	1,000,000	2,000,000	3,000,000	4,000,000
JAPAN	500,000	1,000,000	2,000,000	3,000,000	4,000,000
SOUTH KOREA	250,000	500,000	1,000,000	2,000,000	4,000,000
LAOS	ZERO	100,000	250,000	400,000	500,000
MALAYSIA	ZERO	250,000	500,000	1,000,000	2,000,000
MYANMAR	ZERO	25,000	50,000	100,000	100,000
PAKISTAN	ZERO	100,000	250,000	400,000	500,000
PHILIPPINES	100,000	250,000	500,000	750,000	1,000,000
SINGAPORE	ZERO	100,000	250,000	400,000	500,000
SRI LANKA	ZERO	25,000	50,000	100,000	100,000
TAIWAN	250,000	500,000	1,000,000	2,000,000	4,000,000

THAILAND	250,000	500,000	1,000,000	2,000,000	4,000,000
VIETNAM	250,000	500,000	1,000,000	2,000,000	4,000,000
UAE	ZERO	25,000	50,000	100,000	100,000
BAHRAIN	ZERO	25,000	50,000	100,000	100,000
CYPRUS	ZERO	25,000	50,000	100,000	100,000
IRAN	ZERO	25,000	50,000	100,000	100,000
IRAQ	ZERO	25,000	50,000	100,000	100,000
JORDAN	ZERO	100,000	250,000	500,000	750,000
KUWAIT	ZERO	100,000	250,000	500,000	750,000
LEBANON	ZERO	25,000	50,000	100,000	100,000
OMAN	ZERO	100,000	250,000	500,000	750,000
QATAR	ZERO	100,000	250,000	500,000	750,000
SAUDI ARABIA	ZERO	500,000	1,000,000	2,000,000	4,000,000
SYRIA	ZERO	100,000	250,000	500,000	750,000
YEMEN	ZERO	100,000	250,000	500,000	750,000
TOTAL	3,800,000	9,625,000	19,800,000	33,600,000	52,100,000

We have subsequently amended the license agreement to state that any country that has been identified by the U.S. State Department as state sponsors of terrorism or are subject to economic sanctions administered by the U.S. Treasury Department's Office of Foreign Assets Control will not be a territory under the license agreement until such time as that country has been removed from such list of state sponsors of terrorism and are not subject to economic sanctions by the U.S. Treasury Department's Office of Foreign Assets Control. As Syria and Iran are currently recognized by the U.S. State Department as state sponsors of terrorism and are subject to economic sanctions administered by the U.S. Treasury Department's Office of Foreign Assets Control, the sections of the license agreement concerning those countries shall be suspended until such time as those countries have been removed from the list of the U.S. State Department as state sponsors of terrorism and are no longer subject to economic sanctions administered by the U.S. Treasury Department's Office of Foreign Assets Control.

In addition, we entered into a consulting agreement with Timpix International Limited for the consulting services of three former Biowell employees, Drs. Jun-Jei Sheu, Ben Liang and Johnson Chen. The consulting agreement is for the shorter of two years, or until all of the consultants have obtained a visa to work in the United States and execute employment agreements with us. Such

consulting agreement shall automatically renew for one year periods until terminated. Pursuant to the consulting agreement, we shall pay $47,000 per month, which is apportioned at $20,000 per month for Mr. Sheu, $15,000 per month for Mr. Liang and $12,000 per month for Mr. Chen. In the event that either of Messrs. Sheu, Liang or Chen becomes employed by us, the monthly consulting fee shall be reduced accordingly. We have negotiated an agreement in principle to restructure the Consulting Agreement, whereby, fees owed to Timplex from July 2005 through December 2005 will be waived, and salaries for each of the three consultants will be reduced starting January 1, 2006.

Our Products

With our acquired proprietary DNA technologies from Biowell, we will be working to provide complete DNA anti-counterfeit and fraud prevention solutions. We will offer comprehensive and price-competitive products and solutions. The key characteristics of the DNA biotechnology are as follows:

Unique and Impossible to Replicate DNA Codes -- specially processed DNA fragments, with unique characteristics and one-of-a-kind sequences, are used. The embedded DNA concentration is extremely small (3-5 ppm) and cannot be analyzed unless proprietary primers and reagents are used.

Easy to Customize -- We can tailor the DNA marker to meet the customer's product marking requirements to mark a product, a specific country or factory of origin and all associated Quality Assurance and shipping documents. The DNA codes can be generated based on one or more DNA sources and one or more anti-counterfeit technologies.

Easy and Quick to Use -- With the advanced DNA testing kits and detection devices, a fast read-out can be obtained for on-site verification. The authentication process can be performed quickly. Quantitative or Real-time PCR methods can produce authentication in less than 15 minutes using portable devices. We are working to condense this time course.

Low Cost and High Accuracy -- Only a minimal amount of DNA is needed to provide forensic accuracy and proof of authenticity. It is a cost effective and secure method for authentication and t prevention of counterfeiting.

Our technologies enable integration with other technologies that permit line-of-sight instant verification (via DNA holograms) and forensic verification in inks, threads, etc. We believe that these combined products will provide an effective and timesaving deterrent against counterfeiters and smugglers.

Broad Applications -- DNA anti-counterfeiting technology can be applied to almost any product on the market. The edible DNA ink is safe to consume and can be used on tablets or capsules ensuring against counterfeiting pharmaceuticals.

DNA Markers

Our first products available for sales directly by us are anti-counterfeiting products that have already been sold by Biowell to Asian customers and have been tested in the marketplace prior to our acquisition of Biowell. These products have included DNA-embedded teabag labels, liquor labels, food product labels and other DNA-ink-dependent products.

Our second product is a DNA-encrypted hologram. The product is embedded together

with additional security features and has been sold by Biowell for application to over 600 million CD's and DVD's as an anti-counterfeiting technology deployed by the Government of the People's Republic of China. As of June 2005, this product has been established by the Government of China as the new national standard for DNA-based encryption and authentication. Applied DNA Sciences has also developed a DNA-encrypted hologram together with Holomex.

Our third anti-counterfeiting product is a DNA Marker, embedded in a bonding agent for thread that can be used to authenticate textile products. The DNA Marker can be applied to the finished garment, bag, purse, shoe or domestic household product (linens, etc). As the DNA Marker can be applied to any fabric from cotton to wool, this will help textile vendors and governments determine the origin of thread, yarn and fabric through to the high-end garment and luxury fashion accessory manufacturers who suffer lost sales and product diversion at the hands of counterfeiters. DNA Marker protection will also help preserve jobs at the legitimate textile and clothing manufacturers as well as ensuring that the proper taxes are collected on textiles and garments from authorities. The DNA Marker will remain effective into the 22nd century and will be detectable throughout the different manufacturing stages without degrading. It can be detected in a variety of manners from inspection under UV light to laboratory forensic analysis that authenticates it to a certainty of 99.9999 percent. The efficacy of the DNA Marker was tested and verified by US Federal Government Laboratories in late 2005. We will continuously assess the anti-counterfeit needs of markets, companies and governmental organizations and will develop proprietary technologies, solutions and products for these opportunities

Inks

DNA anti-counterfeit ink has been developed as two major applications. The first ink is Biowell's unique anti-counterfeit ink (covert ink), which can be authenticated at a forensic-science level of certainty with detailed DNA analysis performed in a laboratory or on site using PCR methods.

The second application is an enhanced version of the first, integrating into the original anti-counterfeit ink an additional instant detection function for on-site authentication (overt ink).

This instant verification process has been designed to allow sampling at any point in the product supply chain. By swabbing a "Q-tip" embedded with a fluid containing a special activation buffer across the authentic DNA ink surface, a biochemical reaction occurs between the coating of the DNA molecules in the ink and the buffer fluid. This reaction manifests as a reversible color change, with the ink changing color from blue to pink, and back to blue within seconds. Testing can be repeated at various checkpoints throughout the product supply chain. This ink can be embedded into special tamper-proof labels or directly into packaging, lottery tickets, etc to enable simple on-the-spot verification. The DNA-labels represent a "first" in its ability to enable consumers to validate a product before purchase, ingestion, etc. The implications for the food, beverage, pharmaceutical and other industries are significant.

DNA ink can be applied to:

- o General Company Use: trade marks, patents, company logos, important documents
- o Financial industry: currency, stocks, checks, bills, bonds, checks
- o Retail: event tickets, VIP tickets, clothing labels
- o Medicines: capsule and pill surface printing
- o Inner package: foil blister packs
- o Outer package: boxes, bottles
- o Fine Art and Collectibles: paintings, artifacts, antiques, stamps, coins, documents,
- o collectibles and memorabilia

- Others: lottery tickets, inspection stamps, custom seals, passports, visas, etc.

Virtually any item that can be duplicated now can be protected with any of these DNA ink applications. The applications are cost-effective and can be adapted to any company's current branding, product tracking, or other anti-counterfeiting program.

Dna Labels

DNA anti-counterfeit ink can be applied to paper or woven garment labels. It can also be printed onto logos or on any other surface. Labels are printed with the proprietary ink containing the specific authentication DNA code for a manufacturer. The labels can then be easily tested for authenticity.

Knowledge that the labels are DNA-imprinted and can be quickly and easily verified serves as a deterrent to counterfeiters. We believe this in itself will create a demand for the proprietary DNA ink-impregnated label technology.

Dna Microchips

Computer and electronic signals constitute the basis for most corporate security systems. These systems are of similar function and design, and are susceptible to duplication, penetration and counterfeit. The polymorphism of DNA is significantly more complex than electronic signals, and better suited for security systems.

The DNA chip card is intended for both authentication of the card and identification of an individual. For that purpose, a specific DNA (group ID) is assigned to a set of DNA chip cards, along with an individual's identification information, which is recorded in the chip's memory. A reader module is configured to recognize (and therefore verify) only the chip carrying the correct group ID. Any DNA chip card with different group ID, or indeed any other chip card, will be rejected by the DNA chip card reader.

The DNA chip uses botanical DNA, which is artificially re-constructed. Each user group has the same DNA code. Individuals are differentiated in the system by identification codes stored in the chip's memory. In addition, the DNA chip can be configured for the customer to have a particular person's own DNA as the source DNA for that user group. The DNA chip generates unique signals and will not function properly once removed from the casing. The empty chip is not available anywhere else on the market, thus making it impossible to counterfeit. Once the imbedded DNA chip is sabotaged or removed the chip, it will cease functioning, thus preventing data on the chip from being duplicated.

The signal of a DNA chip is generated through an interaction between DNA and a specially devised mechanism known as a DNA chip reader. A real DNA chip will generate an analog signal upon receiving a signal from a card reader and send back an encoded signal to the reader after the chip is stimulated. An LCD display screen provides immediate authentication by reading the unique DNA signals embedded in the chip.

The DNA chip function is versatile, which allows it to be integrated into the form of slot reader, slide through reader, or contact point reader for instant authentication. Biowell has also developed a portable, lightweight, hand-held scanner that can be used to authenticate the DNA chips. The cost of the DNA chip, card, and reader system is comparable to existing smart card systems.

Above all, the reader can be linked externally with existing card readers to save replacement costs.

The DNA encrypted microchip won the prize for Best New Technology for Security Access at the Conference of the Security Industry Association held in Washington DC in late 2004, in competition against some of the world's largest corporations. Shortly thereafter, we were inducted into the InteGuard Alliance, a consortium of 29 major companies providing security services and security technology to the US Government. We believe that the DNA chip system is more secure than all other systems; since it cannot be copied or hacked, and works with specially configured readers.

The DNA biochip can be applied to many products. For example:

- Security ID cards
- Passports
- Licenses
- Credit and ATM cards
- Debit cards
- Consumer merchandise (CDs, VCDs, DVDs, notebook computers, PDAs, handbags, etc.)
- Other applications where authentication is required (antiques, paintings, security access, ignitions, etc.)

Intellectual Property

Key to our success is ongoing research and development. We have over 12 patents pending. While patents are an important asset, they are not the only instruments used to sequester a competitive position for us. We are developing numerous tools to maintain technical superiority, which includes licensing other component and complementary technologies that will keep pace with our speed to market efforts.

We regard our trade secrets and other intellectual property as an integral component of our success. We rely on patent law, trademark law, trade secret protection and confidentiality and/or license agreements with employees, customers, partners and others to protect our intellectual property. Effective patent, trademark and trade secret protection may not be available in every country in which our products are available. We cannot be certain that we have taken adequate steps to protect our intellectual property, especially in countries where the laws may not protect our rights as fully as in the United States. In addition, if our third-party confidentiality agreements are breached there may not be an adequate remedy available to us. If our trade secrets become publicly known, we may lose our competitive position.

Additionally, 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. 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.

Patent Name	Application No.	Filed by	Da
A Method of Utilizing Nucleic Acids as Markers for Product	089108443 00107580.2	Biowell (1)	Ma Ma
Anti-Counterfeit Labeling and Verification	09/832,048; published 20020187263-A1		Ap
EppenLocker (A Leakage-Prevention Apparatus of Microcentrifuge)	089204158	Biowell (1)	Ma
Multiple Tube Structure for Multiple in a Closed Container	089210575	Biowell (1)	Ju
Method for Processing Multi-PCR in Closed Vessel	89111477	Biowell (1)	Ju
Method for Mixing Nucleic Acid in Water Insoluble Media and Application Thereof	2002-294229 03007023.9 92121973	Biowell (1)	Au Ma Au
Method for Hiding Secret Message Carrying a DNA Molecule and a Method for Decoding the Secret Message Hiding by thereof	92121490 pending	Biowell (1)	Au Au
Method for Transferring Giveback Funds by Recognizing Plurality of Objects	92119302 03150071.4	Biowell (1)	Ju Ju
Anti-Counterfeit Chip Recognizing Device	None	Biowell (1)	To
A System and Method for Marking Textiles Using DNA	60/463215	Biowell (1) Applied DNA Sciences	Ap
A System and Method for Marking Textiles Using Nucleic Acids	2004/012031	Applied DNA Sciences	Ap

System and Method for Authenticating Clients on a Local Area Network Using Nucleic Acids	10/825968	Applied DNA Sciences	Ja

(1) All patent applications filed by Biowell have either been assigned to us or are in the process of being assigned to us.

CUSTOMERS

We do not currently have any revenue-generating customers at this point. Our targeted client base includes major corporations, government entities and educational institutions. We will provide DNA chip technology, DNA ink technology as well as DNA profiling/tagging technology through various types of resale agreements. We will apply these technologies to labels and security ink, to a chip and reader as well as textile markers and agriculture profiling.

Competition

The anti-counterfeit and fraud prevention market is highly competitive and diverse. Since we believe that other forms of anti-counterfeiting and security measures can be easily defeated, we expect that utilizing DNA, which cannot be replicated, will garner great demand from the market. Some examples of biotechnology and other security technologies include:

FINGERPRINT- a systems scans fingerprints before granting access to computer files.

VOICE- Off-the-shelf software authenticates users based on individual vocal patterns.

CORNEA- Scanners that scan the iris of a user's eye to match compared to a computer database.

FACIAL SCAN- Computers can use complex algorithms to distinguish one face from another.

IC CHIP & MAGNETIC STRIP- Integrated circuit chip that runs an electric current through a circuit and is verified by a IC card. Is used in many parts of Europe and Asia.

HOLOGRAPH- Optical security elements ('holograms') constitute a family of optically variable microstructures, which are difficult to copy. Most of them are difficult to reproduce using advanced color photocopiers and printing techniques. This is why they are so widely used as anti-counterfeit devices. Holograms are only one member of a family of optically variable devices which all have several features in common. These are:

- Highly visible to the naked eye under good or reasonable conditions of illumination.
- Colorful and change their colors with viewing angle.
- They derive their colorful effects from microstructures within the devices, which cause interference or diffraction of the light falling upon them.

FLUORESCENCE- X-ray Fluorescence (XRF) and elemental taggant technologies were developed as a unique method for assaying uranium ore. Later on was used as a handheld alloy grade identification and spectral analysis instrument. Its use is limited to label/printing applications.

RADIOACTIVITY& RARE MOLECULES- a method of Radiation detection is very effective but limited to use on crude oil.

Some of the bigger competitors in the field of anti-counterfeiting and fraud protection include:

- o DNA Technologies, Inc.
- o Art Guard International
- o Theft Protection Systems
- o Cypher Science (United Kingdom) Mt. Sinai Hospital
- o ChemTAG (Norway)
- o NTT DATA Labs (Japan)
- o November AG.

EMPLOYEES

As of January 1, 2006, we employ 5 full-time employees, of which two are in management and three are sales & marketing executives. We expect to add approximately 10 scientists and technical staff in R&D and product

development in the first half of 2006. Our recent restructuring of management and staff has resulted in terminations and relocations of certain employees. We are negotiating the final elements of our restructuring in early 2006. These actions may cause short-term acrimony with our employees, but we believe that our relations with our current employees are good.

Item 2. Description of Property.

Presently, we maintain our principal office at 25 Health Sciences Drive, Suite 113, Stony Brook, New York 11790. We signed a lease for our office and laboratory space located in the Long Island High Technology Incubator facility located within the campus of the State University of New York in Stony Brook in November 2005. The laboratory and office space is provided to us for $50,000 per year. We believe that our current office space and facilities are sufficient to meet our present needs and do not anticipate any difficulty securing alternative or additional space, as needed, on terms acceptable to us. We maintain a website at www.adnas.com.

Item 3. Legal Proceedings.

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

STERN & CO. V. APPLIED DNA SCIENCES, INC., CASE NO.: 05 CV 00202

Plaintiff Stern & Co. commenced this action against us in the United States District Court for the Southern District of New York on or about January 10, 2005. In this action, Stern & Co. alleges that it entered into a contract with us to perform media and investor relations for a monthly fee of $5,000 and stock options. Stern & Co. claims that we failed to make certain payments pursuant to the contract and seeks damages in the amount of $96,042.00. We answered the complaint on May 12, 2005, denying Stern & Co.'s allegations and we asserted a number of defenses. This action is in the early stages of discovery and we intend to vigorously defend this matter.

OCEANIC CONSULTING, S.A. V. APPLIED DNA SCIENCES, INC., INDEX NO.: 603974/04

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

CRYSTAL RESEARCH ASSOCIATES, LLC V. APPLIED DNA SCIENCES, INC., DOCKET NO.: L-7947-04

On April 29, 2005, Crystal Research Associates, LLC obtained a default judgment against us for $13,000 in the Superior Court of New Jersey, Middlesex County. We intend to move to vacate the default judgment on various grounds. We dispute the allegations of the complaint and we intend to vigorously defend this matter.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

Part II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

Market Information

Our Common Stock is traded over-the-counter on the Over the Counter Bulletin Board maintained by the National Association of Securities Dealers under the symbol "APDN". There is no certainty assurance that the Common Stock will continue to be quoted or that any liquidity exists for our shareholders.

The following table sets forth the quarterly quotes of high and low prices for our Common Stock on the OTC Bulletin Board during the fiscal years September 30, 2004 and September 30, 2005. In February of 2003, we changed our year end to September 30. We changed our fiscal year end in connection with a reverse merger we entered into in December 2002, in which the acquirer for accounting purposes

had a fiscal year end of September 30. For ease of fiscal reporting, we adopted the same fiscal year end.

	Fiscal 2005		Fiscal 2004	
	High	Low	High	Low
First Quarter	$2.39	$0.42	$3.54	$2.45
Second Quarter	$1.83	$0.78	$3.55	$1.51
Third Quarter	$1.01	$0.58	$2.55	$0.71
Fourth Quarter	$0.74	$0.48	$0.96	$0.43

Holders

As of December 5, 2005, we had approximately 1,285 holders of our common stock. The number of record holders was determined from the records of our transfer agent and does not include beneficial owners of common stock whose shares are held in the names of various security brokers, dealers, and registered clearing agencies. The transfer agent of our common stock is American Stock Transfer & Trust Company, 6201 15th Avenue, Brooklyn, New York 11219.

Dividends

We have never declared or paid any cash dividends on our common stock. We do not anticipate paying any cash dividends to stockholders in the foreseeable future. In addition, any future determination to pay cash dividends will be at the discretion of the Board of Directors and will be dependent upon our financial condition, results of operations, capital requirements, and such other factors as the Board of Directors deem relevant.

Recent Sale of Unregistered Securities

None.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

The following information should be read in conjunction with the consolidated financial statements and the notes thereto contained elsewhere in this report. The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. Information in this Item 6, "Management's Discussion and Analysis or Plan of Operation," and elsewhere in this 10-KSB that does not consist of historical facts, are "forward-looking statements." Statements accompanied or qualified by, or containing words such as "may," "will," "should," "believes," "expects," "intends," "plans," "projects," "estimates," "predicts," "potential," "outlook," "forecast," "anticipates," "presume," and "assume" constitute forward-looking statements, and as such, are not a guarantee of future performance. The statements involve factors, risks and uncertainties including those discussed in the "Risk Factors" section contained elsewhere in this report, the impact or occurrence of which can cause actual results to differ materially from the expected results described in such statements. Risks and uncertainties can include, among others, fluctuations in general business cycles and changing economic conditions; changing product demand and

industry capacity; increased competition and pricing pressures; advances in technology that can reduce the demand for the Company's products, as well as other factors, many or all of which may be beyond the Company's control. Consequently, investors should not place undue reliance on forward-looking statements as predictive of future results. The Company disclaims any obligation to update the forward-looking statements in this report.

Plan of Operations

Sales and Marketing

Our revenues will come from three sources:

1) direct sales to manufacturer,
2) sales through our OEM relationships, and,
3) authentication (laboratory) services.

We employ a multi-tier sales and marketing strategy involving our marketing and sales staff working together with high-level contacts in target industries and our OEM base. We are attempting to develop strategic alliances and marketing partners by setting up alliances with Biowell's technology partners, granting licenses to existing anti-counterfeit suppliers and partner with industry leaders for intellectual property development.

We are cognizant that no technology exists today to enable someone in the street to ascertain, at the point of purchase, whether an expensive product, or a child's foodstuff, or pharmaceutical product is genuine, worth the money being paid and safe to use or ingest. No brand owner is able to rapidly determine whether a product is real of fake. Many multi-billion dollar brands have no technology to protect against counterfeiting, to detect its occurrence and to interdict or prosecute the counterfeiter. No company has the capability to determine with forensic certainty that it is subject to attack. Such companies remain seriously exposed to product liability, loss of consumer confidence and loss of revenues. Governments have no rapid detection system to determine at the point of entry, inspection or seizure whether products are real or fake. A major thrust of our marketing efforts is to work with consumer groups, media, corporate officers, government departments, Customs, insurers and others to bring home the message that, in a world of criminality and terrorism, no-one is safe.

Business Strategy and Approach

We have established integrated business operations addressing and servicing the needs of the global security marketplace on the part of corporations and governments for; anti-counterfeiting, fraud prevention, product authentication, brand protection, supply chain management and protection.

INTELLECTUAL PROPERTY DEVELOPMENT, PRODUCT OPERATIONS & PARTNERSHIPS

We have proprietary DNA security technology, and develop security solutions that protect corporate and intellectual property from counterfeiting, fraud, piracy and product diversion using botanical DNA as an encrypted/code molecule that can be embedded in inks, paper, substrates, liquids, textiles, thread, plastics, holograms and microchips.

We produce security solutions customized to our customer's needs. We market and sell DNA anti-counterfeit and fraud prevention solutions that integrate into, and layer with, existing security solutions. These DNA security features are

integrated at the original equipment manufacturer level with ink, paper, liquids, thread and hologram producers, who in turn sell/supply finished security products such as primary and secondary product packaging for pharmaceuticals, beauty products, textiles, currency, passports, ID cards, etc. We have strict protocols for specifying, integrating, testing, shipping and confirming the presence of DNA in any given product.

We plan to develop new product lines that will address specific new challenges in the security marketplace, and bring these advances to target industries, customers and countries.

Additionally, we will identify strategic partnerships and co-marketing ventures, and licensees to work with us to develop, market and sell our biotechnological security products. This will include sub-licensing the technology to key partners in specific sectors with an established base of customers. These partners will be able to enhance their

product lines and client services by adding our technology to the existing security matrix in their products, providing an enhanced solution to deter fraud and counterfeiting.

Management Strategy

We anticipate a period of rapid change as we begin commercialization of the products now available subsequent to: a) the signing of our licenses with Biowell, b) the establishment of our prototyping labs at Stony Brook, and c) the availability of products that have recently been commercialized in Asia by Biowell.

We have organized our resources to manage our commercialization effectively, optimizing the delivery of new prototypes for customers, and managing outsourcing especially through our OEMs. Our Chief Executive Officer is responsible for the strategic direction, coordinating with our overseas technology partner Biowell and scientific development as well as corporate governance and operations. Our President is responsible for business development, including relations with US and foreign government agencies, developing business relationships with target corporations and OEM's, and securing revenues. Our Chief Financial Officer covers overall financial management, financial reporting, corporate administration, investors relations. Our marketing department develops strategic awareness of our technologies across target industry sectors, their associated media and lobbying companies and liaises with regulatory bodies (EPA, FDA, etc) and industry Associations (CTFA, PHARMA, etc). Our sales department covers specific industries, such as the pharmaceutical, packaging, ink, cosmetic and comestible sectors and acts as our media spokesperson, clarifying for the pharmaceutical and nutraceutical industries, allied health professionals and consumers the advantages of our anti-counterfeit, diversion and piracy applications and products. Our Chairman oversees the Biowell and Stony Brook DNA production Laboratories and the development of core DNA sciences for current and future applications. Our Strategic Technology Development Officer is principally engaged in the productization of DNA markers for specific industry applications, and for liaison with corresponding scientists from our principal OEM partners, e.g., petroleum markers, chemical markers, markers for precious stones, DNA-encrypted inks, DNA markers for the pharmaceutical industry, etc.

CONSULTANT & ENFORCEMENT OPERATIONS

As nations are threatened by terrorism and corporations try to prevent corporate fraud, counterfeiting, product diversion and industrial espionage, the need for secure anti-counterfeiting and identification systems increases. Our technology can provide important and cost-effective support for local, state, and federal governments as well as corporations doing business with highly sensitive information or products susceptible to counterfeit. Our anti-counterfeiting technology can be used for the following types of identification and important government documents:

- Passports
- Green cards
- Visas
- Driver's licenses
- Social Security cards
- Student visas
- Military ID's
- Other important Identity cards and official documents

We intend to work in collaboration with Biowell and other security organizations in order to continue to research and develop new product lines derived from, but not limited to, DNA technology. Research and development of new product lines is an ongoing commitment and is currently underway in the Biowell labs and will continue in the U.S. at our new facilities being established at the Long Island High Technology Incubator (LIHTI) at Stony Brook University in New York. Research and development objectives include the development of a new line of detection technologies that will provide faster and more convenient ways to authenticate DNA, continuous effort to incorporate our DNA markers with various products for new applications, and establishment of a leading DNA authentication service lab. We believe that we will obtain commercial revenues for these efforts within 12-24 months, although no assurances can be given that we will ever generate revenues. Our prototyping laboratory will customize "off-the-shelf" products for new customers on a case-by-case basis. These new products are typically newly configured labels, inks or packing elements. We have identified several options for remote detection and faster detection methodologies.

We will consult with our clients on a total security service offering; how to protect their brands, intellectual property, products and physical security access and how to reduce risk exposure, product liability exposure and product recall liabilities. We plan to offer worldwide DNA analysis services supporting the authentication of products and the detection, interdiction, deterrence and prosecution of counterfeiters and related crimes, through our subcontractors, sub-licensees and security industry collaborative partners.

International Sub-license Operations

Developing Technology - We have an in-depth understanding of DNA microchip design and applications. We will jointly develop DNA-holograms and DNA-Hologram-RFID devices, DNA-inks, DNA-dyes and DNA-security labels with leading original equipment manufacturers in these specialist fields.

We will utilize our existing relationships and develop new ones to introduce our anti-counterfeiting technology to generate business. Each industry has unique requirements and needs for their anti-counterfeit solutions, and we believe our DNA technology will provide maximum security technologies. For example, our

smart packaging solutions with DNA security markers in ink, paper and holograms has widespread application in packaging for pharmaceuticals, cosmetics, automotive markets, passports, ID's and currency. Our proprietary technology offers immediate and affordable detection and security for their brands and products.

Strong Technology Alliances - Our technology can also provide advanced security dimensions to:

- Electronics security: access and physical/plant security (biometric security cards enhanced with DNA)
- Security Holograms (DNA enhanced)
- Radio Frequency Identification systems (DNA + RFID)
- Security papers and printing
- Holograms (DNA holograms)
- Other security-related products and systems

Law Enforcement Expertise - The resources of our collaborative partners in the security industry include former federal law enforcement, security, and intelligence officers who provide the company with extensive contacts and hands-on experience in:

- Intellectual property investigation
- Counter-intelligence
- Personal security services
- Anti-counterfeit technologies
- Secure communications and data management

Critical Accounting Policies

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and judgments that affect our reported assets, liabilities, revenues, and expenses, and the disclosure of contingent assets and liabilities. We base our estimates and judgments on historical experience and on various other assumptions we believe to be reasonable under the circumstances. Future events, however, may differ markedly from our current expectations and assumptions. While there are a number of significant accounting policies affecting our consolidated financial statements; we believe the following critical accounting policies involve the most complex, difficult and subjective estimates and judgments:

- stock-based compensation
- fair value of intangible assets

Stock-based Compensation

In December 2002, the FASB issued SFAS No. 148 - Accounting for Stock-Based Compensation - Transition and Disclosure. This statement amends SFAS No. 123 - Accounting for Stock-Based Compensation, providing alternative methods of voluntarily transitioning to the fair market value based method of accounting

for stock based employee compensation. FAS 148 also requires disclosure of the method used to account for stock-based employee compensation and the effect of the method in both the annual and interim financial statements. The provisions of this statement related to transition methods are effective for fiscal years

ending after December 15, 2002, while provisions related to disclosure requirements are effective in financial reports for interim periods beginning after December 31, 2003.

We elected to continue to account for stock-based compensation plans using the intrinsic value-based method of accounting prescribed by APB No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Under the provisions of APB No. 25, compensation expense is measured at the grant date for the difference between the fair value of the stock and the exercise price.

From its inception, the Company has incurred significant costs in connection with the issuance of equity- based compensation, which is comprised primarily of our common stock and warrants to acquire our common stock, to non-employees. The Company anticipates continuing to incur such costs in order to conserve its limited financial resources. The determination of the volatility, expected term and other assumptions used to determine the fair value of equity based compensation issued to non-employees under SFAS 123 involves subjective judgment and the consideration of a variety of factors, including our historical stock price, option exercise activity to date and the review of assumptions used by comparable enterprises.

We account for equity based compensation, issued to non-employees in exchange for goods or services , in accordance with the provisions of SFAS No. 123 and EITF No. 96-18, "Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services".

Fair Value of Intangible Assets

We have adopted SFAS No. 142, Goodwill and Other Intangible Assets, whereby we periodically test our 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.

On July 12, 2005, we acquired certain intellectual properties from Biowell through an Asset Purchase Agreement in exchange for 36 million shares of our restricted common stock having an aggregate fair value at the date of issuance of $ 24,120,000. The value of the acquired intangible assets was $ 9,430,900, with the balance of the purchase price, or $14,689,100, charged to operations as a cost of the transaction.

The identifiable intangible assets acquired and their carrying values at September 30, 2005 are:

	Gross Carrying Amount	Accumulated Amortization	Net	Residual Value	Weighted Average Amortization Period (Years)
Amortizable Intangible Assets:					

Intellectual Property	$9,430,900	$336,818	$9,094,082	--	7
Patents	34,237	11,764	22,493	--	5
Total Amortized Identifiable Intangible	$9,465,137	$348,582	$9,116,575	--	6.99
				--	

Total amortization expense charged to operations for the year ended September 30, 2005 and 2004 were $346,825 and $1,756.

Estimated amortization expense as of September 30, 2005 is as follows:

2006	$ 1,357,279
2007	1,357,279
2008	1,349,748
2009	1,347,271
2010 and after	3,704,998
Total	$ 9,116,575

Recent Accounting Pronouncements

In April 2003, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 149, Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities. SFAS 149 amends SFAS No. 133 to provide clarification on the financial accounting and reporting of derivative instruments and hedging activities and requires that contracts with similar characteristics be accounted for on a comparable basis. The provisions of SFAS 149 are effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. The adoption of SFAS 149 did not have a material impact on the Company's results of operations or financial position.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity. SFAS 150 establishes standards on the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. The provisions of SFAS 150 are effective for financial instruments entered into or modified after May 31, 2003 and to all other instruments that exist as of the beginning of the first interim financial reporting period beginning after June 15, 2003. The adoption of SFAS 150 did not have a material impact on the Company's results of operations or financial position.

In December 2003, the FASB issued a revision of SFAS No. 132, "Employers' Disclosures About Pensions And Other Postretirement Benefits." This pronouncement, SFAS No. 132-R, expands employers' disclosures about pension plans and other post-retirement benefits, but does not change the measurement or

recognition of such plans required by SFAS No. 87, No. 88, and No. 106. SFAS No. 132-R retains the existing disclosure requirements of SFAS No. 132, and requires certain additional disclosures about defined benefit post-retirement plans. Except as described in the following sentence, SFAS No. 132-R is effective for foreign plans for fiscal years ending after June 15, 2004; after the effective date, restatement for some of the new disclosures is required for earlier annual periods. Some of the interim-period disclosures mandated by SFAS No. 132-R (such as the components of net periodic benefit cost, and certain key assumptions) are effective for foreign plans for quarters beginning after December 15, 2003; other interim-period disclosures will not be required for the Company until the first quarter of 2005. Since the Company does not have any defined benefit post-retirement plans, the adoption of this pronouncement did not have any impact on the Company's results of operations or financial condition.

In November 2004, the Financial Accounting Standards Board (FASB) issued SFAS 151, Inventory Costs-- an amendment of ARB No. 43, Chapter 4. This Statement amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Paragraph 5 of ARB 43, Chapter 4, previously stated that ". . . under some circumstances, items such as idle facility expense, excessive spoilage, double freight, and rehandling costs may be so abnormal as to require treatment as current period charges. . . ." This Statement requires that those items be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal." In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. This Statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Management does not believe the adoption of this Statement will have any immediate material impact on the Company.

In December 2004, the FASB issued SFAS No.152, "Accounting for Real Estate Time-Sharing Transactions--an amendment of FASB Statements No. 66 and 67" ("SFAS 152) The amendments made by Statement 152 This Statement amends FASB Statement No. 66, Accounting for Sales of Real Estate, to reference the financial accounting and reporting guidance for real estate time-sharing transactions that is provided in AICPA Statement of Position (SOP) 04-2, Accounting for Real Estate Time-Sharing Transactions. This Statement also amends FASB Statement No. 67, Accounting for Costs and Initial Rental Operations of Real Estate Projects, to state that the guidance for (a) incidental operations and (b) costs incurred to sell real estate projects does not apply to real estate time-sharing transactions. The accounting for those operations and costs is subject to the guidance in SOP 04-2. This Statement is effective for financial statements for fiscal years beginning after June 15, 2005 with earlier application encouraged. The Company does not anticipate that the implementation of this standard will have a material impact on its financial position, results of operations or cash flows.

On December 16, 2004, the Financial Accounting Standards Board ("FASB") published Statement of Financial Accounting Standards No. 123 (Revised 2004), Share-Based Payment ("SFAS 123R"). SFAS 123R requires that compensation cost related to share-based payment transactions be recognized in the financial statements. Share-based payment transactions within the scope of SFAS 123R include stock options, restricted stock plans, performance-based awards, stock appreciation rights, and employee share purchase plans. The provisions of SFAS 123R are effective as of the first interim period that begins after June 15, 2005. Accordingly, the Company will implement the revised standard in the third quarter of fiscal year 2005. Currently, the Company accounts for its share-based payment transactions under the provisions of APB 25, which does not necessarily require the recognition of compensation cost in the financial statements. Management is assessing the implications of this revised standard, which may materially impact the Company's results of operations in the third quarter of

fiscal year 2005 and thereafter.

On December 16, 2004, FASB issued Statement of Financial Accounting Standards No. 153, Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29, Accounting for Non-monetary Transactions (" SFAS 153"). This statement amends APB Opinion 29 to eliminate the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. Under SFAS 153, if a non-monetary exchange of similar productive assets meets a commercial-substance criterion and fair value is determinable, the transaction must be accounted for at fair value resulting in recognition of any gain or loss. SFAS 153 is effective for non-monetary transactions in fiscal periods that begin after June 15, 2005. The Company does not anticipate that the implementation of this standard will have a material impact on its financial position, results of operations or cash flows.

Revenues

From our inception on September 16, 2002, we have not generated revenues from operations. We believe we will begin generating revenues from operations in the fiscal year as we transition from a development stage enterprise to that of an active growth stage company, although no assurances can be given that we will generate any revenues from operations.

Costs and Expenses

Selling, general and administrative expenses for the twelve months ended September 30, 2005 compared to 2004 increased 292% to $50.714 million from $17.342 million in the prior period. See a discussion of non cash items below in the Liquidity & Capital Resources section. Included within the $33.373 million increase compared to the twelve months ended September 30, 2005 is $14.689 million in expensed intellectual property acquisition costs occurring during the quarter ended September 30, 2005, $8.574 million in fund raising and consultant costs, $1.232 million in increased salaries and wages due to a greater number of employees, $777,000 in penalty shares related to the pending registration statement, $550,000 in higher royalty expense, $255,000 in higher facility rent as well as other expenses of $893,000.

Research and development expenses increased $400,000 for the twelve months ended September 30, 2005 compared to 2004 from $239,000 to $639,000 primarily due to increased independent testing costs.

In the twelve months ended September 30, 2005, depreciation and amortization increased $353,000 for the period compared to 2004 from $3,000 to $356,000. In the quarter ended September 30, 2005, we capitalized $9.431 million related to an intellectual property asset acquisition. As a result, we recorded amortization expense totaling $336,000 for the quarter ended September 30, 2005. We estimate a seven-year useful life that commenced during the fourth fiscal quarter of 2005.

Total operating expenses increased to $47.593 million from $17.583 million, or an increase of $30.01 million as a result of the combination of factors listed above.

Other Income/Expense

The Company realized a gain on revaluation of warrant liability which increased by $16.701 million from zero for each of the fiscal years ended September 30, 2005 and 2004, respectively.

Other income, for the twelve months ended September 30, 2005 increased to $5,000 from $1,000 in the same period of 2004, due primarily to the $3,000 of licensing fees received from Biowell during the quarter ended September 30, 2005.

Interest expense for the twelve months ended September 30, 2005 increased to $32.106 million from $1.776 million in the same period of 2004, an increase of $30.33 million. An increase of $27.266 million was related to a beneficial conversion feature related to the sale of convertible debt and attached warrants in the year ended September 30, 2005 and charged to interest. Additionally, we recorded $5.116 million and $7.82 million for additional debt and related warrants, respectively

Net loss for the twelve months ended September 30, 2005 increased to a loss of $67.110 million from a loss of $19.358 million in the prior period as a result of the combination of factors described above.

In the quarter ended September 30, 2005, we issued 36 million shares of stock with a fair market value of $24.120 million to acquire intellectual property. We capitalized $9.431 million as an intangible asset and charged $336,000 to amortization expense for the year ended September 30, 2005. The remaining $14.689 million was charged to operating expense.

Liquidity and Capital Resources

Our liquidity needs will come from working capital requirements, indebtedness payments and research and development expenditure funding. Historically, we have financed our operations through the sale of equity and convertible debt as well as borrowings from various credit sources.

In 2005, we completed two sales of convertible debt. The first sale for $1.465 million was for $0.50 per share plus attached warrants for $0.75, while the second sale for $7.371 million was also for $0.50 per share plus attached warrants for $0.75. Of the $9.079 million in total proceeds from the equity sales, we used the proceeds to fund financing fees, consultants and public reporting costs, salaries and wages, royalties, research and development, facility costs as well as and general working capital needs. Proceeds of $102,750 resulting from the exercise of previously issued options occurred during the current period.

Substantially all of the real property used in our business is leased under operating lease agreements.

As of September 30, 2005, we had a working capital deficit of $2,936,929. For the year ended September 30, 2005, we generated a net cash flow deficit from operating activities of $9,140,000 consisting primarily of year to date losses of $67,109,519. Non cash equity adjustments included $16,701,000 in gain from warrant revaluation, $10,467,000 in private placement expense in excess of beneficial conversion feature, $8,836,000 for beneficial conversion amortization, $18,177,000 in net stock issued for consulting services, $14,689,000 in stock issued for intellectual property, $777,000 in penalty stock issued pursuant to a registration rights agreement, $1,365,000 in stock issued for debt, $3,241,068 for warrants issued to consultants. Finally, non cash

depreciation and amortizations totaled $350,000 and net liabilities and other increased by $540,000. Cash provided by investing activities totaled $12,000, consisting of $16,000 of proceeds from the sale of furniture upon vacating the Los Angeles facility and $4,000 was utilized for patent expenses. Cash provided by financing activities for the year ended September 30, 2005 totaled $9,157,000 consisting of $9,079,000 in proceeds from subscribed stock, 103,000 in exercised options proceeds and $25,000 in note payable reduction.

We expect capital expenditures to be less than $500,000 fiscal 2006. Our primary investments will be in laboratory equipment to support prototyping and our authentication services.

Exploitation of potential revenue sources will be financed primarily through the sale of securities and convertible debt, exercise of outstanding warrants, issuance of notes payable and other debt or a combination thereof, depending upon the transaction size, market conditions and other factors.

While we have raised capital to meet our working capital and financing needs in the past, additional financing is required within the next 12 months in order to meet our current and projected cash flow deficits from operations and development. We have sufficient funds to conduct our operations for several months, but not for 12 months or more. There can be no assurance that financing will be available in amounts or on terms acceptable to us, if at all.

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.

Our registered independent certified public accountants have stated in their report dated October 21, 2005, that we have incurred operating losses in the last two years, and that we are dependent upon management's ability to develop profitable operations. These factors among others may raise substantial doubt about our ability to continue as a going concern.

To obtain funding for our ongoing operations, we 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. On January 28, 2005, we closed upon a private placement transaction in excess of $1 million, and on February 2, 2005, the promissory notes were converted into an aggregate of 2,930,000 shares of common stock. 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.

To obtain funding for our ongoing operations, we conducted a private placement offering in January and February 2005, in which we sold $7,371,000 of 10% Secured Convertible Promissory Notes to 61 investors. The 10% Secured Convertible Promissory Notes automatically 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 14,742,000 warrants. The warrants are exercisable until five years from the date of issuance at a purchase price of $0.75 per share.

Since the conversion price was less than the market price of the common stock at the time the secured convertible notes were issued, we recognized a charge relating to the beneficial conversion feature of the secured convertible notes during the year ended September 30, 2005, aggregating $1,465,000 and $7,371,000, respectively.

In connection with the private placement, we granted the investors registration rights. Pursuant to the registration rights agreement, if we did not file the registration statement by February 15, 2005, or if we did not have the registration statement declared effective on or before July 15, 2005, we are obligated to pay liquidated damages in the amount of 3.5% per month of the face amount of the notes, which equals $257,985, until the registration statement is declared effective. At our option, these liquidated damages can be paid in cash or restricted shares of our common stock. We have currently decided to pay the liquidated damages due at this point in common stock, although any future payments of liquidated damages could be made in cash. If we decide to pay the liquidated damages in cash, we would be required to use our limited working capital and potentially raise additional funds. If we decide to pay the liquidated damages in shares of common stock, the number of shares issued would depend on our stock price at the time that payment is due. Based on closing market prices of $0.66, $0.58, $0.70, $0.49, $0.32 and $0.20 for our common stock on July 15, 2005, August 15, 2005, September 15, 2005, October 17, 2005, November 15, 2005 and December 15, 2005, respectively, we issued approximately 390,887, 444,802, 368,550, 526,500, 806,204 and 1,289,927 shares of common stock per month, respectively, in liquidated damages.

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

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.

Factors That Could Affect Future Results

Because of the following factors, as wells as other variables affecting our operating results and financial condition, past financial performance may not be a reliable indicator of future performance, and historical trends should not be used to anticipate results or trends in future periods.

Risks Relating to Our Business:

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 $67,109,519 for the fiscal year ended September 30, 2005 and $19,358,259 for the fiscal year ended September 30, 2004. 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 $500,000 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 October 21, 2005, our independent auditors stated that our financial statements for the year ended September 30, 2005 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 $87,639,789 during the period September 16, 2002 (date of inception) through September 30, 2005. We continue to experience net operating losses. Our ability to continue as a going concern is subject to our ability to generate a profit and/or obtain necessary funding from outside sources, including obtaining additional funding from the sale of our securities, generating sales or obtaining loans and grants from various financial institutions where possible. Our continued net operating losses increase the difficulty in meeting such goals and there can be no assurances that such methods will prove successful.

OUR ESEARCH AND DEVELOPMENT EFFORTS FOR NEW PRODUCTS MAY BE UNSUCCESSFUL.

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

OUR ACQUIRED TECHNOLOGY HAS YET TO BE INDEPENDENTLY VALIDATED.

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

FAILURE TO LICENSE NEW TECHNOLOGIES COULD IMPAIR OUR NEW PRODUCT DEVELOPMENT.

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

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

WE CURRENTLY HAVE NO OR LIMITED MANUFACTURING, SALES, MARKETING OR DISTRIBUTION CAPABILITIES.

We currently have no in-house manufacturing capability. We rely on third-party

vendors for this service. We do not currently have any arrangements with any distributors and we may not be able to enter into arrangements with qualified distributors on acceptable terms or at all. We currently have a limited sales and marketing team. If we are not able to develop greater sales, marketing or distribution capacity, we may not be able to generate revenue or sufficient revenue to support our operations.

IF WE FAIL TO INTRODUCE NEW PRODUCTS, OR OUR EXISTING PRODUCTS ARE NOT ACCEPTED BY POTENTIAL CUSTOMERS, WE MAY NOT GAIN OR MAY LOSE MARKET SHARE.

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

We may experience delays in the development and introduction of products. We cannot assure that we will keep pace with the rapid rate of change in life sciences research or that our new products will adequately meet the requirements of the marketplace or achieve market acceptance. Some of the factors affecting market acceptance of new products include:

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

We have not experienced any difficulties with the preceding factors, however, there can be no assurance that we will not experience difficulties in the future. The expenses or losses associated with unsuccessful product development or

lack of market acceptance of our new products could materially adversely affect our business, operating results and financial condition.

A MANUFACTURER'S INABILITY TO PRODUCE OUR GOODS ON TIME AND TO OUR SPECIFICATIONS COULD RESULT IN LOST REVENUE AND NET LOSSES.

We do not own or operate any manufacturing facilities and therefore depend upon independent third parties for the manufacture of all of our products. Our products are manufactured to our specifications. The inability of a manufacturer to ship orders of our products in a timely manner or to meet our quality standards could cause us to miss the delivery date requirements of our customers for those items, which could result in cancellation of orders, refusal to accept deliveries or a reduction in purchase prices, any of which could have a material

adverse effect as our revenues would decrease and we would incur net losses as a result of sales of the product, if any sales could be made. Because of our business, the dates on which customers need and require shipments of our security products from us are critical.

IF WE NEED TO REPLACE MANUFACTURERS, OUR EXPENSES COULD INCREASE RESULTING IN SMALLER PROFIT MARGINS.

We compete with other companies for the production capacity of our manufacturers and import quota capacity. Some of these competitors have greater financial and other resources than we have, and thus may have an advantage in the competition for production and import quota capacity. If we experience a significant increase in demand, or if an existing manufacturer of ours must be replaced, we may have to expand our third-party manufacturing capacity. We cannot assure you that this additional capacity will be available when required on terms that are acceptable to us or similar to existing terms which we have with our manufacturers, either from a production standpoint or a financial standpoint. We do not have long-term contracts with any manufacturer. None of the manufacturers we use produces our products exclusively.

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

- operations and financial systems;
- procedures and controls; and
- training and management of our employees.

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

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

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

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

IF WE ARE UNABLE TO RETAIN THE SERVICES OF MESSRS. SHEU, HAYWARD OR LIANG, 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 Dr. Jun-Jei Sheu, our Chairman of the Board of Directors, Dr. James Hayward, our Chief Executive Officer and Dr. Bejamin Liang, our Secretary and Strategic Technology Development Officer. We do not have employment agreements with Drs. Sheu, Hayward or Liang. Loss of the services of Drs. Sheu, Hayward or Liang could have a material adverse effect on our growth, revenues, and prospective business. We do not maintain key-man insurance on the life of Drs. Sheu, Hayward or Liang. We are not aware of any 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 attracting qualified personnel. In addition, our anticipated growth and expansion into areas and activities requiring additional expertise, such as clinical testing, government approvals, production, and marketing will require the addition of new management personnel and the development of additional expertise by existing management personnel. The failure to attract and retain these personnel or, alternatively, to develop this expertise internally would adversely affect our business as our ability to conduct research and development will be reduced or eliminated, resulting in fewer or no products for sale and lower revenues. We generally do not enter into employment agreements requiring these employees to continue in our employment for any period of time.

WE NEED TO EXPAND OUR SALES AND SUPPORT ORGANIZATIONS TO INCREASE MARKET

ACCEPTANCE OF OUR PRODUCTS.

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

THE BIOMEDICAL RESEARCH PRODUCTS INDUSTRY IS VERY COMPETITIVE, AND WE MAY BE UNABLE TO CONTINUE TO COMPETE EFFECTIVELY IN THIS INDUSTRY IN THE FUTURE.

We are engaged in a segment of the biomedical research products industry that is highly competitive. We compete with many other suppliers and new competitors continue to enter the market. Many of our competitors, both in the United States and elsewhere, are major pharmaceutical, chemical and biotechnology companies, and many of them have substantially greater capital resources, marketing experience, research and development staff, and facilities than we do. Any of these companies could succeed in developing products that are more effective than the products that we have or may develop and may be more successful than us in producing and marketing their products. It is impossible to quantify the number of competitors since they include both the companies we attempt to sell our products and services to through their use of internal security and various other security product companies. Some of the anti-counterfeiting and fraud protection competitors that we are aware of include: Authentix, InkSure, DNA Technologies, Inc., Art Guard International, Theft Protection Systems, Tracetag and November AG. Although it is impossible to determine the total market size and market data information because companies are secretive about what security methods they utilize and how much they spend on such measures, we have determined that annual sales by some of our competitors have been as follows:

Inksure - $1.0 million
DNA Technologies, Inc. - $22.6 million
November AG - $5.8 million

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

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

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

OUR TRADEMARK AND OTHER INTELLECTUAL PROPERTY RIGHTS MAY NOT BE ADEQUATELY

PROTECTED OUTSIDE THE UNITED STATES, RESULTING IN LOSS OF REVENUE.

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

INTELLECTUAL PROPERTY LITIGATION COULD HARM OUR BUSINESS.

Litigation regarding patents and other intellectual property rights is extensive in the biotechnology industry. In the event of an intellectual property dispute, we may be forced to litigate. This litigation could involve proceedings instituted by the U.S. Patent and Trademark Office or the International Trade Commission, as well as proceedings brought directly by affected third parties. Intellectual property litigation can be extremely expensive, and these expenses, as well as the consequences should we not prevail, could seriously harm our business.

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

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

Because some patent applications in the United States may be maintained in

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

Some of our competitors may be able to sustain the costs of complex patent litigation more effectively than we can because they have substantially greater resources. In addition, any uncertainties resulting from the initiation and continuation of any litigation could have a material adverse effect on our ability to raise the funds necessary to continue our operations.

ACCIDENTS RELATED TO HAZARDOUS MATERIALS COULD ADVERSELY AFFECT OUR BUSINESS.

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

POTENTIAL PRODUCT LIABILITY CLAIMS COULD AFFECT OUR EARNINGS AND FINANCIAL CONDITION.

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

WE ARE OBLIGATED TO PAY LIQUIDATED DAMAGES AS A RESULT OF OUR FAILURE TO HAVE THIS REGISTRATION STATEMENT DECLARED EFFECTIVE PRIOR TO JULY 15, 2005, AND THE PAYMENT OF LIQUIDATED DAMAGES WILL EITHER RESULT IN DEPLETING OUR WORKING CAPITAL OR ISSUANCE OF SHARES OF COMMON STOCK WHICH WOULD CAUSE DILUTION TO OUR EXISTING SHAREHOLDERS.

Pursuant to the terms of our private placement that closed in January and February 2005, if we did not have a registration statement registering the

shares underlying the convertible notes and warrants declared effective on or before July 15, 2005, we are obligated to pay liquidated damages in the amount of 3.5% per month of the face amount of the notes, which equals $257,985, until the registration statement is declared effective. At our option, these liquidated damages can be paid in cash or restricted shares of our common stock. We have currently decided to pay the liquidated damages due at this point in common stock, although any future payments of liquidated damages could be made in cash. If we decide to pay the liquidated damages in cash, we would be required to use our limited working capital and potentially raise additional funds. If we decide to pay the liquidated damages in shares of common stock, the number of shares issued would depend on our stock price at the time that payment is due. Based on closing market prices of $0.66, $0.58, $0.70, $0.49, $0.32 and $0.20 for our common stock on July 15, 2005, August 15, 2005, September 15, 2005, October 17, 2005, November 15, 2005 and December 15, 2005, respectively, we issued approximately 390,887, 444,802, 368,550, 526,500, 806,204 and 1,289,927 shares of common stock per month, respectively, in liquidated damages. The issuance of shares upon payment of liquidated damages will have the effect of further diluting the proportionate equity interest and voting power of holders of our common stock, including investors in this offering.

Risks Relating to Our Common Stock:

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 December 5, 2005, we had 112,380,392 shares of common stock issued and outstanding and outstanding warrants to purchase 37,081,967 shares of common stock. All of the shares issuable upon exercise of our warrants may be sold without restriction. The sale of these shares may adversely affect the market price of our common stock. The issuance of shares upon exercise of warrants will cause immediate and substantial dilution to the interests of other stockholders since the selling stockholders may convert and sell the full amount issuable on exercise.

IF WE FAIL TO REMAIN CURRENT ON OUR REPORTING REQUIREMENTS, WE COULD BE REMOVED FROM THE OTC BULLETIN BOARD WHICH WOULD LIMIT THE ABILITY OF BROKER-DEALERS TO SELL OUR SECURITIES AND THE ABILITY OF STOCKHOLDERS TO SELL THEIR SECURITIES IN THE SECONDARY MARKET.

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

OUR COMMON STOCK IS SUBJECT TO THE "PENNY STOCK" RULES OF THE SEC AND THE TRADING MARKET IN OUR SECURITIES IS LIMITED, WHICH MAKES TRANSACTIONS IN OUR STOCK CUMBERSOME AND MAY REDUCE THE VALUE OF AN INVESTMENT IN OUR STOCK.

The Securities and Exchange Commission has adopted Rule 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:

- that a broker or dealer approve a person's account for transactions in penny stocks; and
- 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:

- obtain financial information and investment experience objectives of the person; and
- 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:

- sets forth the basis on which the broker or dealer made the suitability determination; and
- 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 both public offerings and in secondary trading and about the commissions payable to both the broker-dealer and the registered representative, current quotations for the securities and the rights and remedies available to an investor in cases of fraud in penny stock transactions. Finally, monthly statements have to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks.

ITEM 7. FINANCIAL STATEMENTS.

APPLIED DNA SCIENCES, INC.

INDEX TO FINANCIAL STATEMENTS

RUSSELL BEDFORD STEFANOU MIRCHANDANI LLP
CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
Applied DNA Sciences, Inc.
Los Angeles, California

We have audited the accompanying consolidated balance sheet of Applied DNA Sciences, Inc. (a development stage company) as of September 30, 2005 and the related consolidated statements of losses, deficiency in stockholders' equity, and cash flows for each of the two years in the period ended September 30, 2005 and the period September 16, 2002 (date of inception) through September 30, 2005. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on the financial statements based upon our audits.

We have conducted our audits in accordance with auditing standards of the Public Company Accounting Oversight Board (PCAOB) (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Applied DNA Sciences, Inc. (a development stage company) at September 30, 2005 and the results of its operations and its cash flows for each of the two years in the period ended September 30, 2005 and the period September 16, 2002 (date of inception) through September 30, 2005 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in the Note K to the accompanying financial statements, the Company is in the development stage and has not established a source of revenues. This raises substantial doubt about the company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note L, the Company has restated the consolidated balance sheet as of September 30, 2005 and the related consolidated statements of losses, deficiency in stockholders' equity, and cash flows for the year ended September 30, 2005 and the period September 16, 2002 (date of inception) through September 30, 2005.

/s/ RUSSELL BEDFORD STEFANOU MIRCHANDANI LLP
Russell Bedford Stefanou Mirchandani LLP

McLean, Virginia

October 21, 2005, except for Note K, as to which the date is November 30, 2005 and Note M, as to which date is September 15, 2006

APPLIED DNA SCIENCES, INC
(A development stage company)
CONSOLIDATED BALANCE SHEET
SEPTEMBER 30, 2005
RESTATED

ASSETS

Current Assets:
Cash
Accounts receivable and advances

Total Current Assets

Property, Plant and Equipment (Note A)
Less: accumulated depreciation

Total Property, Plant and Equipment

Other Assets:
Deposits
Intangible assets:
Patents (net of accumulated amortization of $11,764) (Note B)
Intellectual Property (net of accumulated amortization of $336,818) (Note B)

Total Other Assets

LIABILITIES AND DEFICIENCY IN STOCKHOLDERS' EQUITY

Current Liabilities:
Accounts payable and accrued liabilities (Note C)
Note payable- Related Party (Note E)

Total Current Liabilities

Warrant Liability (Note D)

Commitments and contingencies (Note J)

Deficiency In Stockholders' Equity : (Note F)
Convertible Preferred Stock, par value $0.001 per share; 10,000,000 shares authorized; 60,000 shares issued and outstanding at September 30, 2005
Common Stock, par value $0.001 per share; 250,000,000 authorized; 112,230,392 shares issued and outstanding at September 30, 2005
Additional paid in capital
Common stock subscribed
Deficit accumulated during development stage

Total deficiency in stockholders' equity
Total liabilities and deficiency in stockholders' equity

See the accompanying notes to the financial statements

APPLIED DNA SCIENCES, INC
(A development stage company)
CONSOLIDATED STATEMENTS OF LOSSES

	For the Year Ended September 30, 2005 RESTATED	For the Year End September 30, 2004
Operating expenses:		
General and administrative	$ 50,714,017	$ $17,341,5
Research and Development	638,873	238,5
Depreciation and Amortization	356,266	3,1
Total expenses	51,709,156	17,583,2
Loss from operations	(51,709,156)	(17,583,2
Net gain/(loss) on revaluation of warrant liability	16,700,990	
Other income(expense)	4,957	1,3

Interest (expense)	(32,106,310)	(1,776,3
Income (taxes) benefit	-	
Net loss	$ (67,109,519)	$ (19,358,2
Basic and diluted loss per common share (Note I)	$ (1.05)	$ (0.
Weighted average common shares outstanding	63,917,009	20,819,7

See the accompanying notes to the financial statements

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

	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 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

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

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

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	S
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	-	-	-	-	-	-	
Balance at September 30, 2003	-	$ -	17,811,082	$ 1,781	$ 2,577,568	$ 300,000	$

See accompanying notes to the financial statements

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

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	S
Preferred shares issues in exchange for services at $25.00 per share, October 2003	15,000	15	-	-	-	-	
Common stock issued in exchange for consulting services at approximately $2.85 per share, October 2003	-	-	287,439	29	820,389	-	
Common stock issued in exchange for cash at $2.50 per share-subscription payable-October 2003	-	-	120,000	12	299,988	(300,000)	
Common stock canceled in October 2003, previously issued							

for services rendered at $2.50 per share	-	-	(100,000)	(10)	(249,990)	-
Common stock issued in exchange for consulting services at approximately $3 per share, November 2003	-	-	100,000	10	299,990	-
Common stock subscribed in exchange for cash at $2.50 per share pursuant to private placement, November, 2003	-	-	100,000	10	249,990	-
Common stock subscribed in exchange for cash at $2.50 per share pursuant to private placement, December, 2003	-	-	6,400	1	15,999	-
Common stock issued in exchange for consulting services at approximately $2.59 per share, December 2003	-	-	2,125,500	213	5,504,737	-
Common Stock subscribed to at $2.50 per share in Dec 2003	-	-	-	-	-	104,000
Beneficial conversion feature relating to notes payable	-	-	-	-	1,168,474	-
Beneficial conversion feature relating to warrants	-	-	-	-	206,526	-
Adjust common stock par value from $0.0001 to $0.50 per share, per amendment of articles dated Dec 2003	-	-	-	10,223,166	(10,223,166)	-
Common Stock issued pursuant to subscription at $2.50 share in Jan 2004	-	-	41,600	20,800	83,200	(104,000)
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 the financial statements

CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH SEPTEMBER 30, 2005
RESTATED
(Continued)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	S
Common stock issued in exchange for consulting services at $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 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

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

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	S
Common stock issued in exchange for consulting services at $0.86 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 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

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

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	S
Common stock issued in exchange for consulting services at $0.46 per share in September 2004	-	-	5,000	2,500	(212)	-	
Common stock issued pursuant to subscription at $0.50 per share in September 2004	-	-	40,000	20,000	-	-	
Preferred shares converted to common stock for consulting services at $0.41 per share in September 2004	(4,000)	(4)	100,000	50,000	4,000	-	
Preferred shares issued in exchange for service at $25 per share in September 2004	60,000	6	-	-	1,499,994	-	
Fair value of 2,841,000 warrants issued to non-employees and consultants for services rendered at approximately $.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

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

(Continued)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	S
Common stock issued in exchange for consulting services at $0.68 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 the financial statements

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

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	S
Warrants exercised at $0.60 per share in November 2004	-	-	60,000	30,000	6,000	(4,000)	
Beneficial Conversion discount relating to Notes Payable	-	-	-	-	1,465,000	-	
Common stock issued at $0.016 per share in exchange for note payable in December 2004	-	-	5,500,000	2,750,000	(2,661,500)	-	
Fair value of 6,063,500 warrants issued to non employees and consultants for services rendered at $.52 per warrant in October and December 2004	-	-	-	-	3,169,052	-	
Warrants exercised at $0.10 per share in January 2005	-	-	25,000	12,500	(10,000)	-	
Common Stock issued in settlement of debt at $0.33 per share in January 2005	-	-	1,628,789	814,395	(276,895)	-	
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 warrant liability reclassed 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 warrants issued to consultants for services rendered at $1.31 per warrant in February 2005	-	-	-	-	72,017	-	
Common stock issued in settlement of debt at $0.50 per share in February 2005	-	-	2,930,000	1,465,000	-	(125,000)	
Common Stock issued in settlement of debt at $0.33 per share in February 2005	-	-	75,757	37,879	(12,879)	-	

See accompanying notes to the financial statements

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

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

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

	Preferred		Common	Additional Paid in	Common	

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

See accompanying notes to the financial statements

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

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

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

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	S
Common Stock issued in exchange for consulting services at $0.94 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

APPLIED DNA SCIENCES, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Year Ended September 30, 2005 RESTATED	For the Year Ended September 30, 2004
Cash Flows from operating activities:		
Net loss	$ (67,109,519)	$ (19,358,259
Adjustments to reconcile net loss to net cash (used in) operating activities:		
Depreciation and amortization	350,107	3,161
Organizational expenses	--	--
Preferred shares issued in exchange for services	--	1,500,000
Warrants issued in exchange for services rendered	7,358,568	2,019,862
Income attributable to re-pricing of warrants	(16,700,991)	
Financing costs attributable to issuance of warrants	23,148,214	
Amortization of beneficial conversion feature	8,836,000	1,625,000
Debt in exchange for common stock at fair market price	1,365,000	
Common stock issued: in exchange for services rendered	18,176,641	10,105,382
Common stock issued: in exchange for intellectual property	14,689,100	--
Common stock issued in connection with penalties pursuant to registration	776,529	--
Common stock canceled--previously issued for services rendered	(578,270)	(285,575
Changes in assets and liabilities:		
Increase in Accounts Receivable	(12,429)	--
Security Deposits	9,297	(23,559
Increase in--Other Assets	--	--
Increase (decrease) in:		
Increase in due related parties	(111,943)	20,000
Accounts payable and accrued liabilities	663,748	1,301,710
Net cash (used in) operating activities	(9,139,948)	(3,092,278

Cash flows from investing activities:		
Acquisition (disposal) of property and equipment, net	16,757	(29,507
Payments for Patent Filing	(4,347)	(21,351
Net cash provided by (used in) investing activities	12,410	(74,417
Cash flows from financing activities:		
Proceeds from sale of common stock, net of cost	--	--
Proceeds from issuance of convertible debt	9,079,000	124,000
Proceeds from sale of options	102,750	87,000
Repayment of debt	(24,854)	

See the accompanying notes to the financial statements.

APPLIED DNA SCIENCES, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Continued)

	For the Year Ended September 30, 2005 RESTATED	For the Year Ended September 30, 2004
Net advances from (to)shareholders	--	(9,504
Proceeds from loans	--	2,750,000
Net cash provided by financing activities	9,156,896	2,951,496
Increase (decrease) in cash and cash equivalents	29,358	(191,640
Cash and cash equivalents, beginning of year	1,832	193,471
Cash and cash equivalents, end of year	$ 31,190	$ 1,832
Supplemental Information:		
Cash paid during the period for interest	$ --	$ --
Cash paid during the year for taxes	--	--
Non--cash disclosures:		
Common stock issued for services	$ 18,176,641	$ 10,105,382
Common stock issued in exchange for intellectual property	$ 9,430,900	$ --
Common stock issued in exchange for previously incurred debt	$ 3,109,533	$ --
Common stock issued for ESOP shares	$ 3,960,000	$ --

Common stock penalty shares issued pursuant to Pending SB--2 registration	$ 776,529	$ --
Amortization of beneficial conversion feature	$ 8,836,000	$ 1,625,000
Common stock canceled--previously issued for services rendered	$ (478,270)	$ (285,575
Preferred shares issued in exchange for service at $25 per share in September 2004	$ --	$ 1,500,000
Fair value of warrants issued to consultants for services	$ 7,358,568	$ 2,019,862
Acquisition:		
Common stock retained		$ --
Assets acquired		--
Total consideration paid		$ --
Organization expenses-- note issued in exchange of shares retired		$ --

See the accompanying notes to the financial statements

APPLIED DNA SCIENCES, INC
(A development stage company)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

NOTE A -- SUMMARY OF ACCOUNTING POLICIES

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements follows.

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 September 30, 2005, the Company has accumulated losses of $89,924,553.

Estimates

The preparation of the financial statement in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Revenue Recognition

The Company recognizes revenue in accordance with SEC Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101"). 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) 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.

On December 17, 2003, the SEC staff released Staff Accounting Bulletin (SAB) No. 104, Revenue Recognition. The staff updated and revised the existing revenue recognition in Topic 13, Revenue Recognition, to make its interpretive guidance consistent with current accounting guidance, principally EITF Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables." Also, SAB 104 incorporates portions of the Revenue Recognition in Financial Statements - Frequently Asked Questions and Answers document that the SEC staff considered relevant and rescinds the remainder. The company's revenue recognition policies are consistent with this guidance; therefore, this guidance will not have an immediate impact on the company's consolidated financial statements.

Cash Equivalents

For the purpose of the accompanying financial statements, all highly liquid investments with a maturity of three months or less are considered to be cash equivalents.

NOTE A - SUMMARY OF ACCOUNTING POLICIES (continued)

Income Taxes

The Company has adopted Financial Accounting Standard No. 109 (SFAS 109) which requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statement or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Temporary differences between taxable income reported for financial reporting purposes and income tax purposes are insignificant.

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 September 30, 2005 property and equipment consist of:

	September 30, 2005
Furniture	$ 12,750
Accumulated depreciation	4,686
Net	$ 8,064

Impairment of Long-Lived Assets

The Company has adopted Statement of Financial Accounting Standards No. 144 (SFAS 144). The Statement requires that long-lived assets and certain identifiable intangibles held and used by the Company be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Events relating to recoverability may include significant unfavorable changes in business conditions, recurring losses, or a forecasted inability to achieve break-even operating results over an extended period. The Company evaluates the recoverability of long-lived assets based upon forecasted undercounted cash flows. Should impairment in value be indicated, the carrying value of intangible assets will be adjusted, based on estimates of future discounted cash flows resulting from the use and ultimate disposition of the asset. SFAS No. 144 also requires assets to be disposed of be reported at the lower of the carrying amount or the fair value less costs to sell.

Comprehensive Income

The Company does not have any items of comprehensive income in any of the periods presented.

NOTE A - SUMMARY OF ACCOUNTING POLICIES (continued)

Segment Information

The Company adopted Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information ("SFAS 131"). SFAS establishes standards for reporting information regarding operating segments in annual financial statements and requires selected information for those segments to be presented in interim financial reports issued to stockholders. SFAS 131 also establishes standards for related disclosures about products and services and geographic areas. Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker, or decision making group, in making decisions how to allocate resources and assess performance. The information disclosed herein, materially represents all of the financial information related to the Company's principal operating segment.

Net Loss Per Share

The Company has adopted Statement of Financial Accounting Standard No. 128, "Earnings Per Share," specifying the computation, presentation and disclosure requirements of earnings per share information. Basic earnings per share has been calculated based upon the weighted average number of common shares outstanding. Stock options and warrants have been excluded as common stock equivalents in the diluted earnings per share because they are either antidilutive, or their effect is not material. Fully diluted shares outstanding were 112,230,392 and 23,981,054 for the years ended September 30, 2005 and 2004, respectively.

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 3employee 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, 2005 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 G):

NOTE A - SUMMARY OF ACCOUNTING POLICIES (continued)

	For The Year ended Sept 30 2005
Net loss - as reported	$ (67,109,519)
Add: Total stock based employee compensation expense as reported under intrinsic value method (APB No. 25)	-

Deduct: Total stock based employee compensation expense as reported under fair value method (APB No. 123)	(1,406,350)
Net loss - Pro Forma	$ (68,515,869)
Net loss attributable to common stockholders - Pro Forma	$ (68,515,869)
Basic (and assuming dilution) loss per share - as reported	$ (1.05)
Basic (and assuming dilution) loss per share - Pro Forma	$ (1.08)

Liquidity

As shown in the accompanying financial statements, the Company incurred a net loss of $89,924,553 during the period September 16, 2002 (date of inception) through September 30, 2005. The Company's current liabilities exceeded its current assets by $2,936,929 as of September 30, 2005.

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 high credit quality institutions. At times, such investments may be in excess of the FDIC insurance limit.

NOTE A - SUMMARY OF ACCOUNTING POLICIES (continued)

Research and Development

The Company accounts for research and development costs in accordance with the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 2 ("SFAS 2"), "Accounting for Research and Development Costs. Under SFAS 2, all research and development costs must be charged to expense as incurred. Accordingly, internal research and development costs are expensed as incurred. Third-party research and developments costs are expensed when the contracted work has been performed or as milestone results have been achieved. Company-sponsored research and development costs related to both present and future products are expensed in the period incurred. The Company incurred research and development expenses of $638,873, $238,535 and $877,408 for the years ended September 30, 2005, September 30, 2004 and from September 16, 2002 (date of inception) through September 30, 2005, respectively. On July 12, 2005, the Company exchanged 36 million shares of stock with a value of $24,120,000 for

intellectual property acquired from Biowell Technology, Inc.(see Note B). The Company capitalized $9,430,900 as an intangible asset and expensed $14,689,100 to acquisition costs in the year ended September 30, 2005

Reclassifications

Certain reclassifications have been made in prior year's financial statements to conform to classifications used in the current year.

Intangible Assets

The Company amortized its intangible assets using the straight-line method over their estimated period of benefit. The estimated useful for patents is five years while intellectual property uses a seven year useful life. We periodically evaluate the recoverability of intangible assets and take into account events or circumstances that warrant revised estimates of useful lives or that indicate that an impairment exists. All of our intangible assets are subject to amortization.

New Accounting Pronouncements

SFAS 123R. On March 31, 2004 the Financial Accounting Standards Board ("FASB") issued its exposure draft, "Share-Based Payments", which is a proposed amendment to SFAS 123. The exposure draft would require all share-based payments to employees, including grants of employee stock options and purchases under employee stock purchase plans, to be recognized in the statement of operations based on their fair value. The FASB issued the final standard in December 2004 that is effective for small business issuers for annual periods beginning after December 15, 2005. The Company has not yet assessed the impact of adopting this new standard.

NOTE A - SUMMARY OF ACCOUNTING POLICIES (continued)

SFAS 151. In November 2004, the Financial Accounting Standards Board (FASB) issued SFAS 151, Inventory Costs-- an amendment of ARB No. 43, Chapter 4. This Statement amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Paragraph 5 of ARB 43, Chapter 4, previously stated that ". . . under some circumstances, items such as idle facility expense, excessive spoilage, double freight, and rehandling costs may be so abnormal as to require treatment as current period charges. . . ." This Statement requires that those items be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal." In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. This Statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company does not anticipate that the implementation of this standard will have a material impact on its financial position, results of operations or cash flows.

SFAS 152. In December 2004, the FASB issued SFAS No.152, "Accounting for Real

Estate Time-Sharing Transactions--an amendment of FASB Statements No. 66 and 67" ("SFAS 152) The amendments made by Statement 152 This Statement amends FASB Statement No. 66, Accounting for Sales of Real Estate, to reference the financial accounting and reporting guidance for real estate time-sharing transactions that is provided in AICPA Statement of Position (SOP) 04-2, Accounting for Real Estate Time-Sharing Transactions. This Statement also amends FASB Statement No. 67, Accounting for Costs and Initial Rental Operations of Real Estate Projects, to state that the guidance for (a) incidental operations and (b) costs incurred to sell real estate projects does not apply to real estate time-sharing transactions. The accounting for those operations and costs is subject to the guidance in SOP 04-2. This Statement is effective for financial statements for fiscal years beginning after June 15, 2005. with earlier application encouraged. The Company does not anticipate that the implementation of this standard will have a material impact on its financial position, results of operations or cash flows.

SFAS 153. On December 16, 2004, FASB issued Statement of Financial Accounting Standards No. 153, Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions (" SFAS 153"). This statement amends APB Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. Under SFAS 153, if a nonmonetary exchange of similar productive assets meets a commercial-substance criterion and fair value is determinable, the transaction must be accounted for at fair value resulting in recognition of any gain or loss. SFAS 153 is effective for nonmonetary transactions in fiscal periods that begin after June 15, 2005. The Company does not anticipate that the implementation of this standard will have a material impact on its financial position, results of operations or cash flows.

NOTE B - ACQUISITION OF INTANGIBLE ASSETS

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

NOTE B - ACQUISITION OF INTANGIBLE ASSETS (continued)

The purchase price has been allocated as follows:

Amortizable intangible assets acquired is 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 operations as a cost of the transaction during the year ended September 30, 2005.

The identifiable intangible assets acquired and their carrying value at September 30, 2005 are:

	Gross Carrying Amount	Accumulated Amortization	Net
Amortizable Intangible Assets:			
Trade secrets and developed technologies	$ 9,430,900	$ 336,818	$ 9,094
Patents	34,237	11,764	22
Total Amortized Identifiable Intangible Assets	$9,465,137	$348,582	$9,116

APPLIED DNA SCIENCES, INC
(A development stage company)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

NOTE B - ACQUISITION OF INTANGIBLE ASSETS

Total amortization expense charged to operations for the year ended September 30, 2005 and 2004 were $ 346,825 and $1,756 respectively.

Estimated amortization expense as of September 30, 2005 is as follows:

2006	$ 1,357,279
2007	1,357,279
2008	1,349,748
2009	1,349,271
2010 and after	3,704,998
Total	$ 9,116,575

NOTE C - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at September 30, 2005 are as follows:

Accounts payable	$ 345,849
Accrued consulting fees	1,202,795
Accrued taxes	260,523
Other accrued expenses (see Note E)	760,952
Total	$2,570,119

NOTE D - PRIVATE PLACEMENT OF CONVERTIBLE NOTES

$ 1,675,000 Convertible Notes

Convertible notes payable ("Bridge Unit Offering") in quarterly installments of interest only at 10% per annum, secured by all assets of the Company and due on the earlier of the 9 month anniversary date of the initial closing of the offering or the completion of any equity financing of $3,000,000 or more; the Company, at its sole discretion may prepay principal at any time without penalty. The Bridge Unit Offering Notes, along with 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.

$ 1,465,000 Convertible Notes

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

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

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 in February, 2005.

APPLIED DNA SCIENCES, INC
(A development stage company)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

NOTE D - PRIVATE PLACEMENT OF CONVERTIBLE NOTES (continued)

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

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

In conjunction with raising capital through the issuance of Convertible Notes, the Company has issued a warrant in February, 2005 that has registration rights for the underlying shares. As the contract must be settled by the delivery of registered shares and the delivery of the registered shares is not controlled by the Company, pursuant to EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock", the net value of the warrants at the date of issuance was recorded as a warrant liability on the balance sheet $3,845,039 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 148.66%, (3) risk-free interest rate of 3.21%, and (4) expected life of 3 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:

- 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.

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

APPLIED DNA SCIENCES, INC
(A development stage company)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

NOTE D - PRIVATE PLACEMENT OF CONVERTIBLE NOTES (continued)

$ 7,371,000 Convertible Notes

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

The Convertible Note's terms called for the debt to automatically convert at $.50 per share upon the filing 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 year ended September 30, 2005.

In conjunction with raising capital through the issuance of Convertible Notes, the Company has issued a warrant that has registration rights for the underlying shares. As the contract must be settled by the delivery of registered shares and the delivery of the registered shares is not controlled by the Company, pursuant to EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock", the net value of the warrants at the date of issuance was recorded as a warrant liability on the balance sheet $19,303,175 and charged to operations as interest expense. Upon the registration statement being declared effective, the fair value of the warrant on that date will be reclassified to equity. The Company initially valued the warrants using the Black-Scholes pricing model with the following assumptions: (1) dividend yield of 0%; (2) expected volatility of 152.59%, (3) risk-free interest rate of 3.67%, and (4) expected life of 5 years.

Revaluation of Warrant Liability

In accordance with SFAS 133 "Accounting for Derivative Instruments and Hedging Activities", the Company revalued the warrants issued subject to registration rights as of September 30, 2005 using the Black-Scholes option pricing model (see Note G). Assumptions regarding the life, the expected dividend yield and volatility were left unchanged but the Company did apply a risk free interest rate of 4.18%, a volatility of 155.91% and a deemed fair value of common stock of $0.57, which was the closing price of the Company's common stock on September 30, 2005. The difference of $16,700,991 between the fair value of the warrants as of September 30, 2005 and the previous valuation as of February , 2005 has been recorded as a gain on revaluation of warrant liability, and included in the accompanying consolidated financial statements.

NOTE E - RELATED PARTY TRANSACTIONS

At September 30, 2005, 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 2%, 160,000 shares prior to October 31, 2005 or 180,000 shares after that date. Since September 2005, the Company has made no payments and is now in default.	$410,429
Less: current portion	410,429
	410,429
Note payable - long-term	$ --

On October 18, 2005, Maureen Huppe, a Company shareholder obtained a judgment in Los Angeles County, California against Lawrence Lee, director of the Company, for short swing profits as a result of trading Company shares. Per the judgment, Mr. Lee is obligated to reimburse the Company $245,911 in damages plus legal fees. In addition, the Company owes Mr. Lee $35,162 in outstanding accrued liabilities. In offsetting the outstanding liability against the pending reimbursement, the Company is seeking approximately $211,000 from Mr. Lee. The Company will recognize the reimbursement upon receipt of the funds from Mr. Lee.

In February, 2005, the Company issued 1,500,000 shares of its restricted common stock to a Company officer and Director in exchange for $600,000 of previously incurred debt. The debt was in the form of a promissory note.

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

The Company's current and former officers and shareholders have advanced funds to the Company for travel related and working capital purposes. No formal repayment terms or arrangements exist. The amount of the advances due at September 30, 2005 was $52,662 and is included in accounts payable and accrued expenses (see Note C).

NOTE F - CAPITAL STOCK

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

Company passed a resolution authorizing change in the par value per common shares from $0.50 per share to $0.001 per share.

The preferred stock is convertible at the option of the holder into common stock at the rate of twenty-five (25) shares of common for every one share of preferred at the option of the holder .

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NOTE F - CAPITAL STOCK (continued)

Preferred and Common Stock Transactions During the Year Ended September 30, 2003

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

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

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

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

In November 2002, 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 J). 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. 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.

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NOTE F - CAPITAL STOCK (continued)

Preferred and Common Stock Transactions During the Year Ended September 30, 2004

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

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

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

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

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

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

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

Preferred and Common Stock Transactions During the Year Ended September 30, 2005

During the fiscal year ended September 30, 2005, the Company issued 11,040,647 shares of common stock, net of cancellation of 2,329,600 shares, in exchange for consulting and employee services. The Company valued the shares issued at $13,008,371, net of cancellation of $1,328,269, which represents the fair value of the services received which did not differ materially from the value of the stock issued

During the fiscal year ended September 30, 2005, the Company issued 1,500,000

shares of common stock for shares previously subscribed at approximately $.54 per share.

During the fiscal year ended September 30, 2005, the Company issued 267,500 shares of common stock for warrants and options exercised at approximately $0.39 per share

In October 2004, the Company issued 500,000 shares of common stock in exchange for debt at $0.50 per share.

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.

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NOTE F - CAPITAL STOCK (continued)

In February 2005, the Company in exchange for a related party note in the outstanding principal amount of $600,000 and as settlement for certain claims related thereto issued 1,500,000 shares of common stock using a price of $1.31 per share. (See note E)

In July 2005, the Company issued 36 million shares in exchange for intellectual property at approximately $0.67 per share for a total of $24,120,000. The value of the acquired intangible assets was established at $9,430,900, with the balance of the purchase price, or $14,689,100, charged to operations as a cost of the transaction. (See Note B)

During the year ended September 30, 2005, the Company issued 8,550,000 shares of its common stock without restriction to employees in exchange for services rendered. The Company valued the shares issued at market value and charged operations in the period the shares were issued. The Company is investigating the circumstances surrounding the issuance of the shares and the possible subsequent resale of certain of the shares on the open market and the possibility of violations of securities laws (see Note J).

Until the Company successfully completes its pending registration statement on SEC Form SB-2, the Company is subject to liquidated damages (see Note D). In connection with the $1,465,000 and $7,371,000 million convertible debt financing, the Company was obligated to deliver registered shares underlying the convertible notes and warrants by July 2005. Since the registration was not effective by July 2005, the Company has been accruing the charging to operations the stipulated liquidated dames in shares of Company's common stock accruing at the rate of 3.5% per month on the face value of the previously issued convertible notes. During the year ended September 30, 2005, the Company has paid and charged to operations penalties of $776,529 in the form of 605,382 unregistered shares of its common stock to the former note holders.

NOTE G - STOCK OPTIONS AND WARRANTS

Warrants

The Company issued options and warrants during the years ended September 30, 2005 and 2004 for consulting and employee services, fees in connection with obtaining financing and various other services. The following table summarizes the changes in options and warrants outstanding and the related prices for the shares of the Company's common stock issued to shareholders of the Company. These warrants were granted in lieu of cash compensation for services performed or financing expenses in connection with the sale of the Company's common stock.

NOTE G - STOCK OPTIONS AND WARRANTS (continued)

Exercise Prices	Number Outstanding	Warrants Outstanding Weighted Average Remaining Contractual Life (Years)	Weighed Average Exercise Price	Numbe Exerc
$0.10	105,464	3.79	$ 0.10	
$0.20	5,000	3.13	$ 0.20	
$0.50	50,000	4.02	$ 0.50	
$0.55	9,000,000	2.72	$ 0.55	9
$0.60	9,132,000	3.63	$ 0.60	9
$0.70	750,000	1.84	$ 0.70	
$0.75	17,727,000	4.00	$ 0.75	17
$1.00	100,000	1.04	$ 1.00	
	36,869,464			36

Transactions involving warrants are summarized as follows:

	Number of Shares	Weighted Average Price Per Share
Balance, September 30, 2003	383,500	$ 1.38
Granted	4,574,753	0.58
Exercised	(88,000)	1.00
Canceled or expired	--	--
Balance, September 30, 2004	4,870,253	$ 0.63
Granted	32,873,000	0.67
Exercised	(142,500)	0.10
Canceled or expired	(731,289)	0.60

Balance, September 30, 2005	36,869,464	$ 0.67

In July 2005, the Company consummated an agreement with Trilogy Capital Partners, Inc. and Joff Pollon ("Trilogy" and "Pollon") to provide marketing services to the Company for a term of one year, and terminable thereafter by either party upon 30 days prior written notice. In connection with the agreement, the Company agreed to pay Trilogy a monthly fee of $12,500. The Company also issued to Trilogy and Pollon warrants purchasing an aggregate of 9,000,000 shares of common stock at $0.55 per share, exercisable for a period of three years from issuance. 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 of $4,117,500 and charged to operations as consulting fees.

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 155.3%, (3) risk-free interest rate of 3.82%, and (4) expected life of 3 years.

NOTE G - STOCK OPTIONS AND WARRANTS (continued)

In accordance with SFAS 133 "Accounting for Derivative Instruments and Hedging Activities", the Company revalued the warrants as of September 30, 2005 using the Black-Scholes option pricing model. The difference between the fair value of the warrants as of September 30, 2005 and the previous valuation as of July, 2005 has been recorded as a gain on revaluation of warrant liability, and included in the accompanying consolidated financial statements.

During the quarter 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 in exchange for services and financing expenses was determined using the Black-Scholes pricing model and the following assumptions: contractual term of 2 to 5 years, a risk free interest rate from 2.47% to 3.53%, a dividend yield of 0% and volatility from 65.7% to 148.7%. The amount of the expense charged to operations for compensatory warrants granted in exchange for services and financing expenses was $3,169,052 for the quarter ended December 31, 2004.

During the quarter ended March 31, 2005, the Company granted 55,000 warrants to non employees in exchange for services. The estimated fair value of the compensatory warrants granted to the non employees in exchange for services was determined using the Black-Scholes pricing model with the following assumptions: contractual term of 5 years, a risk free interest rate of 3.67%, a dividend yield of 0% and volatility of 152.59%. The amount of the expense charged to operations for compensatory warrants granted in exchange for services was

$72,017 for the quarter ended March 31, 2005

During the year ended September 30, 2004, the Company granted 2,841,000 warrants to non-employees and consultants in exchange for the services. The estimated fair value of the compensatory warrants granted to the non-employees in exchange for services was determined using the Black-Scholes pricing model with the following assumptions: contractural term of 2-5 years, a risk free rate of 3.0% to 3.4%, a dividend yield of 0% and volatility of 65.7% to 74.78%. The amount of expenses charged to operations in exchange for services was $2,019,862 for the year ended September 30, 2004.

The aggregate amounts of the expense charged to operations for compensatory warrants granted in exchange for services and financing expenses was $7,358,569 and $2,019,862, respectively, for the years ended September 30, 2005 and 2004.

Employee Stock Options

The following table summarizes the changes in options outstanding and the related prices for the shares of the Company's common stock issued to employees of the Company under a non-qualified employee stock option plan.

Options Outstanding				Options Exercisable	
Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 0.68	3,660,000	4.75	$ 0.68	2,745,000	$ 0.68

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NOTE G - STOCK OPTIONS AND WARRANTS (continued)

Transactions involving stock options issued to employees are summarized as follows:

	Number of Shares	Weighted Average Exercise Price Per Share
Outstanding at October 1, 2004	-	$ -
Granted	3,660,000	0.68
Exercised	-	-
Cancelled or expired	-	-

Outstanding at September 30, 2005	3,660,000	$ 0.68

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

	2005	2
Significant assumptions (weighted-average):		
Risk-free interest rate at grant date	3.5%	N
Expected stock price volatility	85%	N
Expected dividend payout	--	
Expected option life (in years)	5	N

If the Company recognized compensation cost for the non-qualified employee stock option plan in accordance with SFAS No. 123, the Company's pro forma net loss and net loss per share would have been $68,515,869 and $(1.08), respectively, for the year ended September 30, 2005. There were no options issued in 2004.

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

NOTE H - INCOME TAXES

The Company has adopted Financial Accounting Standard No. 109 which requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statement or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between financial statements and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Temporary differences between taxable income reported for financial reporting purposes and income tax purposes are insignificant.

At September 30, 2005, the Company has available for federal income tax purposes a net operating loss carryforward of approximately $72,000,000, expiring in the year 2023, that may be used to offset future taxable income. The Company has provided a valuation reserve against the full amount of the net operating loss benefit, since in the opinion of management based upon the earnings history of the Company; it is more likely than not that the benefits will not be realized. Due to significant changes in the Company's ownership, the future use of its existing net operating losses may be limited. Components of deferred tax assets as of September 30, 2005 are as follows:

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NOTE H - INCOME TAXES (continued)

Non current:	
Net operating loss carryforward	$24,400,000
Valuation allowance	(24,400,000)
Net deferred tax asset	$ --

NOTE I-LOSS PER SHARE

The following table presents the computation of basic and diluted losses per share:

	RESTATED For the Year Ended September 30, 2005	For the Year Ended September 30, 2004
Loss available for common shareholders	$ ($67,109,519)	$ (19,358,259)
Basic and fully diluted loss per share	$ ($1.05)	$ (0.93)
Weighted average common shares outstanding	63,917,009	20,819,700

Net loss per share is based upon the weighted average of shares of common stock outstanding

NOTE J- COMMITMENTS AND CONTINGENCIES

Consulting Agreements

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

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

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NOTE J- COMMITMENTS AND CONTINGENCIES (continued)

Litigation

In January, 2005, Stern & Co. commenced this action against the Company in the United States District Court for the Southern District of New York. In this action, Stern & Co. alleges that it entered into a contract with us to perform media and investor relations for a monthly fee of $5,000 and stock options. Stern & Co. claims that we failed to make certain payments pursuant to the contract and seeks damages in the amount of $96,042. We answered the complaint on May 12, 2005, denying Stern & Co.'s allegations and we asserted a number of defenses. This action is in the early stages of discovery and we intend to vigorously defend this matter. Management believes the ultimate outcome of this matter will not have a material adverse effect on the Company's consolidated financial position or results of operations.

In November, 2004, Oceanic Consulting, S.A. commenced this action against the Company in the Supreme Court of the State of New York, County of New York. Oceanic Consulting, S.A. asserts a cause of action for breach of contract based upon the allegation that we failed to make payments pursuant to a consulting agreement. Oceanic Consulting, S.A. also asserts a causes of action in which it seeks reimbursement of its expenses and attorneys' fees. Oceanic Consulting, S.A. seeks damages in the amount of $137,500.00. Oceanic Consulting, S.A. moved for a default judgment, which we have opposed based upon Oceanic Consulting, S.A.'s failure to properly serve the complaint as well as our meritorious defenses. Thereafter, Oceanic Consulting, S.A. agreed to withdraw its motion for a default judgment and accepted service of our answer on May 23, 2005. We dispute the allegations of the complaint. This action is in the early stages of discovery and we intend to vigorously defend this matter. Management believes the ultimate outcome of this matter will not have a material adverse effect on the Company's consolidated financial position or results of operations.

In April, 2005, Crystal Research Associates, LLC obtained a default judgment against the Company for $13,000 in the Superior Court of New Jersey, Middlesex County. We intend to move to vacate the default judgment on various grounds. We dispute the allegations of the complaint and we intend to vigorously defend this matter.

The Company is subject to other legal proceedings and claims, which arise in the ordinary course of its business. Although occasional adverse decisions or settlements may occur, the Company believes that the final disposition of such matters should not have a material adverse effect on its financial position, results of operations or liquidity.

Franchising and Distribution Agreements

In connection with the acquisition of certain intellectual properties from Biowell (see Note B) , the Company terminated the October 2002 license agreement with Biowell, replacing it with a new license agreement granting Biowell an exclusive license in selected Asian countries for an initial period through December 31, 2010. If Biowell meets its performance goals, the license agreement

extends for an additional five year term. Sub-license payments due to the Company are 50% for all fees, payments and consideration received. Biowell is required to pay a royalty of 10% on all net sales made and is required to meet certain minimum annual net sales in its various territories. Under this agreement, the Company recognized $3,129 in revenues in this year ended September 30, 2005.

The Company has entered into a Distribution and Franchising Agreement ("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 of $2,975,000 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. During the year ended September 30, 2005 and 2004 the Company has received the initial $0 and $25,000, as installment and has recognized the receipt as other income in the accompanying financial statements.

NOTE J- COMMITMENTS AND CONTINGENCIES (continued)

Operating Lease Commitments

The Company leases office space under operating lease in Los Angeles, California for its corporate use from an entity controlled by significant former shareholder, expiring in November 2006. In November 2005, the Company vacated the Los Angeles facility to relocate to the new Stony Brook New York address (see Note K). Total lease rental expenses for the years ended on September 30, 2005 and 2004, was $138,661 and $120,804, respectively.

Commitments for minimum rentals under non-cancelable lease at September 30, 2005 are as follows:

Year ended September 30, 2006	$ 51,562
2007	4,687
	$ 56,249

Employment and Consulting Agreements

The Company has employment agreements with some of the Company's officers and certain employees. These employment agreements provide for salaries and benefits, including stock options. In June of 2005, an Addendum was made to several employment agreements providing defined commitments should the Company terminate the employee with or without cause. It is the Company's position that the form of Addendum was not approved by the Board of Directors, and is therefore null and void.

The Company has consulting agreements with two outside contractors to provide marketing and financial advisory services. The Agreements are generally for a term of 12 months from inception and renewable automatically from year to year unless either the Company or consultant terminates such engagement by written notice.

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

Matters Voluntarily Reported to the SEC and Securities Act Violations

We previously disclosed that we were investigating the circumstances surrounding certain issuances of 8,550,000 shares to employees and consultants in July 2005 (see Note F), and have engaged our new outside counsel to conduct this investigation. We have voluntarily reported our current findings from the investigation to the SEC, and we have agreed to provide the SEC with further information arising from the investigation. We believe that the issuance of 8,000,000 shares to employees in July 2005 was effectuated by both our former President and our former Chief Financial Officer/Chief Operating Officer without approval of the Board of Directors. These former officers received a total of 3,000,000 of these shares. In addition, it appears that the 8,000,000 shares issued in July 2005, as well as an additional 550,000 shares issued to employees and consultants in March, May and August 2005, were improperly issued without a restrictive legend stating that the shares could not be resold legally except in compliance with the Securities Act of 1933, as amended. Our investigation is continuing. The members of our management who effectuated the stock issuances that are being examined in the investigation no longer work for us. We believe that we may incur significant costs and expenses in continuing this investigation. In the event that any of the exemptions from registration with respect to the issuance of the Company's common stock under federal and applicable state securities laws were not available, the Company may be subject to claims by federal and state regulators

NOTE J- COMMITMENTS AND CONTINGENCIES (continued)

for any such violations. In addition, if any purchaser of the Company's common stock were to prevail in a suit resulting from a violation of federal or applicable state securities laws, the Company could be liable to return the amount paid for such securities with interest thereon, less the amount of any income received thereon, upon tender of such securities, or for damages if the purchaser no longer owns the securities. As of the date of these financial

statements, the Company is not aware of any alleged specific violation or the likelihood of any claim. There can be no assurance that litigation asserting such claims will not be initiated, or that the Company would prevail in any such litigation.

The Company is unable to predict the extent of its ultimate liability with respect to any and all future securities matters. The costs and other effects of any future litigation, government investigations, legal and administrative cases and proceedings, settlements, judgments and investigations, claims and changes in this matter could have a material adverse effect on the Company's financial condition and operating results

NOTE K- SUBSEQUENT EVENTS

In November 2005, the Company closed its Los Angeles facility and relocated to Stony Brook, New York. As part of the relocation, the Company terminated many of its Los Angeles based employees, sold excess office furnishings and terminated its facility lease. In anticipation of future expenses related to the relocation, the Company established a reserve , which was charged to operations during the year ended September 30, 2005, for severed employees, lease termination and new office relocation expenses in the amount of $451,000 (see Note J).

In October 2005, the Company received a Notice of Termination from the Idaho National Laboratory. The Notice gives APDN 90-day advance notice of termination. The effective Termination date is January 23, 2006. We are exploring a settlement and mutual release with the Idaho National Laboratory.

NOTE L - GOING CONCERN

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the accompanying financial statements during the period September 16, 2002 through September 30, 2005, the Company incurred a loss of $89,924,553. These factors among others may indicate that the Company will be unable to continue as a going concern for a reasonable period of time.

The Company's existence is dependent upon management's ability to develop profitable operations. Management is devoting substantially all of its efforts to developing DNA embedded biotechnology security solutions in the United States and there can be no assurance that the Company's efforts will be successful. However, the planned principal operations have not commenced and no assurance can be given that management's actions will result in profitable operations or the resolution of its liquidity problems. The accompanying statements do not include any adjustments that might result should the Company be unable to continue as a going concern.

In order to improve the Company's liquidity, the Company's management is actively pursing additional equity financing through discussions with investment bankers and private investors. There can be no assurance the Company will be successful in its effort to secure additional equity financing

SEPTEMBER 30, 2005

NOTE M - RESTATEMENT OF FINANCIAL STATEMENTS

The Company has restated its financial statements for the year ended September 30, 2005 and the period September 16, 2002 (date of inception) through September 30, 2005 to correct the following errors in the financial statements previously filed:

- The Company did not record as a current period expense, warrants issued to consultants and non-employees having a fair value of $7,358,568 (see Note G)
- The Company erroneously recorded the value of shares issued to a former Director in exchange for previously incurred debt of $1,365,000 (see Note E)
- The Company did record the fair value of warrants issued to note holders and consultants having registration rights aggregating $23,148,214 as a charge of operations and a liability in accordance with EITF 00-21 (see Note D)
- The Company did not record the gain of $16,700,991 on revaluation fo the warrant liability as of September 30, 2005 (see Note D)

The net effect of the correction of these errors was to:

- Increase the Company's reported net loss for the year ended September 30, 2005 by $14,499,139 from $52,610,380 to $67,109,529.
- Increase the Company's current liabilities as of September 30, 2005 by $384,651 from $2,595,897 to $2,980,548
- Increase the Company's other liabilities, representing warranty liabilities, as of September 30, 2005 by $13,673,574 from $0 to $13,673,574

Following are reconciliations of the Company's restatement of the Consolidated Balance Sheet as of September 30, 2005:

	As of September 30, 2005	
	(As Restated)	(As Reported)
ASSETS	$ 9,182,520	$ 9,182,520
LIABILITIES AND DEFICIENCY IN STOCKHOLDERS' EQUITY		
Total Current Liabilities	2,980,548	2,595,897
Warrant Liability	13,673,574	-
Deficiency in Stockholders' Equity:		
Preferred Stock	6	6
Common Stock	112,230	112,230
Common Stock Subscription	20,000	20,000
Additional Paid-In-Capital	82,320,715	81,879,801
Deficit Accumulated During Development Stage	(89,924,553)	(75,425,414)
Total Stockholders' Equity (deficit)	(7,471,602)	6,586,623

Total Liabilities and Deficiency in Stockholders' Equity	$ 9,182,520	$ 9,182,250

APPLIED DNA SCIENCES, INC
(A development stage company)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

NOTE M - RESTATEMENT OF FINANCIAL STATEMENTS (continued)

Following are reconciliations of the Company's restatement of the Consolidated Statement of Losses for the year ended September 30, 2005 and the period September 16, 2002 (date of inception) through September 30, 2005

	For the Year Ended September 30, 2005 (As Restated)	(As Reported)	For the Period Septembe Inception) Through S (As Restated)
Operating Expenses:			
Selling general and administrative	$ 50,714,017	$ 42,662,152	$ 71,535,604
Research and development	638,873	638,873	877,408
Depreciation and amortization	356,266	356,266	359,427
Total Operating Expenses	51,709,156	43,657,291	72,772,439
Operating Loss	(51,709,156)	(43,657,291)	(72,772,439)
Net gain/(loss) on revaluation of warrant liability	16,700,990	-	16,700,990
Other income (expense)	4,957	4,957	31,342
Interest income (expense)	(32,106,310)	(8,958,046)	(33,884,446)
Net Income (Loss)	$ (67,109,519)	$ (52,610,380)	$ (89,924,553)
Gain (Loss) per common share	$ (1.05)	$ (0.82)	$ (2.53)
(basic and assuming dilution) Weighted average shares outstanding	63,917,009	63,905,259	35,590,559

The result of the Cash Flow restatement is:

- increase the net loss by $14,499,139

- adjust the net loss to cash used in operations for the fair value of warrants issued in connection with financing ($23,148,214); fair value of warrants issued for services ($7,358,568); and income attributable to warrant re-pricing ($16,700,991).

APPLIED DNA SCIENCES, INC
(A development stage company)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

NOTE M - RESTATEMENT OF FINANCIAL STATEMENTS (continued)

Following are reconciliations of the Company's restatement of the Consolidated Statement of Cash Flows for the year ended September 30, 2005 and the period September 16, 2002 (date of inception) through September 30, 2005.

	For the Year Ended September 30, 2005 (As Restated)	(As Reported)	For the Period (Date of Inceptio 30, (As Restated)
Cash Flows from operating activities:			
Net loss	$ (67,109,519)	$ (52,610,380)	$ (89,924,553)
Summary of adjustments to reconcile net loss to net cash (used in) operating activities:			
Change in fair value of warrant liabilities, net of warrant re-pricing	6,447,223	-	6,447,223
Fair value of warrants issued in exchange for services	7,358,568	-	9,378,530
Other operating activities - see Cash Flow statement for full details	44,163,780	43,494,335	61,363,454
Net cash (used in) operating activities	(9,139,948)	(9,116,045)	(12,735,346)
Cash flows from investing activities: - see Cash Flow statement for full details			
Net cash (used in) investing activities	12,410	(4,347)	(38,448)
Cash flows from financing activities: - see Cash Flow statement for full details			

Net cash provided by financing activities	9,156,896	9,149,750	12,804,984
Increase (decrease) in cash and cash equivalents	29,358	29,358	31,190
Cash and cash equivalents, beginning of year	1,832	1,832	-
Cash and cash equivalents, end of year	$ 31,190	31,190	$ 31,190

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

There have been no disagreements between the Company and its accountants as to matters which require disclosure.

Item 8A -- Controls and Procedures

Evaluation of Disclosure Controls and Procedures. As of September 30, 2005, the Company's management carried out an evaluation, under the supervision of the Company's Chief Executive Officer and 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 not 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. Please see the subsection "Significant Deficiencies In Disclosure Controls And Procedures Or Internal Controls" below.

Changes in internal controls. Except as described below, there were no changes in internal controls over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially effect, our internal control over financial reporting.

SIGNIFICANT DEFICIENCIES IN DISCLOSURE CONTROLS AND PROCEDURES OR INTERNAL CONTROLS

On July 11, 2005, the Company determined there were errors in accounting for the valuation of equity consulting service transactions during the January through March 2005 time period. The valuation resulted in the overstatement of approximately $2.9 million in services provided. The errors were discovered in connection with a comment raised by the Securities and Exchange Commission ("SEC") in their review and comment on our registration statement on Form SB-2. The SEC requested that we provided additional disclosure regarding issuances of common stock to non-employees in exchange for services. Upon reviewing and updating our disclosure, we discovered our errors. Upon this determination, management and the board of directors were alerted to the facts and circumstances regarding the errors in valuation. Authorized officers of the Company discussed this matter with the Company's independent public accounting firm who agreed that the Company's quarterly financials could not be relied upon and needed to be restated. On August 3, 2005, the Company filed an amended 10-QSB for the quarter ended March 31, 2005 with the SEC which included the

amended financials.

The Company is looking to take corrective action to resolve these weaknesses and deficiencies. The Company has recently reduced personnel in order to control costs and expenses and has recently moved from California to New York, which resulted in the resignation of the Company's Chief Financial Officer. The Company is currently searching for a qualified, full-time Chief Financial Officer as well as a full-time bookkeeper. The Company believes that these actions will correct the material deficiencies and significant weaknesses in its controls and procedures and it anticipates that the appropriate personnel will be hired and the material deficiencies and weaknesses will be fully corrected before the end of the March 31, 2006 quarter.

Item 8B -- Other Information

None.

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS.

Directors and Executive Officers

Names:	Ages	Titles:	Board of Directors
Jun-Jei Sheu	39	Chairman	Director
James Hayward	52	Chief Executive Officer	
Peter Brocklesby	52	President	Director
Lawrence Lee	44		Director
Ming-Hwa Benjamin Liang	42	Secretary	

Directors are elected to serve until the next annual meeting of stockholders and until their successors are elected and qualified. Currently there are three seats on our board of directors.

Currently, our Directors are not compensated for their services. Officers are elected by the Board of Directors and serve until their successors are appointed by the Board of Directors. Biographical resumes of each officer and director are set forth below.

Chairman of the Board -- Jun-Jei Sheu

On July 15, 2005, Dr. Jun-Jei Sheu was appointed as a director and elected Chairman by the board of directors. Since November 2000, Dr. Sheu has been the Chairman of Biowell Technology Inc. Between November 2000 and August 2005, Dr. Sheu was the CEO of Biowell Technology Inc. Dr. Sheu received his Bachelors degree in Biology from Fu-Jen Catholic University in 1988, his Masters degree in Biology from Fu-Jen Catholic University in 1990, his Ph.D in Life Sciences from Intermural of Academia Sinica & National Defense Medical Center in 1996 and his MBA from South Australia University in 2000. Dr. Sheu is also a director of Biowell Technology (S) Pte Ltd., a Singapore company, Biotechcard International Pte (S) Ltd. a Singapore company, Yan Zhan Life Technology & Marketing Inc., a Taiwanese company and Biowell Technology (Suzhou) Co. Ltd., a Chinese company, all of which are biotechnology companies.

Chief Executive Officer -- James Hayward

On October 5, 2005, the board of directors appointed Dr. James Hayward as our

Acting Chief Executive Officer. Since June 2004, Dr. Hayward has been the Chairman of Evotope Biosciences, Inc., a drug development company based in Stony Brook, New York. Since 2001, Dr. Hayward has been a director of Q-RNA, Inc., a biotech company based in New York, New York. Since 2000, Dr. Hayward has been a General Partner of Double D Venture Fund, a venture capital firm based in New York, New York. Between 1990 and July 2004, Dr. Hayward was the Chairman, President and CEO of The Collaborative Group, Ltd., a biotech and consumer product company based in Stony Brook, New York. Dr. Hayward received his Bachelors degree in Biology and Chemistry from the State University of New York at Oneonta in 1976 and his Ph.D. in Molecular Biology from the State University of New York at Stony Brook in 1983.

President and Director -- Peter Brocklesby

Mr. Brocklesby became our President and a Director in May 2004. Between 2000 and January 2003, Mr. Brocklesby was the Vice President for Business Development at Boss Industrial Design Company, a communications and electronic product design company based in Newport Beach, California. Between January 2003 and May 2004, Mr. Brocklesby served as a Project Development Consultant to Professor Alfred Wong, A.W. Technologies at the University of California at Los Angeles. In March 2003, Mr. Brocklesby co-founded Cool Grip, Inc., a golf accessory company, based in Newport Beach, California, and served as the Vice President of Business Development through May 2004.

Mr. Brocklesby graduated from Leeds University, UK with a BA Honors degree in History in 1970. He attended the Royal Air Force College, UK and was commissioned in the RAF. In 1977, after 7 years service in the UK Armed Forces, Mr. Brocklesby left to become Director of Logistics for Air Asia (Air America), a US defense contractor providing support for the US military and for other governments in Asia.

Following acquisition of Air Asia by E-Systems, Inc., a multi-billion dollar defense contractor, and now part of Raytheon, Mr. Brocklesby was appointed VP Marketing. E-Systems specialized in the development and integration of advanced airborne and land-based military and government communications systems, electronic warfare equipment, electronic surveillance and airborne intelligence gathering systems.

Director -- Larry Lee

Larry Lee has served as a Director since September 2002. Between 1994 and 2001, Mr. Lee was a senior scientist and manager for GM Hughes Electronics, a Los Angeles, California based electronics, space and defense company. Between January 2000 and September 2002, Mr. Lee was a manager and senior staff scientist for Boeing, a space and defense company, in their Los Angeles, California location. Between September 2002 and March 2004, Mr. Lee served as our President and Chief Executive Officer. Since August 2004, Mr. Lee has been a senior staff scientist with Boeing.

Mr. Lee currently serves on the board of advisors and/or partners for several U.S. and international companies including: Dery Resources Inc.; IMC, and VO Management, LLC.

Mr. Lee has a Master of Science in Computer/Electronic Engineering from California State University and a Bachelor of Science in Mechanical/Biomedical Engineering from Virginia Tech. He has also received advanced training in

Business Executive Management and Finance from University of California, Los Angeles and the Hughes Education Center.

SECRETARY AND STRATEGIC TECHNOLOGY DEVELOPMENT OFFICER -- MING-HWA BENJAMIN LIANG

Ming-Hwa Bejamin Liang has been our Secretary and Strategic Technology Development Officer since October 2005. Between May 1999 and September 2005, Mr. Liang has been the director of research and development for Biowell Technology Inc. Mr. Liang received his bachelors degree in Bio-Agriculture from Colorado State University in 1989, his Masters in Horticulture from the University of Missouri at Columbia in 1991, his Ph.D. in Plant Science from the University of Missouri at Columbia in 1991 and his LL. M. in Intellectual Property Law from Shih Hsin University, Taiwan in 2004.

COMPLIANCE WITH SECTION 16(A) OF THE SECURITIES EXCHANGE ACT OF 1934

Since we are governed under Section 15(d) of the Exchange Act, we are not required to file reports of executive officers and directors and persons who own more than 10% of a registered class of the Company's equity securities pursuant to Section 16(a) of the Exchange Act.

ITEM 10. EXECUTIVE COMPENSATION.

We may elect to award a cash bonus to key employees, directors, officers and consultants based on meeting individual and corporate planned objectives. We currently have no written employment agreements with any of our officers, however, the following shows the annual salaries, bonuses and stock options for our executive officers:

SUMMARY COMPENSATION TABLE

						Long-Term C
		Annual Compensation			Awards	
Name and Principal Position	Fiscal Year	Annual Salary ($)	Annual Bonus ($)	Other Annual Compensation ($)	Restricted Stock Awards ($)	Secur Under Option
Peter Brocklesby,	2005	162,750	0	83,719	480,000	
President	2004	0	0	0	31,903	
	2003	0	0	0	0	
Rob Hutchison,	2005	0	0	138,453	0	
CEO	2004	159,400	0	0	39,000	
	2003	0	0	0	0	
Lawrence C. Lee,	2005	0	0	202,000	0	
CEO	2004	150,000	0	0	2,017,500	
	2003	300,000	0	0	0	
John Barnett,	2005	152,000	100,000	0	599,000	

Vice President of Sales	2004	87,908	0	6,478	18,899
	2003	0	0	0	328,180
Jaime Cardona, Employee	2005	101,750	100,000	0	675,900
	2004	78,608	0	7,258	139,849
	2003	0	0	0	31,250
Adrian Butash, Executive Vice President of Marketing	2005	131,250	0	108,808	480,000
	2004	0	0	21,200	0
	2003	0	0	0	0
Karin Klemm, COO & CFO	2005	0	0	187,884	480,000
	2004	0	0	112,500	0
	2003	0	0	0	0
Paul Reep, Chief Technology Officer	2005	165,750	0	4,000	480,000
	2004	71,753	0	17,736	95,011
	2003	0	0	0	39,900
Michael Hill, Director	2005	0	0	230,000	0
	2004	0	0	0	112,200
	2003	0	0	0	0

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The following table sets forth certain information regarding beneficial ownership of our common stock as of December 5, 2005:

- by each person who is known by us to beneficially own more than 5% of our common stock;
- by each of our officers and directors; and
- by all of our officers and directors as a group.

Name and Address of Beneficial Owner	Title of Class	Number of Shar
Jun-Jei Sheu 25 Health Sciences Drive, Suite 113 Stony Brook, New York 11790	Common Stock	8,616
James Hayward 25 Health Sciences Drive, Suite 113 Stony Brook, New York 11790	Common Stock	
Peter Brocklesby 25 Health Sciences Drive, Suite 113 Stony Brook, New York 11790	Common Stock	2,000
Lawrence Lee 25 Health Sciences Drive, Suite 113 Stony Brook, New York 11790	Common Stock	4,260

Bejamin Liang 25 Health Sciences Drive, Suite 113 Stony Brook, New York 11790	Common Stock	230
All Officers and Directors As a Group (5 persons)	Common Stock	15,106

(1) Beneficial Ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of common stock subject to options or warrants currently exercisable or convertible, or exercisable or convertible within 60 days of December 5, 2005 are deemed outstanding for computing the percentage of the person holding such option or warrant but are not deemed outstanding for computing the percentage of any other person.
(2) Based upon 112,380,392 shares issued and outstanding on December 5, 2005.
(3) Includes 315,859 shares owned by his wife and 254,354 shares owned by his minor children. Also includes 7,003,052 shares owned by Biowell Technology, Inc., of which Dr. Sheu is deemed a beneficial owner.
(4) Includes 1,000,000 shares underlying currently exercisable options.
(5) Includes 600,000 shares underlying currently exercisable options.
(6) Includes 120,000 shares owned by his wife.
(7) Includes 1,600,000 shares underlying currently exercisable options.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

In November of 2002, we created a special compensation plan to pay the founders, consultants and professionals that had been contributing valuable services to us during the previous nine months. The plan is called the Professional/Employee/Consultant Compensation Plan. Share and option issuances from the Compensation Plan were to be staggered over the following six to eight months, and consultants that were to continue providing services thereafter either became employees or received renewed contracts from us in July of 2003, which contracts contained a more traditional cash compensation component. The Compensation Plan was designed by the Board to meet our important team building objectives in our early stages, and to be temporary. As of December 31, 2005, a total of 1,440,003 shares have been issued from the Compensation Plan and 560,000 options, 264,000 of which were exercised as of as of December 31, 2005.

Each qualified and eligible recipient of shares and/or options under the Compensation Plan received securities in lieu of cash payment for services. Each recipient agreed, in his or her respective consulting contract with us, to sell a limited number of shares monthly. We feel that this carefully designed Compensation Plan was successful in attracting and retaining a strong team at a time when we had no established revenue stream and limited or no outside financing.

In our financial statements, shares that were issued from November 2002 through June 30, 2003 that were valued at $0.065 per share were shares issued from this Compensation Plan created in November of 2002 on the basis of contracts executed at that time for previously rendered services. Common Stock disclosed as being issued in exchange for cash at $1.00 per share represents options that were exercised under this Plan. In December of 2004, we adjusted the exercise price to $0.60 per share.

Any other unrestricted shares that were issued either before or after July 1, 2003 were valued at the fair market value.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average E Price of Outstanding Warrants and Ri
	(a)	(b)
Professional/Consultant/ Employee Stock and Stock Option Compensation Plan	2,000,000	$177,600
Total	2,000,000	$177,600

As of December 31, 2005, a total of 1,440,000 shares have been issued from the Compensation Plan and 560,000 options have been issued, 264,000 of which were exercised as of that date.

On January 26, 2005, the majority stockholders approved the 2005 Stock Incentive Plan and authorized 16,000,000 shares of Common Stock for issuance of stock awards and stock options thereunder. As of December 31, 2005, a total of 9,000,000 shares have been issued from the Compensation Plan.

DESCRIPTION OF SECURITIES

Common Stock

We are authorized to issue up to 250,000,000 shares of common stock, par value $.001. As of December 5, 2005, there were 112,380,392 shares of common stock outstanding. Holders of the common stock are entitled to one vote per share on all matters to be voted upon by the stockholders. Holders of common stock are entitled to receive ratably such dividends, if any, as may be declared by the Board of Directors out of funds legally available therefor. Upon the liquidation, dissolution, or winding up of our company, the holders of common stock are entitled to share ratably in all of our assets which are legally available for distribution after payment of all debts and other liabilities and liquidation preference of any outstanding common stock. Holders of common stock have no preemptive, subscription, redemption or conversion rights. The outstanding shares of common stock are validly issued, fully paid and nonassessable.

We have engaged American Stock Transfer & Trust Company, located in Brooklyn, New York, as independent transfer agent or registrar.

Preferred Stock

We are authorized to issue up to 10,000,000 shares of Preferred Stock, par value $.001. The 10,000,000 shares of Preferred Stock authorized are undesignated as to preferences, privileges and restrictions. As the shares are issued, the Board of Directors must establish a "series" of the shares to be issued and designate the preferences, privileges and restrictions applicable to that series. To date,

the Board has designated a Founders' Series of Convertible Preferred Stock, which, in six months from the date of issuance, shall be convertible at the option of the holder and upon our reaching certain financial objectives, into shares of our restricted Common Stock. Each share, when eligible, is convertible into 25 fully paid and non-assessable shares of our Common Stock, subject to a leak out agreement that extends the Rule 144 period to two years. Holders will be permitted to sell, after a one year holding period through a three year holding period, 1% of the issued and outstanding shares of our common stock every 90 days. This series has been authorized by the Board of Directors. On or about February 1, 2005, the Founders' Series of Preferred Stock was converted into 1,500,000 shares of our common stock. As of December 5, 2005, there were no shares of preferred stock issued and outstanding.

Options

There are currently options outstanding that have been issued to our officers, directors and employees to purchase 3,660,000 shares of our common stock pursuant to our Professional/Employee/Consultant Compensation Plan and employment agreements.

Warrants

In connection with the sale of convertible promissory notes in December 2004, 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.

In addition, in connection with a private placement offering in January and February of 2005, we have issued 14,742,000 warrants. The warrants are exercisable until five years from the date of issuance at a purchase price of $0.75 per share.

We also have outstanding 105,464 warrants exercisable at $0.10 per share, 5,000 warrants exercisable at $0.20 per share, 50,000 warrants exercisable at $0.50 per share, 9,000,000 warrants at $0.55 per share, 9,182,000 warrants exercisable at $0.60 per share, 750,000 warrants exercisable at $0.70 per share, 55,000 warrants exercisable at $0.75 per share and 100,000 warrants exercisable at $1.00 per share.

CONVERTIBLE SECURITIES

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. On January 28, 2005, we closed upon a private placement transaction in excess of $1 million, and on February 2, 2005, the promissory notes were converted into an aggregate of 2,930,000 shares of common stock.

To obtain funding for our ongoing operations, we conducted a private placement offering in January and February 2005, in which we sold $7,371,000 of 10% Secured Convertible Promissory Notes to 61 investors. The 10% Secured Convertible Promissory Notes automatically 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, we granted the investors registration rights. Pursuant to the registration rights agreement, if we did not file the registration statement by February 15, 2005, or if we did not have the registration statement declared effective on or before July 15, 2005, we are obligated to pay liquidated damages in the amount of 3.5% per month of the face amount of the notes, which equals $257,985, until the registration statement is declared effective. At our option, these liquidated damages can be paid in cash or restricted shares of our common stock. We have currently decided to pay the liquidated damages due at this point in common stock, although any future payments of liquidated damages could be made in cash. If we decide to pay the liquidated damages in cash, we would be required to use our limited working capital and potentially raise additional funds. If we decide to pay the liquidated damages in shares of common stock, the number of shares issued would depend on our stock price at the time that payment is due. Based on closing market prices of $0.66, $0.58, $0.70, $0.49 and $0.32 for our common stock on July 15, 2005, August 15, 2005, September 15, 2005, October 17, 2005 and November 15, 2005, respectively, we issued approximately 390,887, 444,802, 368,550, 526,500 and 806,204 shares of common stock per month, respectively, in liquidated damages.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

In September of 2004, Larry Lee entered into a private transaction with Mr. Chaim Stern, selling a total of 2,500,000 shares to him, after which he loaned all proceeds of $600,000 to us. On November 3, 2004, we issued a promissory note to Larry Lee for the loan of the $600,000. The note bore interest at 6% per annum, and was payable upon demand any time following 120 days after we complete a financing of at least $5 million. We had the right to repay the note, plus all accrued interest, at any time, in whole or in part, without premium or penalty. Upon the repayment of $125,000, we had the right to repay the remainder due under the note by the issuance of shares of common stock and founders' preferred stock. We repaid the note in full by paying Mr. Lee $125,000 and issued him 500,000 shares of common stock and 60,000 shares of founders' preferred stock.

On July 15, 2005, we entered into a licensing agreement with Biowell Technology for the license of our intellectual property. Dr. Sheu, our Chairman of the Board of Directors, is the CEO of Biowell Technology.

On July 15, 2005, we entered into a consulting agreement with Timpix International Limited for the consulting services of three employees, including Dr. Sheu, our Chairman of the Board of Directors. The consulting agreement is for the shorter of two years, or until all of the consultants have obtained a visa to work in the United States and execute employment agreements with us. Such consulting agreement shall automatically renew for one year periods until terminated. Pursuant to the consulting agreement, we shall pay $47,000 per month, of which $20,000 is apportioned per month for Dr. Sheu.

On October 18, 2005, Maureen Huppe, a shareholder, obtained a judgment in United States District Court, Los Angeles, California, against Lawrence Lee, one of our directors, for short swing profits as a result of trading shares of our stock. Per the judgment, Mr. Lee is obligated to reimburse us $245,911 in damages plus legal fees. In addition, we owe Mr. Lee $35,162 in outstanding accrued liabilities. In offsetting the outstanding liability against the pending reimbursement, we anticipate proceeds of approximately $211,000 from Mr. Lee.

We have no policy regarding entering into transactions with affiliated parties.

Item 13. Exhibits.

Exhibit	Description
2.1	Articles of Merger of Foreign and Domestic Corporations, filed December 19, 1998 with the Nevada Secretary of State, filed as an exhibit to the annual report on Form 10-KSB filed with the Commission on December 29, 2003 and incorporated herein by reference.
3.1	Articles of Incorporation of DCC Acquisition Corporation, filed April 20, 1998 with the Nevada Secretary of State, filed as an exhibit to the annual report on Form 10-KSB filed with the Commission on December 29, 2003 and incorporated herein by reference.
3.2	Articles of Amendment of Articles of Incorporation of DCC Acquisition Corp. changing corporation name to ProHealth Medical Technologies, Inc.
3.3	Certificate of Designations, Powers, preferences and Rights of the Founders' Series of Convertible Preferred Stock, filed as an exhibit to the annual report on Form 10-KSB filed with the Commission on December 29, 2003 and incorporated herein by reference.
3.4	Articles of Amendment of Articles of Incorporation of Applied DNA Sciences, Inc. increasing the par value of the company's common stock, filed on December 3, 2003 with the Nevada Secretary of State, filed as an exhibit to the annual report on Form 10-KSB filed with the Commission on December 29, 2003 and incorporated herein by reference.
3.5	By-Laws of Applied DNA Sciences, Inc., filed as an exhibit to the annual report on Form 10-KSB filed with the Commission on December 29, 2003 and incorporated herein by reference.
4.1	Form of Subscription Agreement, filed as an exhibit to the current report on Form 8-K filed with the Commission on January 28, 2005 and incorporated herein by reference.
4.2	Form of 10% Secured Convertible Promissory Note, filed as an exhibit to the current report on Form 8-K filed with the Commission on January 28, 2005 and incorporated herein by reference.
4.3	Form of Warrant Agreement, filed as an exhibit to the current report on Form 8-K filed with the Commission on January 28, 2005 and incorporated herein by reference.
4.4	Registration Rights Agreement, dated January 28, 2005, between the Company and Vertical Capital Partners, Inc., on behalf of the investors, filed as an exhibit to the current report on Form 8-K filed with the Commission on January 28, 2005 and incorporated herein by reference.
4.5	Security Agreement, dated January 28, 2005, between the Company and Vertical Capital Partners, Inc., on behalf of the investors, filed as an exhibit to the current report on Form 8-K filed with the Commission on January 28, 2005 and incorporated herein by reference.
10.1	Exclusive License Agreement between Biowell Technology Corp. and Applied DNA Sciences, Inc. executed on October 8, 2002, filed

as an exhibit to the registration statement on Form SB-2 filed with the Commission on February 15, 2005 and incorporated herein by reference.

10.2	Sub-License Agreement with G. A. Corporate Finance Ltd. Applied DNA Sciences, Inc., executed on July 29, 2003, as amended, filed as an exhibit to the current report on Form 8-K filed with the Commission on September 29, 2003 and incorporated herein by reference.
10.3	Indemnification Agreement with Larry Lee, filed as an exhibit to the registration statement on Form SB-2 filed with the Commission on February 15, 2005 and incorporated herein by reference.
10.4	Indemnification Agreement with Robin Hutchison, filed as an exhibit to the registration statement on Form SB-2 filed with the Commission on February 15, 2005 and incorporated herein by reference.
10.5	Indemnification Agreement with Peter Brocklesby, filed as an exhibit to the registration statement on Form SB-2 filed with the Commission on February 15, 2005 and incorporated herein by reference.
10.6	Indemnification Agreement with Adrian Botash, filed as an exhibit to the registration statement on Form SB-2 filed with the Commission on February 15, 2005 and incorporated herein by reference.
10.7	Stock Purchase Agreement, dated as of January 28, 2005, by and between Applied DNA Sciences, Inc. and Biowell Technology, Inc., filed as an exhibit to the current report on Form 8-K filed with the Commission on February 2, 2005 and incorporated herein by reference.
10.8	Investment Advisory Agreement, dated as of February 14, 2005, by and between Applied DNA Sciences, Inc. and First London Finance, Ltd., filed as an exhibit to the registration statement on Form SB-2 filed with the Commission on February 15, 2005 and incorporated herein by reference.
10.9	Amendment to the License Agreement, dated as of November 2, 2004, by and between Applied DNA Sciences, Inc. and Biowell Technology Inc., filed as an exhibit to the registration statement on Form SB-2 filed with the Commission on June 16, 2005 and incorporated herein by reference.
10.10	Joint Product Development and Marketing Agreement, dated as of November 10, 2004, by and between Applied DNA Sciences, Inc. and Hologrammas S.A. de C.V., filed as an exhibit to the registration statement on Form SB-2 filed with the Commission on October 28, 2005 and incorporated herein by reference.
10.11	Cooperative Research and Development Agreement, dated as of September 2, 2004, by and between Applied DNA Sciences, Inc. and Bechtel BWXT Idaho, LLC, filed as an exhibit to the registration statement on Form SB-2 filed with the Commission on October 28, 2005 and incorporated herein by reference.
10.12	Amendment to the Cooperative Research and Development Agreement, dated as of March 24, 2005, by and between Applied DNA Sciences,

Inc. and Battelle Energy Alliance, LLC, filed as an exhibit to the current report on Form 8-K filed with the Commission on May 10, 2005 and incorporated herein by reference.

10.13 Stock Purchase Amendment Agreement, dated as of July 12, 2005, by and between Applied DNA Sciences, Inc. and Biowell Technology, Inc., filed as an exhibit to the current report on Form 8-K filed with the Commission on July 21, 2005 and incorporated herein by reference.

10.14 License Agreement, dated as of July 12, 2005, by and between Applied DNA Sciences, Inc. and Biowell Technology, Inc., filed as an exhibit to the current report on Form 8-K filed with the Commission on July 21, 2005 and incorporated herein by reference.

10.15 Amendment to the License Agreement, dated as of October 10, 2005, by and between Applied DNA Sciences, Inc. and Biowell Technology, Inc., filed as an exhibit to the registration statement on Form SB-2 filed with the Commission on October 28, 2005 and incorporated herein by reference.

10.16 Consulting Agreement, dated as of July 12, 2005, by and between Applied DNA Sciences, Inc. and Timpix International Limited, filed as an exhibit to the current report on Form 8-K filed with the Commission on July 21, 2005 and incorporated herein by reference.

10.17 Letter of Engagement, dated as of June 20, 2005, by and between Applied DNA Sciences, Inc. and Trilogy Capital Partners, Inc., filed as an exhibit to the current report on Form 8-K filed with the Commission on July 21, 2005 and incorporated herein by reference.

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)

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Audit Fees.

The aggregate fees billed by our auditors, for professional services rendered for the audit of our annual financial statements for the years ended September 30, 2005 and 2004, and for the reviews of the financial statements included in our Quarterly Reports on Form 10-QSB during that fiscal year were $134,341, and $120,433, respectively.

Tax Fees

Russell Bedford Stefanou Mirchandani LLP did not bill us for tax related work during fiscal years 2005 or 2004.

All Other Fees

Russell Bedford Stefanou Mirchandani LLP did not bill us for any other services during fiscal 2005 or 2004.

The Board of Directors has considered whether the provision of non-audit services is compatible with maintaining the principal accountant's independence.

Signatures

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

APPLIED DNA SCIENCES, INC.

Date: October 10, 2006

/s/JAMES HAYWARD

James Hayward
Chief Executive Officer
(Principal Executive Officer)
and Chief Financial Officer
(Principal Financial Officer
and Principal Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Position	Date
/s/ JAMES A. HAYWARD --- James A. Hayward	Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer) and Director	October 10, 2006
/s/ JUN-JEI SHEU --- Jun-Jei Sheu	Chairman of the Board of Directors	October 10, 2006

/s/ YACOV SHAMASH	Director	October 10, 2006
Yacov Shamash		
/s/ SANFORD R. SIMON	Director	October 10, 2006
Sanford R. Simon		