APPLIED DNA SCIENCES INC
Form 10QSB/A
March 03, 2008

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

Amendment No. 2 to
FORM 10-QSB

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

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

For the Quarterly period ended June 30, 2006

Commission file number 002-90519

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

Nevada (State or other jurisdiction of incorporation or organization)	59-2262718 (I.R.S. Employer Identification Number)
25 Health Sciences Drive, Suite 113 Stony Brook, New York (Address of Principal Executive Offices)	11790 (Zip Code)

(631) 444-6861
(Registrant's telephone number, including area code)

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

Yes _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__

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

Transitional Small Business Disclosure Format (check one):

Yes _____ No _X__

EXPLANATORY NOTE

This Amendment No. 2 on Form 10-QSB/A (this "Amendment") amends the Amendment No. 1 on Form 10-QSB/A for the quarter ended June 30, 2006 as filed with the Securities and Exchange Commission on October 10, 2006 (the "first Amended filing"). This Amendment is being filed for the purpose of clarifying the description of the accounting errors and related disclosures to the accompanying financial statements which gave rise to the restatement of the financial statements for each of the three and nine month periods ended June 30, 2006 and June 30, 2005 and from September 16, 2002 (date of inception) through June 30, 2006 and June 30, 2005 as described in Notes I and J to the financial statements, respectively.

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

APPLIED DNA SCIENCES, INC
Amendment No. 2 to Quarterly Report on Form 10-QSB/A for the
Quarterly Period Ending June 30, 2006

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PART 1. FINANCIAL INFORMATION

ITEM I. FINANCIAL STATEMENTS (UNAUDITED)

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

ASSETS

Current assets:
Cash and cash equivalents
Accounts receivable
Advances and other receivables
Prepaid expenses

Total current assets

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

Intangible assets:
Patients, net of accumulated amortization of $16,881
Intellectual property, net of accumulated amortization of $1,347,271

Total Assets

LIABILITIES AND DEFICIENCY IN STOCKHOLDERS' EQUITY

Current liabilities:
Accounts payable and accrued liabilities

Note payable- Related Party (Note G)

Total current liabilities

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

Commitments and contingencies (Note H)

Deficiency in Stockholders' Equity
Preferred stock, par value $0.001 per share; 10,000,000 shares authorized; 60,000 issued and outstanding
Common stock, par value $0.001 per share; 250,000,000 shares authorized; 118,582,385 issued and outstanding
Common stock subscription
Additional paid in capital
Accumulated deficit

Total deficiency in stockholders' equity

Total liabilities and Deficiency in Stockholders' Equity

See the accompanying notes to the unaudited condensed consolidated financial statements

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

	For the Three Months Ended June 30, 2006 RESTATED	For the Three Months Ended June 30, 2005 RESTATED	For t Mon Ended 2006 RESTATED
Sales	$ 18,900	$ -	$ 18,9
Cost of sales	15,639	-	15,6
Gross Profit	3,261	-	3,2
Operating expenses:			
Selling, general and administrative	1,580,967	1,865,631	4,391,3
Research and development	-	88,870	75,2
Depreciation and amortization	336,824	3,160	1,021,1

Total operating expenses	1,917,791	1,957,661	5,487,7
NET LOSS FROM OPERATIONS	(1,914,530)	(1,957,661)	(5,484,5
Net gain (loss) in fair value of debt derivative and warrant liabilities	3,493,961	5,679,175	14,250,6
Other income (expenses)	8,483	241	17,9
Interest income (expense)	(826,827)	(21,557)	(3,177,2
Net income (loss) before provision for income taxes	761,087 -	3,700,198	5,043,0
Income taxes (benefit)	-	-	
NET INCOME (LOSS)	$ 761,087	$ 3,700,198	$ 5,606,8
Net income (loss) per share-basic	$ 0.01	$ 0.06	$ 0.
Net income (loss) per share-fully diluted	$ 0.01	$ 0.04	$ 0.
Weighted average shares outstanding-			
Basic	118,582,385	66,308,115	115,852,5
Fully diluted	177,501,849	109,223,832	181,716,9

See the accompanying notes to the unaudited condensed consolidated financial statements

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

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	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 unaudited condensed consolidated financial statements

APPLIED DNA SCIENCES, INC
(A development stage company)

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2006
(Unaudited)
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, in June 30, 2003	-	-	(7,500,000)	(750)	750	-	
Common stock issued in							

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

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APPLIED DNA SCIENCES, INC
(A development stage company)
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FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2006
(Unaudited)
RESTATED
(Continued)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	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 per share in July 2003	-	-	20,000	2	19,998	-	
Common stock issued in exchange for exercised of options previously subscribed at $1.00 per share in July 2003	-	-	10,000	1	9,999	(10,000)	
Common stock issued in exchange for consulting services at approximately $2.38 per share, August 2003	-	-	172,500	17	410,915	-	
Common stock issued in exchange for options exercised at $1.00							

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

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APPLIED DNA SCIENCES, INC
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FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2006
(Unaudited)
RESTATED
(Continued)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	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 December 2003	-	-	-	-	-	104,000
Beneficial conversion feature relating to notes payable	-	-	-	-	1,168,474	-
Beneficial conversion feature relating to warrants	-	-	-	-	206,526	-
Adjust common stock par value from $0.0001 to $0.50 per share, per amendment of articles dated in December 2004	-	-	-	10,223,166	(10,223,166)	-
Common Stock issued pursuant to subscription at $2.50 share in January 2004	-	-	41,600	20,800	83,200	(104,000)
Common stock issued in exchange for consulting services at $2.95 per share, January 2004	-	-	13,040	6,520	31,948	-
Common stock issued in exchange for consulting services at $2.60 per share, January 2004	-	-	123,000	61,500	258,300	-

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FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2006
(Unaudited)
RESTATED
(Continued)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	S
Common stock issued in exchange for consulting services at $3.05 per share, January 2004	-	-	1,000	500	2,550	-	
Common stock issued in exchange for employee services at $3.07 per share, February 2004	-	-	6,283	3,142	16,147	-	
Common stock issued in exchange for consulting services at $3.04 per share, March 2004	-	-	44,740	22,370	113,640	-	
Common Stock issued for options exercised at $1.00 per share in March 2004	-	-	55,000	27,500	27,500	-	
Common stock issued in exchange for employee services at $3.00 per share, March 2004	-	-	5,443	2,722	13,623	-	
Common stock issued in exchange for employee services at $3.15 per share, March 2004	-	-	5,769	2,885	15,292	-	
Preferred shared converted to common shares for consulting services at $3.00 per share, March 2004	(5,000)	(5)	125,000	62,500	312,500	-	
Common stock issued in exchange for employee services at $3.03 per share, March 2004	-	-	8,806	4,400	22,238	-	
Common Stock issued pursuant to subscription at $2.50 per share in March 2004	-	-	22,500	11,250	(9,000)	-	
Beneficial Conversion Feature relating to Notes Payable			-	-	122,362	-	

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

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APPLIED DNA SCIENCES, INC
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FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2005
(Unaudited)
RESTATED
(Continued)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	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, June 2004	-	-	(5,000)	(2,500)	2,175	-	

Common stock issued in exchange for consulting services at $0.67 per share in June 2004	-	-	270,500	135,250	45,310	-
Common stock issued in exchange for consulting services at $0.89 per share in June 2004	-	-	8,000	4,000	3,120	-
Common stock issued in exchange for consulting services at $0.65 per share in June 2004	-	-	50,000	25,000	7,250	-
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 unaudited condensed consolidated financial statements

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

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

See accompanying notes to the unaudited condensed consolidated financial statements

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

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	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 in October 2004	-	-	(1,069,600)	(534,800)	(107,297)	-	
Common stock issued in exchange for consulting services at $0.60 per share in October 2004	-	-	82,500	41,250	8,250	-	
Common Stock issued pursuant to subscription at $0.60 per share in October 2004	-	-	500,000	250,000	50,000	(300,000)	
Common stock issued in exchange for consulting servicesat $0.50 per share in October 2004	-	-	532,500	266,250	-	-	
Common Stock issued in exchange for debt at $0.50 per share in October 2004	-	-	500,000	250,000	-	-	
Common Stock issued pursuant to subscription at $0.45 per share in October 2004	-	-	1,000,000	500,000	(50,000)	(450,000)	
Common stock issued in exchange for consulting services at $0.45 per share in October 2004	-	-	315,000	157,500	(15,750)	-	
Common Stock issued in exchange for consulting services at $0.47 per share in November 2004	-	-	100,000	50,000	(3,000)	-	
Common Stock issued in exchange for consulting services at $0.80 per share in November 2004	-	-	300,000	150,000	90,000	-	
Common Stock issued in exchange for consulting services at $1.44 per share in November 2004	-	-	115,000	57,500	108,100	-	
Common Stock issued in exchange for employee services at $1.44 per share in November 2004	-	-	5,000	2,500	4,700	-	

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FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2006
(Unaudited)
RESTATED
(Continued)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	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)	-	
Common stock issued in settlement of debt at $0.50 per share in December 2004	-	-	2,930,000	1,465,000	-	(125,000)	
Fair value of 6,063,500 warrants issued to non employees and consultants for services rendered at $0.52 per warrant in October and December 2004	-	-	-	-	3,169,052	-	
Warrants exercised at $0.10 per share in January 2005	-	-	25,000	12,500	(10,000)	-	
Common Stock issued in settlement of debt at $0.33 per share in January 2005	-	-	1,628,789	814,395	(276,895)	-	
Warrants exercised at $0.10 per share in January 2005	-	-	17,500	8,750	(7,000)	-	
Common Stock issued in settlement of debt at $0.33 per share in January 2005	-	-	2,399,012	1,199,504	(407,830)	-	
Common Stock issued in exchange for consulting services at $1.30 per share in January 2005	-	-	315,636	157,818	252,508	-	
Fair value of warant liability							

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 55,000 warrants issued to consultants for services at $1.31 per warrant in February 2005	-	-	-	-	72,017	-
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 unaudited condensed consolidated financial statements

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

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	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 unaudited condensed consolidated financial statements

APPLIED DNA SCIENCES, INC
(A development stage company)
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2006
(Unaudited)
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 $0.92 per share in March 2005	-	-	24,333	12,167	10,219	-	
Common Stock issued in exchange for consulting services at $0.99 per share in March 2005	-	-	15,000	7,500	7,350	-	

Common stock issued in exchange for debt at $0.50 per share in March 2005	-	-	1,240,000	620,000	-	-
Common stock canceled for shares issued in exchange of debt in March 2005	-	-	(500,000)	(250,000)	-	-
Common stock subscribed Canceled in March 2005	-	-	-	-	-	750,000
Common Stock issued in exchange for consulting services at $0.89 per share in March 2005	-	-	10,000	5,000	3,900	-
Adjust common stock par value from $0.50 to $0.001 per share, per amendment of articles dated Mar-05	-	-	-	(32,312,879)	32,312,879	-
Beneficial Conversion discount relating to Notes Payable in March 2005	-	-	-	-	7,371,000	-
Stock options granted to employees in exchange for services rendered, at exercise price below fair value of common stock in March 2005	-	-	-	-	180,000	-
Common Stock issued in exchange for consulting services at $0.80 per share in April 2005	-	-	160,000	160	127,840	-
Common Stock issued in exchange for consulting services at $0.80 per share in April 2005	-	-	40,000	40	31,960	-

See accompanying notes to the unaudited condensed consolidated financial statements

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

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

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 unaudited condensed consolidated financial statements

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

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	S
Common stock issued pursuant to subscription at $0.50 per share in October 2005	-	-	400,000	400	199,600	(200,000)	
Common Stock issued in exchange for consulting services at $0.75 per share in October 2005	-	-	100,000	100	74,900	-	
Common Stock returned in October 2005, previously issued for services rendered at $0.60 per share	-	-	(350,000)	(350)	(209,650)	-	
Common stock issued pursuant to subscription at $0.50 per share in December 2005	-	-	40,000	40	19,960	(20,000)	
Common Stock to investors pursuant to registration rights agreement at $0.51 per share in December 2005	-	-	505,854	506	257,480	-	
Common Stock returned in January 2006, previously issued for services rendered at $0.60 per share	-	-	(250,000)	(250)	(149,750)	-	
Common Stock issued to investors pursuant to registration rights agreement at $0.32 per share in January 2006	-	-	806,212	806	257,182	-	
Common Stock issued to investors pursuant to registration rights agreement at $0.20 per share in January 2006	-	-	1,289,927	1,290	256,695	-	
Fair value of 200,000 warrants issued to consultants for services at $0.22 per warrant in January 2006	-	-	-	-	43,098	-	
Common Stock issued in exchange for consulting services at $0.17 per share in February 2006	-	-	160,000	160	27,040	-	
Common Stock issued in exchange for consulting services at $0.16 per share in February 2006	-	-	3,800,000	3,800	604,200	-	
Common Stock returned in March 2006, previously issued							

for services rendered at $0.80 per share	-	-	(150,000)	(150)	(119,850)	-	
Previously issued warrants reclassed to warrant liability	-	-	-	-	(1,584,614)	-	
Net Income	-	-	-	-	-	-	
Balance as of June 30, 2006	60,000	6	118,582,385	118,582	81,997,006	(200,000)	

See accompanying notes to unaudited condensed consolidated financial statements

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

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

Net cash used in operating activities	(2,306,666)	(7
Cash flows from investing activities:		
Payments for patent filing	-	
Capital expenditures	(35,851)	
Net cash used in investing activities	(35,851)	
Cash flows from financing activities:		
Proceeds from sale of common stock, net of cost		
Proceeds from issuance of convertible notes	4,242,500	9
Proceeds form exercise of options and warrants	-	
Payment of debt	-	
Proceeds from loans	-	
Advances from shareholders	-	
Net cash provided by financing activities	4,242,500	9
Net increase in cash and cash equivalents	1,899,983	1
Cash and cash equivalents at beginning of period	31,190	
Cash and cash equivalents at end of period	$ 1,931,173	$ 1

See the accompanying notes to the unaudited condensed consolidated financial statements

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

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

Acquisition:		
Common stock retained	-	
Assets acquired	-	
	--------------	-----
Total consideration paid	-	
	--------------	-----
Organizational expenses-note issued in exchange for shares retired		
Common stock issued in exchange for note payable		

See the accompanying notes to the unaudited condensed consolidated financial statements

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

NOTE A - SUMMARY OF ACCOUNTING POLICIES

General

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

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

Business and Basis of Presentation

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

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

Reclassification

Certain prior period amounts have been reclassified for comparative purposes.

Property and Equipment

Property and equipment are stated at cost and depreciated over their estimated useful lives of 3 to 5 years using the straight line method. At June 30, 2006 property and equipment consist of:

Computer equipment	$ 15,328
Furniture	33,273
Accumulated depreciation	(10,315)
Net	$ 38,286

Stock Based Compensation

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

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

NOTE A - SUMMARY OF ACCOUNTING POLICIES (continued)

	For The Three Months ended June 30,	For The Three Months ended June 30,	For The Nine Months ended June 30,	For The Nine Months ended June 30,

	2006	2005	2006	2005
Net income (loss) - as reported	$ 761,087	$ 3,700,198	$ 5,606,849	$ (40,464,827)
Add: Total stock based employee compensation expense as reported under intrinsic value method (APB No. 25)	--	--	--	--
Deduct: Total stock based employee compensation expense as reported under fair value method (APB No. 123)		(1,406,350)		(1,406,350)
Net income (loss) - Pro Forma	$ 761,087	$ 2,293,848	$ 5,606,849	$ (41,871,177)
Net income (loss) attributable to common stockholders - Pro Forma	$ 761,087	$ 2,293,848	$ 5,606,849	$ (41,871,177)
Basic income (loss) per share - as reported	$ 0.01	$ 0.06	$ 0.05	$ (0.83)
Basic income (loss) per share - Pro Forma	$ 0.01	$ 0,04	$ 0.04	$ (0.86)
Fully diluted income per share - as reported	$ 0.01	$ 0.04	$ 0.03	N/A
Fully diluted income per share - Pro Forma	$ 0.01	$ 0.03	$ 0.03	N/A

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

NOTE A - SUMMARY OF ACCOUNTING POLICIES (continued)

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

Revenue Recognition

Revenues are recognized in the period that services are provided. For revenue from product sales, the Company recognizes revenue in accordance with Staff Accounting Bulletin No. 104, REVENUE RECOGNITION ("SAB104"), which superseded Staff Accounting Bulletin No. 101, REVENUE RECOGNITION IN FINANCIAL STATEMENTS ("SAB101"). SAB 101 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the selling price is fixed and determinable; and (4) collectibility is reasonably assured. Determination of criteria (3) and (4) are based on management's judgments regarding the fixed nature of the selling prices of the products delivered and the collectibility of those amounts. Provisions for discounts and rebates to customers, estimated returns and allowances, and other adjustments are provided for in the same period the related sales are recorded. The Company defers any revenue for which the product has not been delivered or is subject to refund until such time that the Company and the customer jointly determine that the product has been delivered or no refund will be required. At June 30, 2006 the Company did not have any deferred revenue.

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

Concentrations of Credit Risk

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

Derivative Financial Instruments

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

NOTE A - SUMMARY OF ACCOUNTING POLICIES (continued)

New Accounting Pronouncements

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

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

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

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

NOTE B - INTANGIBLE ASSETS AND AMORTIZATION

The Company has adopted SFAS No. 142, Goodwill and Other Intangible Assets, 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 - INTANGIBLE ASSETS AND AMORTIZATION (continued)

The purchase price has been allocated as follows:

Amortizable intangible assets acquired are comprised of:

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

In Process Research & Development

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

Transaction costs

The amount of the purchase price that could not be allocated to acquired identifiable intangible assets or IPR & D was $14,689,100 and was charged to operations as a cost of the transaction during the year ended September 30, 2005.

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

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

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

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

NOTE C - PRIVATE PLACEMENT OF CONVERTIBLE NOTES

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

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

10% Secured Convertible Promissory Notes dated March 8, 2006

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

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

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

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

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

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APPLIED DNA SCIENCES, INC.
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NOTE C - PRIVATE PLACEMENT OF CONVERTIBLE NOTES (continued)

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

10% Secured Convertible Promissory Notes dated May 2, 2006

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

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

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

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

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

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

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APPLIED DNA SCIENCES, INC.
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NOTE C - PRIVATE PLACEMENT OF CONVERTIBLE NOTES (continued)

10% Secured Convertible Promissory Notes dated June 15, 2006

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

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

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

In conjunction with the Notes, the Company issued warrants to purchase 5,900,000 shares of common stock. The accounting treatment of the derivatives and warrants requires that the Company record the warrants at their fair values as of the inception date of the debt issuance, which totaled $929,840.

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

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

$ 1,675,000 Convertible Notes

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

NOTE C - PRIVATE PLACEMENT OF CONVERTIBLE NOTES (continued)

$ 1,465,000 CONVERTIBLE NOTES

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

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

The Company filed the registration statement on February 15, 2005 and the Convertible Notes were converted to an aggregate of 2,930,000 shares of the Company's common stock in February 2005.

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 six months ended March 31, 2005.

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

NOTE C - 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.

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 six months ended March 31, 2005.

In conjunction with raising capital through the issuance of Convertible Notes, the Company has issued warrants that have registration rights for the underlying shares. As the contract must be settled by the delivery of registered shares and the delivery of the registered shares is not controlled by the Company, pursuant to EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock", the net value of the warrants at the date of issuance was recorded as a warrant liability on the balance sheet $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.

NOTE D - CAPITAL STOCK

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

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

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APPLIED DNA SCIENCES, INC.
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NOTE D - CAPITAL STOCK (continued)

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

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

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

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

In January 2003, the Company issued 1,500,000 shares of common stock in exchange for a licensing agreement. 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 expired 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 had an option through December 10, 2004 to acquire the remaining 1,000,000 shares from the former controlling owner in exchange for $11,500. On June 30, 2003, the Company retired the 7,500,000 shares common acquired pursuant to the option agreement.

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

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

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

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

During the fiscal year ended September 30, 2004, the Company issued 5,149,472 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.

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NOTE D - CAPITAL STOCK (continued)

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.

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.

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 G)

In March, 2005, the Company granted an aggregate of 300,000 stock options to employees 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 and $0 was charged to operations during the period ended March 31, 2005 and 2004, respectively.

In June 2005, the Company cancelled 300,000 stock options previously granted valued at $180,000. In accordance with EITF 96-18 the measurement date to determine fair value was the date at which a commitment for performance by the counter party to earn the equity instrument was reached. The Company valued the shares issued for consulting services at the rate which represents the fair value of the services received which did not differ materially from the value of the stock issued.

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APPLIED DNA SCIENCES, INC.
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NOTE D - CAPITAL STOCK (continued)

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)

In 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 to 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 H).

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 and charging to operations the stipulated liquidated damages in shares of the Company's common stock accruing at a 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.

In October, 2005, the Company issued 400,000 shares of common stock subscribed for cash at $0.50 per share for a total of $200,000 pursuant to the terms of a subscription payable. This issuance is considered exempt under Regulation D of the Securities Act of 1933 and Rule 506 promulgated thereunder.

In October 2005, the Company issued 100,000 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately $0.75 per share for a total of $75,000, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

In October 2005, the Company cancelled 350,000 shares previously issued for services valued at $210,000.

In December, 2005, the Company issued 40,000 shares of common stock subscribed for cash at $0.50 per share for a total of $20,000 pursuant to the terms of a subscription payable. This issuance is considered exempt under Regulation D of the Securities Act of 1933 and Rule 506 promulgated thereunder.

For the fiscal year ended September 30, 2005, the Company issued a total of 2,096,139 penalty shares pursuant to a registration rights agreement. In connection with the 7,371,000 million convertible debt financing in the quarter ended March 31, 2005, the Company was obligated to complete a stock registration by July 2005. Since the registration statement was not effective by July 2005, the Company paid the required $773,959 of liquidated damages in shares of Company stock accruing at the rate of 3.5% per month on the face value of the Notes for the month of September 2005. The Company valued the shares issued at approximately $0.30 per share for a total of $773,959. The Company continues to accrue the penalties relating to the pending registration statement.

In December 2005, in connection with debt financing, the Company issued 5,500,000 warrants to purchase the Company's common stock at an exercise price of $0.50 for five years. The fair value attributable to the warrants of $563,750 was recorded as to current period operations with an offsetting adjustment to additional paid in capital.

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APPLIED DNA SCIENCES, INC.
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NOTE D - CAPITAL STOCK (continued)

In January, 2006, the Company cancelled 250,000 shares previously issued for services valued at $150,000.

In January 2006, the Company issued 2,096,139 penalty shares pursuant to a registration rights agreement. In connection with the 7,371,000 million convertible debt financing in the quarter ended March 31, 2005, the Company was obligated to complete a stock registration by July 2005. Since the registration statement was not effective by July 2005, the Company paid the required $257,985 of liquidated damages in shares of Company stock accruing at the rate of 3.5% per month on the face value of the Notes for the month of November and December 2005. The Company valued the shares issued at approximately $0.25 per share for a total of $515,973. The Company continues to accrue the penalties relating to the pending registration statement.

In February 2006, the Company issued 160,000 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately $0.17 per share for a total of $27,200, which represents the fair value of the services received which did not differ materially from the value of the stock issued

In February 2006, the Company issued 3,800,000 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately $0.16 per share for a total of $608,000, which represents the fair value of the services received which did not differ materially from the value of the stock issued

In March, 2006, the Company cancelled 150,000 shares previously issued for services valued at $120,000.

NOTE E - STOCK OPTIONS AND WARRANTS

Warrants

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

	Warrants Outstanding			
Exercise Prices	Number Outstanding	Remaining Contractual Life (Years)	Weighted Average Exercise Price	Weigh Avera Exercis
$0.10	105,464	3.01	$0.10	10
$0.20	5,000	2.39	$0.20	
$0.50	16,450,000	4.63	$0.50	8,55
$0.55	9,000,000	1.97	$0.55	9,00
$0.60	9,132,000	2.88	$0.60	9,13
$0.70	950,000	1.39	$0.70	95
$0.75	17,727,000	3.25	$0.75	17,72
$1.00	100,000	.30	$1.00	10
	53,469,464			45,56

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NOTE E - STOCK OPTIONS AND WARRANTS (continued)

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	0.71
Exercised	(142,500)	0.34
Canceled or expired	(731,289)	0.65
Balance, September 30, 2005	36,869,464	0.67
Granted	16,600,000	0.51
Exercised	-	-
Canceled or expired	-	-

Outstanding at June 30, 2006	53,469,464	$0.61
	================	=================

In the nine months ended June 30, 2006, the Company granted 5,500,000 warrants to holders of the Company's $550,000 notes payable with a $0.50 exercise price. 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 fair value of the warrants at the date of issuance was recorded as a warrant liability of $1,758,900 and charged to operations as interest expense. 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) dividends yield of 0%; (2) expected volatility of 156.19%, (3) risk-free interest rate of 4.35%, and (4) expected life of 5 years.

In the nine months ended June 30, 2006, the Company granted 200,000 warrants as settlement to bridge financing with a $0.70 exercise price and a three year life. The fair value of the warrants of $43,098 was charged to operations.

In the nine months ended June 30, 2006, the Company granted 10,900,000 warrants to holders of the Company's convertible notes (See Note C). The warrants have an exercise price of $0.50 per with a five year life. Under certain conditions, as described in Note C, the Company as the option to redeem these warrants.

In accordance with SFAS 133 "Accounting for Derivative Instruments and Hedging Activities", the Company revalued the warrants as of June 30, 2006 using the Black-Scholes option pricing model. The difference between the fair value of the warrants as of June 30, 2006 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 (see Note F)

NOTE F - DEBT DERIVATIVE AND WARRANT LIABILITY

In accordance with SFAS 133 "Accounting for Derivative Instruments and Hedging Activities and EITF 00-19 "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock", the Company accounted for identified embedded derivatives and warrants to purchase its common stock that provide for the payment of liquidated damages if the stipulated registration deadlines were not met as liabilities.

As of the date of this filing, the registration statement has not yet been declared effective by the SEC. The Company determined the fair value of the embedded derivatives and valued the warrants using the Black-Scholes option pricing model. Assumptions regarding the life were one to five years, expected dividend yield of 0%, a risk free rate of 5.1 to 5.21%, and a volatility of 154.43%. The determined value of both the warrants and the underlying embedded derivatives as of June 30, 2006 was $5,698,286. The net change in the fair value of the derivative and warrant liability values from March 31, 2006 has been recorded as a gain from change in debt derivative and warrant liabilities in the consolidated condensed statement of operations.

NOTE G- RELATED PARTY TRANSACTIONS

At June 30, 2006, notes payable are as follows:

4% Convertible Note Payable, unsecured, to related party and due August 1, 2005; currently in default. Note holder has the option to covert unpaid principal together with any accrued and unpaid interest to 180,000 shares of the Company's common stock.

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 officers have advanced funds to the Company for travel related and working capital purposes. No formal repayment terms or arrangements exist. There were no advances due at June 30, 2006.

On July 15, 2005, the Company entered into a consulting agreement with Timpix International Limited ("Timpix") 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 the Company. The consulting agreement shall automatically renew for one year periods until terminated. Pursuant to the consulting agreement, the Company is obligated to 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 Timpix from July 2005 through December 2005 will be waived, and salaries for each of the three consultants will be reduced starting January 1, 2006.

In July 2005, the Company entered into a license agreement with Biowell, whereby the Company granted Biowell an exclusive license to sell, market, and sub-license the Company's 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 developed by the Company 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 the Company 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. Cumulative royalties earned from the period July 2005 through June 30, 2006 totaled $20,532.

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NOTE G- RELATED PARTY TRANSACTIONS (continued)

On March 29, 2006, and April 13, 2006, the Company borrowed $200,000 in the aggregate, at a rate of 7.5% per annum, from BioCogent, Ltd., ("BioCogent"), an entity controlled by the Company's President and Chief Executive Officer. These loans were due and payable upon the earlier to occur of (1) the close of business on June 30, 2006, or (2) the closing of the issuance and sale by the Company of its securities for gross proceeds of at least $250,000. These loans were paid in full as of June 30, 2006.

NOTE H - COMMITMENTS AND CONTINGENCIES

Employment and Consulting Agreements

The Company has consulting agreements with outside contractors, certain of whom are also Company stockholders. The Agreements are generally month to month.

On July 15, 2005, we entered into a consulting agreement with Timpix 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 Timpix from July 2005 through December 2005 will be waived, and salaries for each of the three consultants will be reduced starting January 1, 2006.

Litigation

On or about November 24, 2004, Oceanic Consulting, S.A. filed a complaint against the Company in the Superior Court of the State of New York. The Complaint alleges a breach of contract. The Company and the Plaintiff settled the dispute and the Company recorded the settlement amount as of June 30, 2006.

On or about January 10, 2005, Stern & Co. filed a complaint against the Company in the United States District Court for the Southern District of New York. The Complaint alleges a breach of contract. Subsequent to the date of the financial statements, the Company and the Plaintiff settled the dispute and the Company have recorded the settlement amount as of June 30, 2006.

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. The Company settled this matter in May 2006.

On or about January 12, 2006, James Paul Brown, a former consultant to the Company filed a complaint against the Company in the Superior Court of the State of California. The Complaint alleges a breach of contract. Subsequent to the date of the financial statements, the Company and the Plaintiff settled the dispute and the Company have recorded the settlement amount as of June 30, 2006.

In January 2006, a former employee of the Company filed a complaint alleging wrongful termination against the Company. The former employee is seeking $230,000 in damages. The Company believes that it has meritorious defenses to the plaintiff's claims and intends to vigorously defend itself against the Plaintiff's claims. Management believes the ultimate outcome of this matter will not have a material adverse effect on the Company's consolidated financial position or results of operations.

NOTE H - COMMITMENTS AND CONTINGENCIES (continued)

Litigation (continued)

On or about April 4, 2006, the Company filed a complaint against Paul Reep, Adrian Butash, John Barnett, Chanty Cheang, Jaime Cardona (former Company employees and officers), and Angela Wiggins (a former consultant to the Company) in the United States District Court for the Central District of California . The Company has asked the court to make a judicial determination that an agreement, which the Company did not authorize and which is the basis of previously disclosed litigation against the Company by Paul Reep, a former employee of the Company, and a new action filed by former employees of the Company as set forth in the subsequent paragraph, is invalid and unenforceable. This matter is in its early stages.

On or about April 17, 2006, former employees of the Company filed a complaint against the Company and certain of its current officers and Directors in Los Angeles County Superior Court. The Complaint alleges a breach of contract, violations of California Labor Code and wrongful termination and is seeking $950,000 in specified damages, plus fees and costs. The complaint alleges a breach of contract. The Company believes that it has meritorious defenses to the plaintiff's claims and intends to vigorously defend itself against the Plaintiff's claims. 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.

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.

Registration of Company's Shares of Common Stock

Until the Company successfully completes its pending registration statement on SEC Form SB-2, the Company is subject to liquidated damages (see Notes C and F). In connection with the $ 1,465,000 and $ 7,371,000 million convertible debt financing during the quarters ended December 31, 2004 and March 31, 2005, respectively, , the Company was obligated to deliver registered shares underlying the convertible notes and warrants by July 2005 (see Note C). Since the registration was not effective by July 2005, the Company has been accruing and charging to operations the stipulated liquidated damages in shares of

Company stock accruing at the rate of 3.5% per month on the face value of the previously issued convertible notes. During the nine months ended June 30, 2006, the Company has paid and charged to operations penalties of $773,958 in the form of unregistered shares of its common stock to the former note holders, and has accrued and charged to operations an additional $1,547,910 representing unpaid penalties as of June 30, 2006

NOTE H - COMMITMENTS AND CONTINGENCIES (continued)

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 G), 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 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

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NOTE I - RESTATEMENT OF QUARTERLY FINANCIAL STATEMENTS

The accompanying condensed consolidated financial statements as of June 30, 2006 and the three and nine months ended June 30, 2006 and from September 16, 2002 (date of inception) through June 30, 2006 have been restated to correct its accounting for (a) the issuance of options and warrants in exchange for compensation and financing activities, (b) correcting the period reporting capitalized finance costs and current operating expenses and (c) errors in report preparation and miscellaneous accounting adjustments appropriate for the fair presentation of the financial statements.

The effect of the adjustments in the restated financial statements is an increase in net loss of $136,401 from September 16, 2002 (date of inception) through June 30, 2006 and an increase in net income of $766,698 and $2,148,364 for the three and nine month periods ended June 30, 2006, respectively. There was no effect on total cash flows provided by (used in) operations, investing or financing activities.
The following tables summarize the effects of these adjustments on the Company's condensed consolidated balance sheet as of June 30, 2006, condensed consolidated statements of losses for the three and nine months ended June 30, 2006 and for the period from September 16, 2002 (date of inception) through June 30, 2006 and the condensed consolidated statements of cash flows for the nine months ended June 30, 2006 and for the period from September 16, 2002 (date of inception) through June 30, 2006:

Condensed Consolidated Balance Sheet
June 30, 2006

		AS PREVIOUSLY REPORTED		ADJUSTMENT
Cash	$	1,931,173	$	
Accounts receivable, net	$	18,900	$	
Advances and other receivables	$	11,611	$	
Prepaid expenses	$	146,667	$	
Total current assets	$	2,108,351	$	
Property, plant and equipment, net	$	38,286	$	
Deposits	$	8,322	$	
Capitalized finance costs	$	1,437,862	$	
Patents, net	$	17,376	$	
Intellectual property, net	$	8,083,629	$	
total assets	$	11,693,826	$	
Accounts payable and accrued liabilities	$	4,680,849	$	
Notes payable, related party	$	410,429	$	
Total current liabilities	$	5,091,278	$	
Convertible notes payable, net	$	3,306,371	$	
Debt derivative and warrant liability	$	5,698,286	$	
Total liabilities	$	14,095,935	$	
Preferred stock	$	6	$	
Common stock	$	118,582	$	
Common stock subscription	$	(200,000)	$	

Additional paid in capital	$	81,860,606	$	136,40
Accumulated deficit	$	(84,181,303)	$	(136,400
Total deficiency in stockholders' equity	$	(2,402,109)	$	
Total liabilities and Deficiency in Stockholders' equity	$	11,693,826	$	

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APPLIED DNA SCIENCES, INC.
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NOTE I - RESTATEMENT OF QUARTERLY FINANCIAL STATEMENTS (CONTINUED)

Condensed Consolidated Statement of Income (Losses)
For the Three Months Ended June 30, 2006

Sales	$	18,900	$	
Cost of sales	$	15,639	$	
Gross margin	$	3,261	$	
Selling, general & administrative	$	1,190,967	$	390,000
Research and development	$	-	$	
Depreciation and amortization	$	336,824	$	
Total operating expenses	$	1,527,791	$	390,000
Net loss from operations	$	(1,524,530)	$	(390,000)
Net gain (loss) in fair value of debt derivative and warrant liability	$	2,337,263	$	1,156,698
Other income (expense)	$	8,483	$	
Interest income (expense)	$	(826,827)	$	
Net income (loss)	$	(5,611)	$	766,698
Net income (loss) per share-basic	$	(0.00)		0.01
Net income (loss) per share-fully diluted		NA		0.01

Condensed Consolidated Statement of Income (Losses)
For the Nine Months Ended June 30, 2006

Sales	$	18,900	$	
Cost of sales	$	15,639	$	
Gross margin	$	3,261	$	
Selling, general & administrative	$	4,955,055	$	(563,750)
Research and development	$	75,276	$	
Depreciation and amortization	$	1,021,199	$	
Total operating expenses	$	6,051,530	$	(563,750)
Net loss from operations	$	(6,048,269)	$	(563,750)
Net gain (loss) in fair value of debt derivative and warrant liability	$	18,606,563	$	(4,355,942)
Other income (expense)	$	17,976	$	
				(136,400)
				(563,750)
				6,640,706

Interest income (expense)	$	(9,117,785)	$	5,940,556
Net income (loss)	$	3,458,485	$	2,148,364

Net income (loss) per share-basic	$	0.03		0.02
Net income (loss) per share-fully diluted		0.02		0.01

Condensed Consolidated Statement of Income (Losses)
From September 16, 2002 (date of inception) through June 30, 2006

Sales	$	18,900	$	
Cost of sales	$	15,639	$	
Gross margin	$	3,261	$	
Selling, general & administrative	$	70,072,368	$	5,838,514
Research and development	$	968,711	$	
Depreciation and amortization	$	1,380,626	$	
Total operating expenses	$	72,421,705	$	5,838,514
Net loss from operations	$	(72,418,444)	$	(5,838,514)
Net gain (loss) in fair value of debt derivative and warrant liability	$	35,307,553	$	(4,355,942)
Other income (expense)	$	49,318	$	
Interest income (expense)	$	(47,119,730)	$	10,058,055
Net income (loss)	$	(84,181,303)	$	(136,401)

APPLIED DNA SCIENCES, INC.
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NOTE I - RESTATEMENT OF QUARTERLY FINANCIAL STATEMENTS (CONTINUED)

Condensed Consolidated Statement of Cash Flows
For the Nine Months Ended June 30, 2006

Cash flows from operating activities				
Net income (loss)	$	3,458,485	$	2,148,364
Adjustments to reconcile to net used in operating activities				
Depreciation and amortization	$	1,021,199	$	
Organization expenses	$		$	
Preferred shares issued in exchange for services	$		$	
Warrants issued to consultants	$	606,850	$	(563,750)
Income attributable to repricing of warrants and debt derivatives	$	(10,118,917)	$	(4,131,704)
Financing costs attributable to issuance of warrants	$		$	2,271,000
Amortization of beneficial conversion feature -convertible notes	$	-	$	
Amortization of capitalized finance costs	$	247,238	$	
Amortization of debt discount attributable to convertible debenture	$	-	$	276,090
Fair value of common stock issued to related party in excess of debt	$	-	$	
Common stock issued in exchange for services	$	710,200	$	
Common stock issued in exchange for intellectual property	$	-	$	

Common stock issued as penalty in connection with financing	$	773,958	$	
Common stock canceled-previously issued for services rendered	$	(480,000)	$	
Change in assets and liabilities:				
Increase in accounts receivable	$	(18,900)	$	
Increase in prepaid expenses and deposits	$	(145,849)	$	
Decrease in other assets	$	5,940	$	
Decrease in due related parties	$	(52,662)	$	
Increase (decrease) in accounts payable and accrued liabilities	$	1,685,792	$	
Net cash used in operating activities	$	(2,306,666)	$	
Cash flows from investing activities:				
Payments for patent filing	$	-		
Capital expenditures	$	(35,851)	$	
Net cash used in investing activities	$	(35,851)	$	
Cash flows from financing activities				
Proceeds from sales of common stock, net	$	-	$	
Proceeds from issuance of convertible notes	$	4,242,500	$	
Proceeds from exercise of options and warrants	$	-	$	
Payment of debt	$	-	$	
Proceeds from loans	$	-	$	
Advances from shareholders	$	-	$	
Net cash provided by financing activities	$	4,242,500	$	
Net increase in cash and cash equivalents	$	1,899,983	$	
Cash and cash equivalents at beginning of period	$	31,190	$	
Cash and cash equivalents at end of period	$	1,931,173	$	

NOTE I - RESTATEMENT OF QUARTERLY FINANCIAL STATEMENTS (CONTINUED)

Condensed Consolidated Statement of Cash Flows
From September 16, 2002 (date of inception) through June 30, 2006

Cash flows from operating activities				
Net income (loss)	$	(84,181,303)	$	(136,400)
Adjustments to reconcile to net used in operating activities				
Depreciation and amortization	$	1,374,467	$	(5,756)
Organization expenses	$	88,500	$	
Preferred shares issued in exchange for services	$	1,500,000	$	
Warrants issued to consultants	$	3,583,016	$	5,838,514
Income attributable to repricing of warrants and debt derivatives	$	(26,819,908)	$	(4,131,703)
Financing costs attributable to issuance of warrants	$	27,265,174	$	(1,846,500)
Amortization of beneficial conversion feature -convertible notes	$	10,461,000	$	
Amortization of capitalized finance costs	$	247,238	$	
Amortization of debt discount attributable to convertible debenture	$	-	$	276,090
Fair value of common stock issued to related party in excess of debt	$	1,365,000	$	
Common stock issued in exchange for services				

	$	31,284,573	$	
Common stock issued in exchange for intellectual property				
	$	14,689,100	$	
Common stock issued as penalty in connection with financing				
	$	1,550,487	$	
Common stock canceled-previously issued for services rendered				
	$	(1,343,845)	$	
Change in assets and liabilities:				
Increase in accounts receivable	$	(18,900)	$	
Increase in prepaid expenses and deposits	$	(163,472)	$	
Decrease in other assets	$	(3,128)	$	
Decrease in due related parties	$	-	$	
Increase (decrease) in accounts payable and accrued liabilities	$	4,079,990	$	5,755
Net cash used in operating activities	$	(15,042,011)	$	
Cash flows from investing activities:				
Payments for patent filing	$	(25,698)	$	
Capital expenditures	$	(48,602)	$	
Net cash used in investing activities	$	(74,300)	$	
Cash flows from financing activities				
Proceeds from sales of common stock, net	$	432,000	$	
Proceeds from issuance of convertible notes	$	13,446,500	$	
Proceeds from exercise of options and warrants	$	343,750	$	
Payment of debt	$	(24,854)	$	
Proceeds from loans	$	2,750,000	$	
Advances from shareholders	$	100,088	$	
Net cash provided by financing activities	$	17,047,484	$	
Net increase in cash and cash equivalents	$	1,931,173	$	
Cash and cash equivalents at beginning of period	$	-	$	
Cash and cash equivalents at end of period	$	1,931,173	$	

a) During its review of the issuance and valuation of equity instruments during the nine month period ended June 30, 2006, the Company determined that certain warrants to acquire the Company's common stock, which were issued to non-employees in connection with the Company's financing activities, were not valued in accordance with SFAS No. 123R. The Company's policy is to charge the fair value of equity instruments such as preferred and common stock, warrants and options, related to financing activities to interest expense in the period the cost is incurred. The fair value of equity instruments issued in connection with providing services to the Company by non-employees is charged to general and administrative expenses in the period the cost is incurred. The Company corrected the valuation of these warrants as a net charge to interest expense and a credit to additional paid in capital in the amount of $136,400.

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NOTE I - RESTATEMENT OF QUARTERLY FINANCIAL STATEMENTS (CONTINUED)

(b) During its review of the accounting for the issuance and valuation of the March 2006 debt instruments, the Company determined that debt issuance costs of $390,000 were charged in error to operations as general and administrative expense during the three months ended March 31, 2006 instead of capitalized and amortized over the term of the debt. The Company amended and restated its March 31, 2006 SEC Form 10-QSB to correct the error in accounting. In connection with the review of the accounting for the transaction and correction of the error, the Company determined that during the three month period ended June 30, 2006, the Company had reduced general and administrative expenses a further $390,000 in error. The Company carried forward the error from March 31, 2006 to the June 30, 2006 10-QSB as originally filed, incorrectly reducing the amounts recorded to selling general and administrative expenses for the three month period ended June 2006 by $390,000. The Company amended the March 2006 10-QSB to restate and correct the accounting for the cost relating to the issuance of these debt instruments from selling, general and administrative expenses to capitalized debt issuance costs. The correction is intended to reflect the adjustment to capitalize financing costs in the proper reporting period. The net effect of this adjustment on the three month period ended June 30, 2006 is to increase operating expenses by $390,000. The adjustment as a result of the correction of the error has no net effect on operating expenses during the nine month period ended June 30, 2006 and the period from September 16, 2002 (date of inception) to June 30, 2006.

c) During the Company's review of the outstanding warrants and options to acquire the Company's common stock, the Company determined that the warrants must be settled by the delivery of registered shares and the delivery of the registered shares which event is not controlled by the Company. Therefore, management re-evaluated its accounting for the warrants under the guidelines of SFAS No. 133 and EITF Issue No. 00-19, and concluded that the embedded conversion option did not meet the SFAS No. 133 paragraph 11(a) scope exception. Accordingly, the Company determined that the warrants should be reclassified as derivative liabilities (see Note C). In addition to incorrectly accounting for the warrants as equity instruments, the Company determined that as of March 31, 2006, the derivatives were valued in error and recorded an increase in the warrant valuation with its amended March 31, 2006 10-QSB. Although the fair value of related warrants were properly reflected in the initial June 30, 2006 10-QSB, the change from the prior reporting period due to the amended March 31, 2006 10-QSB resulted in an increase in income for the three months ended June 30, 2006 The warrants were initially valued at $933,117. The correct valuation is $2,089,814, an increase of $1,156,698.

(d) During its review of the issuance and valuation of equity instruments, the Company determined that $563,750, the cost related to the issuance of certain warrants to acquire the Company's common stock, which were issued during the nine month period ended June 30, 2006 to non-employees in connection with the Company's financing activities, was recorded in error as selling, general and administrative expenses instead of interest expense. Based upon the Company's policy of classifying the fair value of equity instruments issued in connection with financing activities as interest expense, the Company corrected the error by reclassifying the amount of $563,750 to interest expense.

(e) During its review of the issuance and valuation of equity instruments, the Company determined that certain warrants to acquire the Company's common stock, which were issued to non-employees during the year ended September 30, 2005 in connection with the Company's financing activities, were erroneously recorded as having been issued during the nine month period ended June 30, 2006. These transactions were recorded initially in error as a charge to interest expense (initial valuation) of $6,640,706 and a gain from mark to market change from the initial valuation of $4,355,942; net $2,284,764 charge to operations. In conjunction with the September 30, 2005 amended 10-KSB, these errors were properly corrected to reflect in the accounting period the issuance of the related warrants recording the initial valuation (interest expense) and subsequent mark to market change. The amended June 30, 2006 10-QSB reverses the initial erroneous recording. The effect of the error was an overstatement of $4,355,942 in the net gain in the fair value of the debt derivative and warrant liability and an overstatement of $6,640,706 in the net interest expense in the original filing, resulting in a net increase of $2,284,764 in income for the nine months ended June 30, 2006. This amount of $2,284,764 is comprised of the corrections of errors in the recording and valuation of the following warrants:

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NOTE I - RESTATEMENT OF QUARTERLY FINANCIAL STATEMENTS (CONTINUED)

	Original amount	Revised Amount	Increase/(decreas
Warrants issued in December 2004	$ 394,698	$ 3,169,052	$2,774,
Warrants issued in February 2005	-	72,017	72,
Warrants issued in June 2005 (Company determined warrants were not properly authorized and issued)	849,047	-	(849,0
Warrants previously cancelled, later determined issued	(287,440)	-	287,
	$ 956,305	$ 3,241,069	$ 2,284,

The adjustment of $2,284,764, net of the additional cost of warrants issued (see Note A above) of $136,400, results in an aggregate increase of $2,148,364 in net income for the nine month period ended June 30, 2006, from $3,458,485 to $5,606,849.

(f) During its review of the issuance and valuation of equity instruments, the Company determined that $5,838,514, the fair value of certain warrants to acquire the Company's common stock that were issued to non-employees during the period from September 16, 2002 (date of inception) through September 30, 2005 in connection with payment for services rendered to the Company, was erroneously recorded as interest expenses instead of selling, general and administrative expenses.

Below is a summary of the changes to the various line items for the period from September 16, 2002 (date of inception) through June 30, 2006:

	Selling, general and administrative	Gain/Loss in fair value of warrant liability and debt derivative	I
Originally reported:	$ 70,072,368	$ 35,307,553	
Reclassification on fair value of warrants issued for services rendered (above)	5,838,514	-	
Adjustment to fair value of warrants issued in previous year (see e above)		(4,355,942)	
Fair value of unrecorded warrants issued in conjunction with financing (see a above)			
Amended reported	$ 75,910,882	$ 30,951,611	
	============	============	

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g) During its review of the issuance and valuation of equity instruments, the Company reclassified the amortization of debt discount attributable to the issuance of $4,131,704 of convertible debt separately from the income attributable to repricing of warrants and debt derivatives, as set forth below:

Reclassification of initial warrant valuations relating to financing from interest to separate line item in cash flow statement as described in (h) below:	$2,271,000
Change in non warrant valuations as described in (e) above:	2,284,764
Reclassification on non financing warrants to selling, general and administrative as described in (d) above	(563,750)
Reclassification of warrants as described in (a) above	(136,400)
Reclassification of amortization of debt discount to separate cash flow line item as described in (i) below	276,090

Total:	$4,131,704
	==========

(h) During its review of the issuance and valuation of equity instruments, the Company separately reclassified from income attributable to repricing of warrants and debt derivatives, the value of warrants issued in connection with the issuance of debt having a fair value of $2,271,000.

(i) During its review of the issuance and valuation of equity instruments, the Company reclassified the amortization of debt discount attributable to the issuance of convertible debt of $276,090 separately from income attributable to repricing of warrants and debt derivatives.

(j) During its review of capital expenditures and related depreciation and amortization, the Company corrected a classification error of $5,756 between the depreciation and amortization expenses line item and accounts payable within the cash used in operating expenses.

(k) During its review of the issuance and valuation of equity instruments, the Company determined that $1,846,500, the fair value of certain warrants to acquire the Company's common stock issued to non-employees in connection with payment for services rendered to the Company, was charged in error to interest expense instead of selling, general and administrative expenses. This adjustment is in conjunction with (a), (f) and (g) above.

NOTE J - RESTATEMENT OF JUNE 30 2005 QUARTERLY FINANCIAL STATEMENTS

The accompanying consolidated financial statements as of June 30, 2005 and for the three and nine months ended June 30, 2005 and for the period from September 16, 2002 (date of inception) through June 30, 2005 have been restated to correct the accounting for (a) the issuance of warrants in exchange for compensation and financing activities, (b) the unrecorded expense accruals relating to penalties due for late registration, and (c) the errors in report preparation and miscellaneous accounting adjustments appropriate for the fair presentation of the financial statements.

The effect of these adjustments is an increase in net loss of $8,645,561 for the period from September 16, 2002 (date of inception) through June 30, 2005 and for the nine months ended June 30, 2005. The effect on cash flows used in operations was an increase of $2,911,764 for the nine months ended June 30, 2005 and an increase of $2,888,205 from September 16, 2002 (date of inception) to June 30, 2005. Cash flow used in investing activities increased by $33,291 for the nine months ended June 30, 2005 and increased by $56,850 for the period from September 16, 2002 (date of inception) through June 30, 2005. Cash flow from financing activities decreased by $2,945,055 for the nine months ended June 30, 2005 and for the period from September 16, 2002 (date of inception) through June 30, 2005.

Condensed Consolidated Balance Sheet
June 30, 2005

		AS PREVIOUSLY REPORTED		ADJUSTMENT	REFERENCE
Cash	$	1,192,465	$		
Total current assets	$	1,192,465	$		
Property, plant and equipment, net	$	20,663	$		
Deposits	$	56,850	$		
Patents, net	$	24,753	$		
Total assets	$	1,294,731	$		
Accounts payable and accrued liabilities	$	933,074	$	104,951	a
Accrued liabilities, related parties	$	95,162	$	41,312	a
Due related parties	$	91,312	$	(91,312)	a
Notes payable	$	425,000	$		
Total current liabilities		1,544,548		54,951	a
Warrant liability	$		$	9,802,137	b
Total liabilities	$	1,544,548	$	9,857,088	a,b
Preferred stock	$	6	$		
Common stock	$	66,412	$		
Common stock subscription	$	(37,000)	$	1,000	c
Common stock receivable	$	-	$	(1,000)	c
Additional paid in capital	$	54,355,065	$	(1,211,527)	d
Accumulated deficit	$	(54,634,300)	$	(8,645,561)	a,b,d
Total deficiency in stockholders' equity	$	(249,817)	$	(9,857,088)	a,b,d
Total liabilities and Deficiency in Stockholders' equity	$	1,294,731	$		

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NOTE J - RESTATEMENT OF JUNE 30 2005 QUARTERLY FINANCIAL STATEMENTS (CONTINUED)

Condensed Consolidated Statement of Income (Losses)
For the Three Months Ended June 30, 2005

Selling, general & administrative	$	2,659,727	$	(794,096)	e
Research and development	$	88,870	$		
Depreciation and amortization	$	3,160	$		
Total operating expenses	$	2,751,757	$	(794,096)	e
Net loss from operations	$	(2,751,757)	$	(794,096)	e
Net gain (loss) in fair value of debt derivative and warrant liability	$	-	$	5,679,175	f
Other income (expense)	$	241	$		
Interest income (expense)	$	(21,557)	$		
Net income (loss)	$	(2,773,073)	$	6,473,271	e,f
Net income (loss) per share-basic	$	(0.04)		0.10	
Net income (loss) per share-fully diluted		NA		0.06	

Condensed Consolidated Statement of Income (Losses)
For the Nine Months Ended June 30, 2005

Selling, general & administrative	$	22,236,607	$	1,952,275	g
Research and development	$	345,958	$		
Depreciation and amortization	$	15,187	$		
Total operating expenses	$	22,597,752	$	1,952,275	g
Net loss from operations	$	(22,597,752)	$	(1,952,275)	g
Net gain (loss) in fair value of debt derivative and warrant liability	$	-	$	16,454,928	h
Other income (expense)	$	3,415	$		
Interest income (expense)	$	(9,224,929)	$	(23,148,214)	b, h
Net income (loss)	$	(31,819,266)	$	(8,645,561)	b,g,h
Net income (loss) per share-basic	$	(.65)		(0.18)	
Net income (loss) per share-fully diluted		NA		NA	

Condensed Consolidated Statement of Income (Losses)
From September 16, 2002 (date of inception) through June 30, 2005

Selling, general & administrative	$	43,296,679	$	1,713,740	i
Research and development	$	345,958	$	238,535	i
Depreciation and amortization	$	18,348	$		
Total operating expenses	$	43,660,985	$	1,952,275	i
Net loss from operations	$	(43,660,985)	$	(1,952,275)	i
Net gain (loss) in fair value of debt derivative and warrant liability	$	-	$	16,454,928	h
Other income (expense)	$	29,800	$		
Interest income (expense)	$	(11,003,115)	$	(23,148,214)	b,h
Net income (loss)	$	(54,634,300)	$	(8,645,561)	b,h,i

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NOTE J - RESTATEMENT OF JUNE 30 2005 QUARTERLY FINANCIAL STATEMENTS (CONTINUED)

Condensed Consolidated Statement of Cash Flows
For the Nine Months Ended June 30, 2005

Cash flows from operating activities					
Net income (loss)	$	(31,819,266)	$	(8,645,561)	j
Adjustments to reconcile to net used in operating activities					
Depreciation and amortization	$	15,187	$		
Warrants issued to consultants	$	1,243,744	$	1,997,324	j
Income attributable to repricing of warrants and debt derivatives	$		$	(16,454,929)	j
Financing costs attributable to issuance of warrants	$		$	23,148,214	j
Amortization of beneficial conversion feature -convertible notes	$	8,836,000	$		
Fair value of common stock issued to related party in excess of debt	$	-	$	1,365,000	j

Common stock issued in exchange for services	$	12,471,727	$	924,475	j
Common stock canceled-previously issued for services rendered	$	(642,098)	$	460,800	j
Change in assets and liabilities:					
Payments of security deposits	$	-	$	(33,291)	j
Decrease in due related parties	$	(20,631)	$		
Increase (decrease) in accounts payable and accrued liabilities	$	(983,197)	$	149,732	j
Net cash used in operating activities	$	(10,898,534)	$	2,911,764	j
Cash flows from investing activities:					
Payments for patent filing	$	(4,347)			
Payments of security deposits	$	(33,291)		33,291	j
Capital expenditures	$	-	$		
Net cash used in investing activities	$	(37,638)	$	33,291	j
Cash flows from financing activities					
Proceeds from sales of common stock, net	$	8,141,055	$	(8,141,055)	j
Proceeds from subscription of common stock	$	2,340,000		(2,340,000)	j
Proceeds from notes converted to stock	$	1,575,000		(1,575,000)	j
Proceeds from issuance of convertible notes	$	-	$	9,079,000	j
Proceeds from exercise of options and warrants	$	70,750	$	32,000	j
Net cash provided by financing activities	$	12,126,805	$	(2,945,055)	j
Net increase in cash and cash equivalents	$	1,190,633	$		
Cash and cash equivalents at beginning of period	$	1,832	$		
Cash and cash equivalents at end of period	$	1,192,465	$		

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Condensed Consolidated Statement of Cash Flows
From September 16, 2002 (date of inception) through June 30, 2005

Cash flows from operating activities					
Net income (loss)	$	(54,634,300)	$	(8,645,561)	k
Adjustments to reconcile to net used in operating activities					
Depreciation and amortization	$	18,348	$		
Organization expenses	$	88,500	$		
Preferred shares issued in exchange for services	$	1,500,000	$		
Warrants issued to consultants	$	3,263,606	$	1,997,324	k
Income attributable to repricing of					

warrants and debt derivatives	$	-	$	(16,454,929)	k
Financing costs attributable to issuance of warrants	$	-	$	23,148,214	k
Amortization of beneficial conversion feature -convertible notes	$	10,461,000	$		
Fair value of common stock issued to related party in excess of debt	$		$	1,365,000	k
Common stock issued in exchange for services					k
	$	24,819,459	$	974,475	
Common stock canceled-previously issued for services rendered					k
	$	(927,673)	$	460,800	
Change in assets and liabilities:					
Payments for security deposits	$		$	(56,850)	k
Increase in prepaid expenses and deposits	$		$		
Decrease in other assets	$	(13,890)	$		
Decrease in due related parties	$	132,065	$		
Increase (decrease) in accounts payable and accrued liabilities	$	822,512	$	99,732	k
Net cash used in operating activities	$	(14,470,373)	$	2,888,205	k
Cash flows from investing activities:					
Payments for patent filing	$	(25,698)	$		
Payments of security deposits	$	(56,850)		56,850	k
Capital expenditures	$	(29,507)	$		
Net cash used in investing activities	$	(112,055)	$	56,850	k
Cash flows from financing activities					
Proceeds from sales of common stock, net	$	8,573,055	$	(8,141,055)	k
Proceeds from subscription of common stock	$	2,465,000		(2,465,000)	k
Proceeds from notes converted to common stock	$	1,575,000		(1,575,000)	k
Proceeds from issuance of convertible notes	$		$	9,204,000	k
Proceeds from exercise of options and warrants	$	311,750	$	32,000	k
Proceeds from loans	$	2,750,000	$		
Advances from shareholders	$	100,088	$		
Net cash provided by financing activities	$	15,774,893	$	(2,945,055)	k
Net increase in cash and cash equivalents	$	1,192,465	$		
Cash and cash equivalents at beginning of period	$	-	$		
Cash and cash equivalents at end of period	$	1,192,465	$		

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(a) Accounts payable and accrued expenses:

In connection with the placement of convertible promissory notes in the amount of $1,465,000 in December 2004 and $1,675,000 in 2003, aggregating $3,140,000, the Company was obligated pursuant to the terms of a registration rights agreement to pay liquidated damages of 3.5% of the aggregate convertible note financing amount each month in the event it failed to have a registration statement registering the shares underlying the convertible notes declared effective by the specified deadline. During its comment process on the Company's Registration Statement on Form SB-2, as amended, the Securities and Exchange Commission requested that the Company provide additional disclosure regarding the Company's accounting policies in connection with the accounting for previously issued common stock, convertible notes and warrants issued pursuant to the registration rights agreement. The Company initially did not calculate the penalties incurred in connection with its failure to meet the deadline to file an effective registration statement. Following its review, the Company concluded that such penalties should be calculated as 3.5% multiplied by $3,140,000 multiplied by 0.5 months, which resulted in an increase of $54,951. The failure to properly account for such penalties resulted in an understatement of liquidated damage penalties (included in selling, general and administrative expense in the accompanying restated statement of losses) and an underestimate of accrued expenses as of June 30, 2005 aggregating $54,951.

Separately, the Company corrected the classification of a non related party debt of $50,000. In addition, the Company, as part of the restatement, consolidated "Accrued liabilities, related parties" and "Due to related parties". To summarize:

	Accounts Payable and accrued liabilities	Accrued liabilities, related parties
Per previously reported	$933,074	$95,162
Accrual of penalties as described above	54,951	
Reclassification of non related party debt	50,000	(50,000)
Consolidation of liabilities due related parties		91,312
Per restatement	$1,038,025	$136,474

b) In conjunction with raising capital through the issuance of convertible promissory notes, the Company issued warrants that have registration rights for the underlying shares. As the contract must be settled by the delivery of registered shares and the delivery of the registered shares is not controlled by the Company, pursuant to EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock", the net value of the warrants of $3,845,039 relating to our December 2004 $1.465 million convertible notes and $19,303,175 relating to our January/February 2005 $7.371 million convertible notes (total of $23,148,214) at the date of issuance was recorded as a warrant liability on the balance sheet charged to operations as interest expense. Upon the registration statement being declared effective, the fair value of the warrants on that date will be reclassified as equity. The Company did not record the fair value of warrant liability of $9,802,137 as of June 30, 2005 with the original filing. The net effect of the adjustment is an increase in liabilities of $9,802,137 as of June 30, 2005.

A summary of the various warrant and debt derivative account components are as follows:

	Debt derivative and warrant liability (Balance Sheet)	Interest Expense (Statement of Income (Loss))
Originally reported:	$ -0-	$ 9,224,929
Initial warrant valuation related to financing (separated on cash flow statement)	23,148,214	23,148,214
Reclassification of warrant liability from equity to liability	3,108,851	
Adjustment to fair value of debt derivative and warrant liability (mark to market change)	(16,454,928)	0
As per amended	$9,802,137	$32,373,143

(c) The Company separated subscription receivable from common stock subscriptions. There was no effect on Deficiency in Stockholders' Equity or Statement of operations.

(d) In conjunction with raising capital through the issuance of convertible promissory notes, the Company issued warrants with registration rights for the underlying shares. The Company initially recorded these warrants as a charge to interest expense with the offsetting entry to additional paid in capital.

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 Company reclassified the net value of the warrants at the date of issuance as a warrant liability of $3,108,851. Upon the registration statement being declared effective, the fair value of the warrants on that date will be reclassified as equity.

Separately, the Company corrected the valuation of non financing warrants issued to non employees by $1,997,324 and charged selling, general and administrative expense.

Additionally, the Company corrected the recording of a subscription for common stock by reducing additional paid in capital and crediting selling, general and administrative.

The table below summarizes the effects in additional paid in capital described above:

	Additional paid in capital
Per previously reported	$54,355,065
Reclassification of warrants related to financing activities to warrant liability	(3,108,851)
Correction of valuation of non financing warrants issued to	

non employees, net of cancellations	1,997,324
Correction of subscription for common stock	(100,000)
Per restatement	$53,143,538

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(e) The Company determined certain warrants issued to non employees having a fair value of $849,047 and charged to operations a selling, general and administrative expenses, were not properly authorized by the Company's Board of Directors and as such, reversed the $849,047 and credited selling, general and administrative expense.

The table below summarizes the effects below:

	Selling, general and administrative for the three months ended June 30, 2005
Per previously reported	$ 2,659,727
Cancellation of unauthorized warrants issued to non employees	(849,047)
Accrual of penalties as described in (a) above	54,951
Per restatement	$ 1,865,631

(f) In conjunction with raising capital through the issuance of convertible promissory notes, the Company issued warrants with 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 Company recorded the net value of the warrants at the date of issuance as a warrant liability of $23,148,214 ($3,845,039 relating to our December 2004 $1.465 million convertible notes and $19,303,175 relating to our January/February 2005 $7.371 million convertible notes) and charged to operations as interest expense. Upon the registration statement being declared effective, the fair value of the warrants on that date will be reclassified as equity. The Company initially valued the warrants using the Black-Scholes pricing model with the following assumptions: (1) a dividend yield of 0%; (2) an expected volatility of 152.59%, (3) a risk-free interest rate of 3.67%, and (4) an expected life of 5 years.

In accordance with SFAS 133 "Accounting for Derivative Instruments and Hedging Activities", the Company revalued the warrants with underlying shares subject to registration rights as of June 30, 2005 using the Black-Scholes option pricing model. Assumptions regarding the life, the expected dividend yield and volatility were left unchanged but the Company applied a risk free interest rate of 3.72%, a volatility of 144.18% and a deemed fair value of common stock of $0.60, which was the closing price of the Company's common stock on June 30, 2005. The difference of $5,679,175 between the fair value of the warrants as of June 30, 2005 and the previous valuation as of March 31, 2005 has been recorded as a gain on revaluation of warrant liability and included in the restated consolidated financial statements.

(g) The net effect of the change of selling, general and administrative expense for the nine months ended June 30, 2005 is summarized below:

	Selling, general and administrative for the nine months ended June 30, 2005
Per previously reported	$ 22,236,607
Correction of valuation of non financing warrants issued to non employees, net of cancellation of warrants having a fair value of $ 849,047 of as described in (d) above	1,997,324
Correction of subscription for common stock as described in (d) above	(100,000)
Accrual of penalties as described in (a) above	54,951
Per restatement	$24,188,882

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NOTE J - RESTATEMENT OF JUNE 30 2005 QUARTERLY FINANCIAL STATEMENTS (CONTINUED)

(h) In conjunction with raising capital through the issuance of convertible promissory notes, the Company issued warrants with 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 Company recorded the net value of the warrants at the date of issuance as a warrant liability of $23,148,214 ($3,845,039 relating to our December 2004 $1.465 million convertible notes and $19,303,175 relating to our January/February 2005 $7.371 million convertible notes) and charged to operations as interest expense. Upon the registration statement being declared effective, the fair value of the warrants on that date will be reclassified as equity. The Company initially valued the warrants using the Black-Scholes pricing model with the following assumptions: (1) a dividend yield of 0%; (2) an expected volatility of 152.59%, (3) a risk-free interest rate of 3.67%, and (4) an expected life of 5 years.

In accordance with SFAS 133 "Accounting for Derivative Instruments and Hedging Activities", the Company revalued the warrants with underlying shares subject to registration rights as of June 30, 2005 using the Black-Scholes option pricing model. Assumptions regarding the life, the expected dividend yield and volatility were left unchanged but the Company applied a risk free interest rate of 3.72%, a volatility of 144.18% and a deemed fair value of common stock of $0.60, which was the closing price of the Company's common stock on June 30, 2005. The difference of $16,454,928 between the fair value of the warrants as of June 30, 2005 and the (initial) previous valuation, inclusive of warrants reclassified from equity to warrant liability of $3,108,851 has been recorded as a gain on revaluation of warrant liability and included in the restated consolidated financial statements (see (b) above).

(i) The following table summarizes the change in selling, general and administrative expenses from September 16, 2002 (date of inception) through June 30, 2005:

	Selling, general and administrative from September 16, 2002 (date of inception through June 30, 2005
Per previously reported	$43,296,679
Correction of valuation of non financing warrants issued to non employees, net of cancellations as described in (d) above	1,997,324
Correction of subscription for common stock as described in (d) above	(100,000)
Accrual of penalties as described in (a) above	54,951
Reclassification of research and development costs	(238,535)
Per restatement	$45,010,419

A breakdown of the various changing elements of the Statement of Cash Flow for the nine months ended June 30, 2005 is displayed below:

NOTE J - RESTATEMENT OF JUNE 30 2005 QUARTERLY FINANCIAL STATEMENTS (CONTINUED)

Cash flows from operating activities			Comp Classi Refe
Net income (loss)	$ (31,819,266)	$	
Initial warrant valuation as described in (f) above	$	$ (23,148,214)	(
Income attributable to repricing of warrants as described in (h) above	$	$ 16,454,929	(

Adjustment for warrants issued to non employees as described in (d) above	$	$ (1,997,324)	(
Accrual of penalties as described in (a) above	$	$ (54,951)	(
Correction of common stock subscription as described in (d) above	$	$ 100,000	(
	$	$ (1)	Rou
Net income (loss) restated	$	$ (8,645,561)	
Adjustments to reconcile to net used in operating activities	$	$	
Depreciation and amortization	$ 15,187	$	
Warrants issued to consultants	$ 1,243,744	$ 1,997,324	(
Income attributable to repricing of warrants and debt derivatives	$	$ (16,454,929)	(
Financing costs attributable to issuance of warrants	$	$ 23,148,214	(
Amortization of beneficial conversion feature -convertible notes	$ 8,836,000	$	
Fair value of common stock issued to related party in excess of debt	$	$	
Reclassification of fair value of common stock issued in excess of debt as described in Note C	$	$ 1,365,000	(
Fair value of common stock issued to related party in excess of debt	$ -	$ 1365,000	
Common stock issued in exchange for services	$ 12,471,727	$	
Correction of common stock subscription as described in (d) above	$	$ (100,000)	(
Reclassification of fair value of common stock issued in excess of debt as described in Note C	$	$ (1,365,000)	(
Correct net common stock canceled-previously issued for services rendered	$	$ (460,800)	(
Correct classification of common stock issued for services rendered classified in error under financing activities	$	$ 2,850,275	(
Common stock issued for services rendered-restated	$	$ 924,475	
Common stock canceled-previously issued for services rendered	$ (642,098)	$	
Correct net common stock canceled-previously issued for services rendered	$	$ 460,800	(
Common stock canceled-previously issued for services rendered-restated	$	$ 460,800	
Change in assets and liabilities:	$	$	
Payments of security deposits	$ -	$	
Reclassification of security deposit to operating activities	$	$ (33,291)	(
Payments of security deposits	$ -	$ (33,291)	
Decrease in due related parties	$ (20,631)	$	
Increase (decrease) in accounts payable and accrued liabilities	$ (983,197)	$	
Accrual of penalties as described in (a) above	$	$ 54,951	(
Reclassification of changes in accrued expenses due related parties	$	$ 94,781	(
Increase (decrease) in accounts payable and accrued liabilities-restated	$	$ 149,732	
Net cash used in operating activities	$ (10,898,534)	$ 2,911,764	
Cash flows from investing activities:	$	$	
Payments for patent filing	$ (4,347)	$	
Payments of security deposits	$ (33,291)	$ 33,291	(
Capital expenditures	$ -	$	
Net cash used in investing activities	$ (37,638)	$ 33,291	
Cash flows from financing activities	$	$	
Proceeds from sales of common stock, net	$ 8,141,055	$	
Correct classification of common stock issued for services rendered classified in error under			

financing activities	$	$ (2,850,275)	(
Reclassification of changes in accrued expenses due related parties	$	$ (94,781)	(

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

NOTE J - RESTATEMENT OF JUNE 30 2005 QUARTERLY FINANCIAL STATEMENTS (CONTINUED)

Reclassification of proceeds form convertible notes	$	$ (5,195,999)	(11)
Proceeds from sales of common stock, net	$	$ (8,141,055)	
Proceeds from subscription of common stock	$ 2,340,000	$ (2,340,000)	(11)
Proceeds from notes converted to stock	$ 1,575,000	$ (1,575,000)	(11)
Proceeds from issuance of convertible notes	$ -	$ 9,079,000	(11)
Proceeds from exercise of options and warrants	$ 70,750	$ 32,000	(11)
Net cash provided by financing activities	$ 12,126,805	$ (2,945,055)	
Net increase in cash and cash equivalents	$ 1,190,633	$	
Cash and cash equivalents at beginning of period	$ 1,832	$	
Cash and cash equivalents at end of period	$ 1,192,465	$	

A breakdown of the various changing elements of the Statement of Cash Flow for the period September 16, 2002 (date of inception) through June 30, 2005 is displayed below:

Cash flows from operating activities			
Net income (loss)	$ (54,634,300)	$	
Initial warrant valuation as described in (f) above	$	$ (23,148,214)	
Income attributable to repricing of warrants as described in (h) above	$	$ 16,454,929	
Adjustment for warrants issued to non employees as described in (d) above	$	$ (1,997,324)	
Accrual of penalties as described in (a) above	$	$ (54,951)	
Correction of common stock subscription as described in (d) above	$	$ 100,000	
	$	$ (1)	Rou
Net income (loss) restated	$	$ (8,645,561)	
Adjustments to reconcile to net used in operating activities	$	$	
Depreciation and amortization	$ 18,348	$	
Organization costs	$ 88,500	$	
Preferred shares issued in exchange for services	$ 1,500,000	$	
Warrants issued to consultants	$ 3,263,606	$ 1,997,324	
Income attributable to repricing of warrants and debt derivatives	$	$ (16,454,929)	
Financing costs attributable to issuance of			

warrants	$		$	23,148,214
Amortization of beneficial conversion feature -convertible notes	$	10,461,000	$	
Fair value of common stock issued to related party in excess of debt	$		$	
Reclassification of fair value of common stock issued in excess of debt as described in Note C	$		$	1,365,000
Fair value of common stock issued to related party in excess of debt	$	-	$	1,365,000
Common stock issued in exchange for services	$	24,819,459	$	
Correction of common stock subscription as described in (d) above	$		$	(100,000)
Reclassification of fair value of common stock issued in excess of debt as described in Note C	$		$	(1,365,000)
Correct net common stock canceled-previously issued for services rendered	$		$	(460,800)
Correct classification of common stock issued for services rendered classified in error under financing activities	$		$	2,900,275
Common stock issued for services rendered-restated	$		$	974,475
Common stock canceled-previously issued for services rendered	$	(927,673)	$	
Correct net common stock canceled-previously issued for services rendered	$		$	460,800
Common stock canceled-previously issued for services rendered-restated	$		$	460,800
Change in assets and liabilities:	$		$	
Payments of security deposits	$	-	$	
Reclassification of security deposit to operating activities	$		$	(56,850)
Payments of security deposits	$	-	$	(56,850)
Decrease in other assets	$	(13,890)	$	
Decrease in due related parties	$	(132,065)	$	
Increase (decrease) in accounts payable and accrued liabilities	$	822,512	$	
Accrual of penalties as described in (a) above	$		$	54,951

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

NOTE J - RESTATEMENT OF JUNE 30 2005 QUARTERLY FINANCIAL STATEMENTS (CONTINUED)

Reclassification of changes in accrued expenses due related parties	$		$	44,781	(
Increase (decrease) in accounts payable and accrued liabilities-restated	$		$	99,732	

Net cash used in operating activities	$	(14,470,373)	$	2,888,205	
Cash flows from investing activities:	$		$		
Payments for patent filing	$	(25,698)	$		
Payments of security deposits	$	(56,850)	$	56,850	
Capital expenditures	$	(29,507)	$		
Net cash used in investing activities	$	(112,055)	$	56,850	
Cash flows from financing activities	$		$		
Proceeds from sales of common stock, net	$	8,573,055	$		
Correct classification of common stock issued for services rendered classified in error under financing activities	$		$	(2,900,275)	
Reclassification of changes in accrued expenses due related parties	$		$	(44,781)	(
Reclassification of proceeds form convertible notes	$		$	(5,195,999)	(
Proceeds from sales of common stock, net	$		$	(8,141,055)	
Proceeds from subscription of common stock	$	2,465,000	$	(2,465,000)	(
Proceeds from notes converted to stock	$	1,575,000	$	(1,575,000)	(
Proceeds from issuance of convertible notes	$	-	$	9,204,000	(
Proceeds from exercise of options and warrants	$	311,750	$	32,000	(
Net cash provided by financing activities	$	15,774,893	$	(2,945,055)	
Net increase in cash and cash equivalents	$	1,192,465	$		
Cash and cash equivalents at beginning of period	$		$		
Cash and cash equivalents at end of period	$	1,192,465	$		

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion should be read in conjunction with our Consolidated Financial Statements and Notes thereto, included elsewhere within this report. The quarterly report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements using terminology such as "can", "may", "believe", "designated to", "will", "expect", "plan", "anticipate", "estimate", "potential" or "continue", or the negative thereof or other comparable terminology regarding beliefs, plans, expectations or intentions regarding the future. You should read statements that contain these words carefully because they:

- discuss our future expectations;
- contain projections of our future results of operations or of our financial condition; and
- state other "forward-looking" information.

We believe it is important to communicate our expectations. However, forward looking statements involve risks and uncertainties and our actual results and the timing of certain events could differ materially from those discussed in forward-looking statements as a result of certain factors, including those set forth under "Risk Factors," "Business" and elsewhere in this prospectus. All forward-looking statements and risk factors included in this document are made as of the date hereof, based on information available to us as of the date thereof, and we assume no obligations to update any forward-looking statement or risk factor, unless we are required to do so by law.

PLAN OF OPERATIONS

Sales and Marketing

We believe our revenues will come from three sources:

- direct sales to manufacturers, distributors, and/or retailers;
- sales through our OEM relationships; and
- 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 Technology, Inc.'s ("Biowell") 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 signing of our licenses with Biowell, (b) the establishment of our prototyping labs at the State University of New York at Stony Brook ("Stony Brook University"), 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, scientific development, operations and corporate governance, business development and sales, including relations with US and foreign government agencies, developing business relationships with target corporations and OEM's, and securing revenues. Our Controller and acting Chief Financial Officer cover overall financial management, financial reporting, corporate administration and 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 Chairman oversees the operations of Biowell, including the development of all Asian territorial sales that are subject to royalty payments due to us. Both our Chairman and our Strategic Technology Development Officer manage 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 market and sell new product lines derived from, but not limited to, DNA technology. Improving prototyping and detection capabilities is an ongoing commitment and is currently underway in the Biowell labs and will continue in the U.S. at our new facilities established at the Long Island High Technology Incubator (LIHTI) at Stony Brook University. We are also looking for opportunities to collaborate with universities to develop a new line of detection technologies that will provide faster and more convenient ways to authenticate DNA. We are continuously attempting to incorporate our DNA markers with various products for new applications. 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 such 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)
- 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 us 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

Financial Reporting Release No. 60, published by the SEC, recommends that all companies include a discussion of critical accounting policies used in the preparation of their financial statements. While all these significant accounting policies impact our financial condition and results of operations, we view certain of these policies as critical. Policies determined to be critical are those policies that have the most significant impact on our consolidated financial statements and require management to use a greater degree of judgment and estimates. Actual results may differ from those estimates.

We believe that given current facts and circumstances, it is unlikely that applying any other reasonable judgments or estimate methodologies would cause a material effect on our consolidated results of operations, financial position or liquidity for the periods presented in this report.

The accounting policies identified as critical are as follows:

- Equity issued with registration rights
- Warrant liability
- Fair value of intangible assets

Equity Issued with Registration Rights

In connection with placement of our convertible notes and warrants to certain investors during the fiscal quarter ended March 31, 2005, we granted certain registration rights that provide for liquidated damages in the event of failure to timely perform under the agreements. Although these notes and warrants do not provide for net-cash settlement, the existence of liquidated damages provides for a defacto net-cash settlement option. Therefore, the common stock underlying the notes and warrants subject to such liquidated damages does not meet the tests required for shareholders' equity classification, and accordingly has been reflected between liabilities and equity in the accompanying consolidated balance sheet until such time as the conditions are eliminated.

Warrant Liability

In connection with the placement of certain debt instruments during the fiscal quarter ended June 30, 2005, as described above, we issued freestanding warrants. Although the terms of the warrants do not provide for net-cash settlement, in certain circumstances, physical or net-share settlement is deemed to not be within our control and, accordingly, we are required to account for these freestanding warrants as a derivative financial instrument liability, rather than as shareholders' equity.

The warrant liability is initially measured and recorded at its fair value, and is then re-valued at each reporting date, with changes in the fair value reported as non-cash charges or credits to earnings. For warrant-based derivative financial instruments, the Black-Scholes option pricing model is used to value the warrant liability.

The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is re-assessed at the end of each reporting period. Derivative instrument liabilities are classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within 12 months of the balance sheet date.

We do not use derivative instruments to hedge exposures to cash flow, market, or foreign currency risks.

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 $24.12 million. 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.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenue and expenses during the reporting period. The most significant estimates relate to the estimation of percentage of completion on uncompleted contracts, valuation of inventory, allowance for doubtful accounts and estimated life of customer lists. Actual results could differ from those estimates.

Revenues

From our inception on September 16, 2002, we did not generate material revenues from operations. We have, however, generated $0.019 million in sales of our products for the three months ended June 30, 2006. Our cost of sales for the same period was $0.016 million netting us a gross profit of $0.003 million. We believe we will not generate material revenues from operations in the current fiscal year as we transition from a development stage enterprise to an active growth stage company, although no assurances can be given that we will generate any additional revenues from operations.

Costs and Expenses

Selling, General and Administrative

Selling, general and administrative expenses for the for the three month period ended June 30, 2006 compared to same period in 2005 decreased $284,664 or 15% to $1.581 million from $1.865 million. For the nine months ended June 30, 2006, selling, general and administrative expenses decreased $19.798 million or 82% to $4.391 million from $24.189 million in the prior period. These deceases are due to non-recurring financing and related costs incurred in the prior year.

Research and Development

Research and development expenses for the three months ended June 30, 2006 decreased $88,870 or 100% to $-0- from $88,870 the same period in 2005. For the nine months ended June 30, 2006, research and development expenses deceased $270,682 million or 78.3% to $75,276 from $345,958 million for the same period in 2005. Prior year's costs were primarily due to startup of collaboration with The Center for Biotechnology at Stony Brook University.

Depreciation and Amortization

In the three month period ended June 30, 2006, depreciation and amortization increased $333,664 for the period compared to the same period in 2005 from $3,160 to $336,824. For the nine month period ended June 30, 2006, depreciation and amortization increased $1.006 million to $1.021 million from the same period last year of $15,187. In the year ended September 30, 2005, we capitalized $9.431 million related to an intellectual property asset acquisition. As a result, we recorded amortization expense totaling $1,010,454 for the nine month period ended June 30, 2006 compared to no intangible asset amortization in the nine months ended June 30, 2005. We estimate a seven year useful life that commenced during the fourth fiscal quarter of 2005.

Total Operating Expenses

Total operating expenses during the three and nine months ended June 30, 2006 decreased to $1.918 million from $1.915 million and $5.488 million from $24.550 million, respectively as a result of the combination of factors listed above.

Other income/loss

Gain on revaluation of warrant and debt derivative liability the three month period ended June 30, 2006 deceased $2.185 million to $3.494 million from $5.679 million for the same period last year. For the nine month period ended June 30, 2006, the gain on revaluation of warrant and debt derivative liability decreased 2.204 million to $14.251 from $16.455 the prior same period.

Interest Expenses

Interest expense for the three month period ended June 30, 2006 increased $805,270 to $826,827 from $21,557 for the same period in 2005. For the nine month period ended June 30, 2006; interest decreased $29.200 million to $3.177 million from $32.373 million in same period 2005. The increase in three months ended June 30, 2006 is a result of additional financing costs incurred in the current period. The decease in the current nine month period ended June 30, 2006 is a result of a net reduction finance related costs incurred the prior period in 2005 as compared to the current period.

Net Income (loss)

Net income for the three month period month period ended June 30, 2006 decreased $2.939 million to $0.761 million from $3.701 million for the same period last year. For the nine months ended June 30, 2006, net income increased $46.072 to a net income of $5.607 million from a same period prior year loss of $40.465.These changes are a result of the combination of factors described above.

Liquidity and Capital Resources

Our liquidity needs originate 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 fiscal 2005, we completed two private placements of convertible debt and associated warrants. In December, 2004 we issued and sold $1.465 million in aggregate principal amount of promissory notes, convertible at $0.50 per share, and associated warrants to purchase up to 2,930,000 shares of our common stock, exercisable at $0.75 per share for three years from their date of issuance, to 13 investors (the "December 2004 Placement"). 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 subsequent private placement by us for at least $1 million. In January and February of 2005, we issued and sold $7.371 million in aggregate principal amount of 10% Secured Convertible Promissory Notes, convertible at $0.50 per share, and associated warrants to purchase up to 14,742,000 shares of our common stock, exercisable at $0.75 per share until five years from their date of issuance, to 61 investors (the "January and February 2005 Placement"). Upon the closing of the January and February 2005 Offering, the notes issued in the December 2005 Placement automatically converted into an aggregate of 2,930,000 shares of our common stock, and upon the filing of this registration statement on February 15, 2005, the notes issued in the January and February 2005 Placement automatically converted into an aggregate of 14,742,000 shares of our common stock. Additional private placements in fiscal 2005 raised $243,000. We also received proceeds of $60,000 from the exercise of a warrant to purchase 100,000 shares of our common stock in fiscal 2005. The $9.135 million in gross proceeds from these private placements and warrant exercises were used to fund commissions, fees and expenses associated with the placements, consultants and public reporting costs, salaries and wages, royalties, research and development, facility costs as well as general working capital needs. Since the conversion price of the notes issued in the December 2005 Placement and the January and February 2005 Placement was less than the market price of our common stock at the time these notes were issued, we recognized a charge relating to the beneficial conversion feature of these notes during the quarter in which they are issued.

In the nine month period ended June 30, 2006, we completed three additional private placements of convertible debt and associated warrants. On November 3, 2005, we issued and sold a promissory note in the principal amount of $550,000 to Allied International Fund, Inc. ("Allied"). Allied in turn financed a portion of the making of this loan by borrowing $450,000 from certain persons, including $100,000 from James A. Hayward, a director and our Chief Executive Officer. The terms of the promissory note provided that we issue upon the funding of the note warrants to purchase 5,000,000 shares of our common stock at an exercise price of $0.50 per share to certain persons designated by Allied. On November 9, 2005, we issued nine warrants to Allied and eight other persons to purchase an aggregate of 5,500,000 shares of our common stock at an exercise price of $0.50 per share. These warrants included a warrant to purchase 1,100,000 shares that was issued to James A. Hayward, a director and our Chief Executive Officer. We paid $55,000 in cash to VC Arjent, Ltd. for its services as the placement agent with respect to this placement. All principal and accrued but unpaid interest under the promissory note was paid in full shortly after the closing of and from the proceeds of a private placement we completed on March 8, 2006. On March 8, 2006, we issued and sold an aggregate of 30 units consisting of (i) a $50,000 principal amount secured convertible promissory note bearing interest at 10% per annum and convertible at $0.50 per share, and (ii) a warrant to purchase 100,000 shares of our common stock at an exercise price of $0.50 per share, for aggregate gross proceeds of $1.5 million. The units were sold pursuant to subscription agreements by and between each of the purchasers and Applied DNA Operations Management, Inc., a Nevada corporation and our wholly owned subsidiary (our "Subsidiary"). The $2.050 million in gross proceeds from these first two offerings were held by our Subsidiary for our benefit and used to fund commissions, fees and expenses associated with the placements, to repay the outstanding promissory note described above plus accrued interest thereunder, to fund financing fees, consultants and public reporting costs, salaries and wages, research and development, facility costs as well as and general working capital needs. On March 24, 2006, we commenced an offering (the "Offshore Offering") of up to 140 units, at a price of $50,000 per unit, for a maximum offering of $7 million for sale to "accredited investors" who are not "U.S. persons." The units being sold as part of the Offshore Offering consist of (i) a $50,000 principal amount secured convertible promissory note, and (ii) a warrant to purchase 100,000 shares of our common stock at a price of $0.50 per share. On May 2, 2006, we closed on the first tranche of the Offshore Offering in which we sold 20 units for aggregate gross proceeds of $1,000,000. We paid Arjent Limited $375,000 in commissions, fees and expenses from these gross proceeds. On June 15, 2006, we completed the second tranche of the Offshore Offering in which we sold 59 units for aggregate gross proceeds of $2,950,000. We paid Arjent Limited $442,500 in commissions, fees and expenses from these gross proceeds. Additionally, we are obligated to issue 2,400,000 shares of our Company's common stock to Arjent at $0.001 per share; substantially less than the market price of $0.20 at the time of the obligation.

On March 29, 2006 and April 13, 2006, we borrowed $200,000 in the aggregate, at a rate of 7.5% per annum, from BioCogent, Ltd., a New York corporation ("BioCogent") whose President and Chief Executive Officer and sole stockholder is James A. Hayward, one of our directors and our Chief Executive Officer. These loans are due and payable upon the earlier to occur of (1) the close of business on June 30, 2006, or (2) the closing of the issuance and sale of our securities for gross proceeds of at least $250,000. The proceeds from the loans were used for general corporate purposes. The note issued on March 29, 2006 was repaid with interest in May, 2006. The note issued on April 13, 2006 was repaid with interest in June, 2006.

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

As of June 30, 2006, we had a working capital deficit of $2,982,927. For the nine months ended June 30, 2006, we generated a net cash flow deficit from operating activities of $2,306,666 consisting primarily of year to date income of $5.043 million net with a non cash gain on repricing of warrants and debt derivatives of $14.251 million.. Non cash equity adjustments totaling a net $1,611,008 included $606,850 in expensed warrants issued in connection with the November, 2005 financing, $710,200 in net stock issued for consulting services, $773,958 in penalty stock issued pursuant to the registration rights agreement from the private placement in January and February, 2005, and $480,000 in cancelled shares for services previously rendered. Finally, non cash depreciation and amortization including amortization of capitalized financing costs totaled $1,268,437 while net assets and liabilities decreased by $1.606 million. Cash used in investing activities totaled $35,851 primarily for increased furniture and equipment acquired. Cash provided by financing activities for the nine months ended June 30, 2006resulted from the financing discussed above of $4.243 million.

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As of June 30, 2006, we had $3,306,371 in outstanding notes payable. Please see Note C in our unaudited financial statements for the terms of such notes payable. We expect capital expenditures to total less than $200,000 during the 2006 fiscal year. Our primary investments will be in laboratory equipment to support prototyping and our authentication services.

We have raised capital to meet our working capital needs in the past, and will likely require additional financing within the next 9 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 9 months or longer. We presently do not have any available credit, bank financing or other readily available external sources of liquidity. 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, a downturn in the U.S. or global stock and debt markets and other reasons could make it more difficult to obtain financing through the issuance of equity securities or borrowing. Further, if we issue additional equity or convertible 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, 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.

In connection with the January and February 2005 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 June 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. Thus far we have decided to pay the liquidated damages in common stock, although any future payments of liquidated damages may, at our option, be made in cash. If we decide to pay the liquidated damages in cash, we would be required to use our limited working capital and potentially raise additional funds. If we decide to pay the liquidated damages in shares of common stock, the number of shares issued would depend on our stock price at the time that payment is due. Based on the closing market 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 a total of 3,807,375 shares of common stock in liquidated damages from August, 2005 to January, 2006. 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.. Liquidated damages in the form of common stock were paid for the period from June 15, 2005 to December 15, 2005. We believe that we have no enforceable obligation to pay further liquidated damages since the shares we agreed to register for resale are eligible for resale under Rule 144 of the Securities Act of 1933, as amended, and such continuing liquidated damages are grossly inconsistent with actual damages to the purchasers of the notes and warrants. However, we are seeking to confirm this position by obtaining the waiver and release of the holders of these securities of further liquidated damages. If these persons do not waive and release and successfully bring a claim against us with respect to such liquidated damages, it could result in a significant decrease in our liquidity or assets, which could result in the reduction or termination of our business. As of June 30, 2006 we have accrued $1,547,910 in penalties representing the further liquidated damages associated with our failure to file the registration statement by the deadline and have included this amount in accounts payable and accrued expenses.

Matters Voluntarily Reported to the SEC and Securities Act Violations

During the months of March, May, July and August 2005, we issued a total of 8,550,000 shares of our common stock to certain employees and consultants pursuant to the 2005 Incentive Stock Plan. We engaged our outside counsel to conduct an investigation of the circumstances surrounding the issuance of these shares. On April 26, 2006, we voluntarily reported the findings from this investigation to the SEC, and 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 our 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. The Company's investigation is continuing. The members of the Company's management who effectuated the stock issuances that are being examined in the investigation no longer work for the Company. The Company believes it may incur significant costs and expenses in connection with this investigation. Further, these shares were not registered under the Securities Act of 1933, or the securities laws of any state, and we believe that certain of these shares may have been sold on the open market, though we have been unable to determine the magnitude of such sales. In addition, if violations of securities laws occurred in connection with the resale of certain of these shares, the employees and consultants or persons who purchased shares from them may have rights to have their purchase rescinded or other claims against us for violation of securities laws, which could harm our business, results of operations, and financial condition.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Product Research and Development

As a result of the recent financings, we anticipate expending $200,000 of available cash towards research and development activities during the next twelve (12) months.

Acquisition of Plant and Equipment and Other Assets

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

Number of Employees

From our inception through the period ended June 30, 2006, we have mainly relied on the services of outside consultants for services. We currently have five employees. In order for us to attract and retain quality personnel, we anticipate we will have to offer competitive salaries to future employees. We anticipate that it may become desirable to add additional full and or part time employees to discharge certain critical functions during the next 12 months. This projected increase in personnel is dependent upon our ability to generate revenues and obtain sources of financing. There is no guarantee that we will be successful in raising the funds required or generating revenues sufficient to fund the projected increase in the number of employees. As we continue to expand, we will incur additional cost for personnel.

Going Concern

The financial statements included in this filing have been prepared in conformity with generally accepted accounting principles that contemplate our continuance of as a going concern. Our cash position may be inadequate to pay all of the costs associated with testing, production and marketing of products. Management intends to use borrowings and security sales to mitigate the effects of its cash position, however no assurance can be given that debt or equity financing, if and when required will be available. The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets and classification of liabilities that might be necessary should we be unable to continue existence.

Trends, Risks and Uncertainties

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

RISK FACTORS

Much of the information included in this quarterly report includes or is based upon estimates, projections or other "forward-looking statements". Such forward-looking statements include any projections or estimates made by us and our management in connection with our business operations. While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect our

current judgment regarding the direction of our business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions or other future performance suggested herein.

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

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

RISKS RELATING TO OUR BUSINESS

We have a Short Operating History, a Relatively New Business Model, and Have Not Produced Significant Revenues. This Makes it Difficult to Evaluate Our Future Prospects and Increases the Risk That We Will Not Be Successful.

We have a short operating history with our current business model, which involves the marketing, sale and distribution of embedded-DNA security products based on technologies that we acquired in July 12, 2005 from, and that are manufactured for us by, Biowell Technology, Inc. We first derived revenue from this model in the second calendar quarter of 2006, which was insignificant. Prior to the July 12, 2005 acquisition, our operations consisted principally of providing marketing and business development services to Biowell Technology, Inc. As a result, we have very limited operating history for you to evaluate in assessing our future prospects. We are in the process of transitioning from a developmental stage to a early-stage growth enterprise. Our operations since inception have not produced significant revenues, and may not produce significant revenues in the near term, or at all, which may harm our ability to obtain additional financing and may require us to reduce or discontinue our operations. If we create revenues in the future, prior to our introduction of any new products, we will derive all such revenues from the sale of embedded-DNA security products, which is an immature industry. You must consider our business and prospects in light of the risks and difficulties we will encounter as an early-stage company in a new and rapidly evolving industry. We may not be able to successfully address these risks and difficulties, which could significantly harm our business, operating results, and financial condition.

We Have a History Of Losses Which May Continue, and Which May Harm Our Ability to Obtain Financing and Continue Our Operations.

We generated a net income of $5,606,849 for the nine-month period ended June 30, 2006, $64,824,755 loss for the fiscal year ended September 30, 2005, and $19,358,259 loss for the fiscal year ended September 30, 2004. These net losses have principally been the result of the various costs associated with our selling, general and administrative expenses as we commenced operations, acquired, developed and validated technologies and began marketing activities, and our interest, warrant and derivative expenses relating to notes and warrants we issued to obtain financing. Our operations are subject to the risks and competition inherent in a company moving from the development stage to a new growth enterprise. We may not generate sufficient revenues from operations to achieve or sustain profitability on a quarterly, annual or any other basis in the future. Our revenues and profits, if any, will depend upon various factors, including whether our existing products or any new products we develop will achieve any level of market acceptance. If we continue to incur losses, our accumulated deficit will continue to increase, which might significantly impair our ability to obtain additional financing. As a result, our business, results of operations and financial condition would be significantly harmed, and we may be required to reduce or terminate our operations.

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

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We believe that our existing capital resources will enable us to fund our operations until approximately April, 2007. We believe we will be required to seek additional capital to sustain or expand our prototype and sample manufacturing, and sales and marketing activities, and to otherwise continue our business operations beyond that date. We have no commitments for any future funding, and may not be able to obtain additional financing or grants on terms acceptable to us, if at all, in the future. If we are unable to obtain additional capital this would restrict our ability to grow and may require us to curtail or discontinue our business operations. Additionally, while a reduction in our business operations may prolong our ability to operate, that reduction would harm our ability to implement our business strategy. If we can obtain any equity financing, it 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, and that they have substantial doubt about our ability to continue as a going concern. Our auditors' doubts are based on our incurring net losses of $89,924,553 during the period from September 16, 2002 (date of inception) to 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 by the sale of our securities, obtaining loans from financial institutions, or obtaining grants from various organizations or governments, where possible. Our continued net operating losses and our auditors' doubts increase the difficulty of our meeting such goals and our efforts to continue as a going concern may not prove successful.

If Our Existing Products are not Accepted by Potential Customers or We Fail to Introduce New Products, Our Business, Results of Operations and Financial Condition Will be Harmed.

There has been limited or no market acceptance of our embedded-DNA security products to date. Some of the factors that will affect whether we achieve market acceptance of our products include:

- availability, quality and price 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 anti-counterfeit and security products' research.

The expenses or losses associated with the continued lack of market acceptance of our products will harm our business, operating results and financial condition.

Rapid technological changes and frequent new product introductions are typical for the markets we serve. Our future success may depend in part on continuous, timely development and introduction of new products that address evolving market requirements. We believe successful new product introductions may 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 any market share we then have 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 may not keep pace with the rapid rate of change in anti-counterfeiting and security products' research, and any new products acquired or developed by us may not meet the requirements of the marketplace or achieve market acceptance.

We Need to Expand Our Sales, Marketing and Support Organizations and Our Distribution Arrangements to Increase Market Acceptance of Our Products.

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We currently have few sales, marketing, customer service and support personnel and will need to increase our staff to generate a greater volume of sales and to support any new customers or the expanding needs of existing customers. The employment market for sales, marketing, customer service and support personnel in our industry is very competitive, and we may not be able to hire the kind and number of sales, marketing, customer service and support personnel we are targeting. Our inability to hire qualified sales, marketing, customer service and support personnel may harm our business, operating results and financial condition. 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. If we are not able to develop greater distribution capacity, we may not be able to generate sufficient revenue to support our operations.

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

Though we manufacture our own prototypes and samples, we do not own or operate any manufacturing facilities and depend upon independent third parties for the manufacture of all of our products 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 harm our business by resulting in decreased revenues or net losses upon sales of products, if any sales could be made.

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 our existing manufacturers must be replaced, we will need to establish new relationships with another or multiple manufacturers. We cannot assure you that this additional third party manufacturing capacity will be available when required on terms that are acceptable to us or terms similar to those we have with our existing manufacturers, either from a production standpoint or a financial standpoint. We do not have long-term contracts with our manufacturers, and our manufacturers do not produce our products exclusively. Should we be forced to replace 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 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 their ultimate actions. 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 our independent manufacturers, 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.

Failure to License New Technologies Could Impair Sales of Our Existing Products or Any New Product Development We Undertake in the Future.

To generate broad product lines, it is advantageous to sometimes license technologies from third parties rather than depend exclusively on the development efforts of 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. There can be no assurance that we will be able 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. Intellectual property licenses would typically subject us to various commercialization, 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, and we may not receive significant indemnification from a licensor against third party claims of intellectual property infringement.

Our Failure To Manage Our Growth In Operations and Acquisitions of New Product Lines and New Businesses Could Harm our Business.

Any growth in our operations, if any, will place a significant strain on our current management resources. To manage such growth, we would need to improve our:

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

Our future growth, if any, may be attributable to acquisitions of new product lines and new businesses. Future acquisitions, if successfully consummated, would likely create increased working capital requirements, which would 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 would 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, 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,the Chairman of our Board of Directors; Dr. James A.Hayward, our Chief Executive Officer; and Dr. Benjamin 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 significantly harm our business, results of operations and financial condition. We do not maintain key-man insurance on the life of Drs. Sheu, Hayward or Liang.

Failure to Attract and Retain Qualified Scientific, Production and Managerial Personnel Could Harm Our Business.

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Recruiting and retaining qualified scientific and production personnel to manage and perform prototype, sample, and product manufacturing is critical to our success. Because the industry in which we compete is very competitive, we face significant challenges attracting and retaining a qualified personnel base. Although we believe we have been and will be able to attract and retain these personnel, there is no assurance that we will be able to continue to successfully attract qualified personnel. In addition, our desired 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 harm our business since our ability to conduct business development and manufacturing will be reduced or eliminated, resulting in lower revenues. We generally do not enter into employment agreements requiring our employees to continue in our employment for any period of time.

The DNA Security Technology 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 DNA security technology 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, also work with 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. Some of our competitors in the anti-counterfeiting and fraud protection space that we are aware of include: Authentix, InkSure, DNA Technologies, Inc., Art Guard International, Theft Protection Systems, Tracetag and November AG. Although it is difficult to determine the total size of the markets in which we operate and other market data because companies are secretive about what security methods they utilize and how much they spend on such measures, we have determined that approximate annual sales by some of our competitors have been as follows:

InkSure - $1 million
DNA Technologies, Inc. - $22.6 million
November AG - $5.8 million

We expect this competition to continue and intensify in the future. Competition 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 significantly harmed.

Our Intellectual Property Rights Are Valuable, and Any Inability to Protect Them Could Reduce the Value of Our Products, Services and Brand.

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Our patents, trademarks, trade secrets, copyrights and all of our other intellectual property rights are important assets for us. There are events that are outside of our control that pose a threat to our intellectual property rights as well as to our products and services. For example, effective intellectual property protection may not be available in every country in which our products and services are distributed. The efforts we have taken to protect our proprietary rights may not be sufficient or effective. Any significant impairment of our intellectual property rights could harm our business or our ability to compete. Protecting our intellectual property rights is costly and time consuming. Any increase in the unauthorized use of our intellectual property could make it more expensive to do business and harm our operating results. Although we seek to obtain patent protection for our innovations, it is possible we may not be able to protect some of these innovations. Given the costs of obtaining patent protection, we may choose not to protect certain innovations that later turn out to be important. There is always the possibility that the scope of the protection gained from one of our issued patents will be insufficient or deemed invalid or unenforceable. We also seek to maintain certain intellectual property as trade secrets. The secrecy could be compromised by third parties, or intentionally or accidentally by our employees, which would cause us to lose the competitive advantage resulting from these trade secrets.

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. 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. A court may decide that we are infringing the third party's patents and would order us to stop the activities covered by the patents. In addition, a court may 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 or our licensor's issued patents or 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.

Litigation Generally Could Affect Our Financial Condition and Results of Operations.

We generally may be subject to claims made by and required to respond to litigation brought by customers, former employees, former officers and directors, former distributors and sales representatives, and vendors and service providers. We have faced such claims and litigation in the past and we cannot assure that we will not be subject to claims in the future. In the event that a claim is successfully brought against us, considering our lack of revenue and the losses our business has incurred for the period from our inception to June 30, 2006, this could result in a significant decrease in our liquidity or assets, which could result in the reduction or termination of our business.

Our Failure to File a Registration Statement Could Affect Our Financial Condition and Results of Operations.

In June 2005, we engaged Trilogy Capital Partners, Inc. ("Trilogy") and Joff Pollon ("Pollon") as consultants. In connection with that engagement we issued to Trilogy a warrant to purchase 7,500,000 shares of our common stock at a price of $0.55 per share and Joff Pollon ("Pollon") a warrant to purchase 1,500,000 shares of our common stock at a price of $0.55 per share. We also agreed to file a registration statement with the Securities and Exchange Commission ("SEC") with respect to the shares underlying such warrants no later than the earlier to occur of: (i) 15 days following the effectiveness of the registration statement of which this prospectus forms a part, or (ii) September 15, 2005. As of the date hereof we have not filed a registration statement with respect to the shares of our common stock underlying such warrants. In the event that a claim is successfully brought by the holders of such warrants against us with respect to this matter, 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 June 15, 2005, and any Payment of Liquidated Damages Will Either Result in Depletion of Our Working Capital or Issuance of Shares of Common Stock Which Would Cause Dilution to Our Existing Shareholders.

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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 June 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. Thus far we have decided to pay the liquidated damages in common stock, although any future payments of liquidated damages may, at our option, be made in cash. If we decide to pay such liquidated damages in cash, we would be required to use our limited working capital and potentially raise additional funds. If we decide to pay the liquidated damages in shares of common stock, the number of shares issued would depend on our stock price at the time that payment is due. Based on the closing market 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 a total of 3,806,240 shares of common stock in liquidated damages from August, 2005 to January, 2006. 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.

Liquidated damages in the form of common stock were paid for the period from June 15, 2005 to December 15, 2005. We believe that we have no enforceable obligation to pay further liquidated damages since the shares we agreed to register for resale are eligible for resale under Rule 144 of the Securities Act of 1933, as amended, and such continuing liquidated damages are grossly inconsistent with actual damages to the purchasers of the notes and warrants. However, we are seeking to confirm this position by obtaining the waiver and release of the holders of these securities of further liquidated damages. If these persons do not waive and release and successfully bring a claim against us with respect to such liquidated damages, it could result in a significant decrease in our liquidity or assets, which could result in the reduction or termination of our business. As of June 30, 2006 we have accrued $1,547,910 in penalties representing the further liquidated damages associated with our failure to file the registration statement by the deadline and have included this amount in accounts payable and accrued expenses.

Matter Voluntarily Reported to the Securities and Exchange Commission

During the months of March, May, July and August 2005, we issued a total of 8,550,000 shares of our common stock to certain employees and consultants pursuant to the 2005 Incentive Stock Plan. We engaged our outside counsel to conduct an investigation of the circumstances surrounding the issuance of these shares. On April 26, 2006, we voluntarily reported the findings from this investigation to the SEC, and 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 our 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. The Company's investigation is continuing. The members of the Company's management who effectuated the stock issuances that are being examined in the investigation no longer work for the Company. The Company believes it may incur significant costs and expenses in connection with this investigation. Further, these shares were not registered under the Securities Act of 1933, or the securities laws of any state, and we believe that certain of these shares may have been sold on the open market, though we have been unable to determine the magnitude of such sales. In addition, if violations of securities laws occurred in connection with the resale of certain of these shares, the employees and consultants or persons who purchased shares from them may have rights to have their purchase rescinded or other claims against us for violation of securities laws, which could harm our business, results of operations, and financial condition.

There Are a Large Number of Shares Underlying Our Options and 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 June 30, 2006, we had 118,582,385 shares of common stock issued and outstanding and outstanding options and warrants to purchase in the aggregate approximately 57,129,464 shares of common stock. All of the shares issuable upon exercise of our options and 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 options and 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 Over The Counter Bulletin Board ("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 six 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 SEC 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 3. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of June 30, 2006, our management carried out an evaluation, under the supervision of our Chief Executive Officer and Chief Financial Officer of the effectiveness of the design and operation of our system of disclosure controls and procedures pursuant to the Securities and Exchange Act, Rule 13a-15(e) and 15d-15(e) under the Exchange Act). Based on that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are not effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that such information is not accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure. Please see the subsection "Significant Deficiencies In Disclosure Controls And Procedures Or Internal Controls" below.

Changes in internal controls

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. As described below, as a result of our evaluation of our disclosure controls and procedures as of June 30, 2006, we determined that our controls and procedures are not effective and subsequent to the period of this report, began to implement changes to our internal controls.

Significant Deficiencies In Disclosure Controls And Procedures Or Internal Controls

As previously reported, on July 11, 2005, we determined there were errors in accounting for the valuation of equity consulting service transactions during the January through March 2005 time period. The valuation resulted in the overstatement of approximately $2.9 million in services provided. The errors were discovered in connection with a comment raised by the 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. During the quarter ended June 30, 2006, we implemented the following changes in our internal controls to resolve these weaknesses and deficiencies:

Establish and maintain a separate binder of all board authorized activities and a binder with forward looking "budget" of anticipated or contemplated activity for each of the following:

- o shares issued for services;
- o shares issued for employees;
- o warrant exercises;
- o option exercises;

- authorized shares and warrant re-pricing;
- shares issued in exchange for debt; and
- upcoming ESOP grants and exercises;
- require the signature of the principal executive and accounting officers for all issuances of securities;
- require monthly review of share issuances compared to binders; and
- authorize our transfer agent to handle and track all warrants and ESOP grants.

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

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PART II--OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

Paul Reep v. Applied DNA Sciences, Inc., Case No.: BC345702

Plaintiff Paul Reep, a former employee, commenced this action against us in the Superior Court for the Sate of California for the County of Los Angeles on January 10, 2006. Paul Reep asserts eight causes of action for breach of contract, breach of an oral agreement, negligent misrepresentation, interference with prospective business advantages, defamation, fraud, accounting and constructive trust, unjust enrichment. The relief sought includes damages and attorneys' fees. We dispute all of the allegations of this complaint and intend to vigorously defend this mater. In this matter we have asked the court to make a judicial determination that an agreement, which we did not authorize and which is the basis of previously disclosed litigation against us by Paul Reep, our former employee, and a new action filed by our former employees as set forth in the subsequent paragraphs is invalid and unenforceable. The court has stayed all proceedings in this matter pending the resolution of the parallel federal case, Applied DNA Sciences Inc. v. Reep, et al., discussed below.

Applied DNA Sciences, Inc. v. Paul Reep, Adrian Butash, John Barnett, Chanty

Cheang, Jaime Cardona, and Angela Wiggins, Case No. CV06-2027 RGK We filed this action against the defendants, Paul Reep, Adrian Butash, John Barnett, Chanty Cheang, Jaime Cardona, and Angela Wiggins on April 4, 2006, in the United States District Court for the Central District of California. In this matter we have asked the court to make a judicial determination that an agreement, which we did not authorize and which is the basis of previously disclosed litigation against us by Paul Reep, our former employee, is invalid and unenforceable. This matter is in its early stages.

Barnett, et al. v. Applied DNA Sciences, et al., Case No.: BC 350904

Plaintiffs John D. Barnett, Jr., Adrian Butash, Jaime A. Cardona, and Chanty Cheang, our former employees, filed suit against us, Applied DNA Operations Management, Inc., APDN (B.V.I.), Inc., Peter Brocklesby, James A. Hayward, and Jun-Jei Sheu in Los Angeles County Superior Court on April 17, 2006. The complaint alleges causes of action for breach of written contract, breach of oral contract, fraud, violations of the California Labor Code, and wrongful termination. We dispute all of the allegations of this complaint and intend to vigorously defend this matter.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On May 2, 2006, we closed on the first tranche of the Offshore Offering in which we sold 20 units for aggregate gross proceeds of $1,000,000. On June 15, 2006, we completed the second tranche of the Offshore Offering in which we sold 59 units for aggregate gross proceeds of $2,950,000. The units being sold consist of (i) a $50,000 principal amount secured convertible promissory note and (ii) a warrant to purchase 100,000 shares of our common stock at a price of $0.50 per share. These issuances are considered exempt under Regulation S of the Securities Act of 1933.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

4.1 Form of Subscription Agreement, filed as an exhibit to the current report on Form 8-K filed with the Commission on May 5, 2006 and incorporated herein by reference.

4.9 Form of 10% Secured Convertible Promissory Note of Applied DNA Sciences, Inc., filed as an exhibit to the current report on Form 8-K filed with the Commission on May 5, 2006 and incorporated herein by reference.

4.10 Form of Warrant Agreement of Applied DNA Sciences, Inc., filed as an exhibit to the current report on Form 8-K filed with the Commission on May 5, 2006 and incorporated herein by reference.

10.4 Form of Registration Rights Agreement of Applied DNA Sciences, Inc., filed as an exhibit to the current report on Form 8-K filed with the Commission on May 5, 2006 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).

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SIGNATURES

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

APPLIED DNA SCIENCES, INC.

Date: February 29, 2008

By: /s/ JAMES A. HAYWARD

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