APPLIED DNA SCIENCES INC
Form 10KSB
January 14, 2005

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-KSB
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended September 30, 2004

Commission File Number 002-90539

Applied DNA Sciences, Inc.

(Exact Name of Small Business Issuer in its charter)

Nevada	59-2262718
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification No.)

9229 W. Sunset Boulevard, Suite 830, Los Angeles, CA 90069
(Address of principal executive offices) (Zip code)

Issuer's telephone number (310) 860-1362

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

Securities registered under Section 12(g) of the Exchange Act:
Common Stock, par value $0.50 per share
(Title of class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No

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

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

State the aggregate market value of the voting stock held by non- affiliates computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within the past 60 days. $35,687,181.

Number of outstanding shares of the registrant's par value $0.50 common stock as of January 13, 2005: 30,909,292

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ITEM 1. DESCRIPTION OF BUSINESS

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

Although forward-looking statements in this Annual Report on Form 10-KSB

reflect the good faith judgment of our management, such statements can only be based on facts and factors currently known by us. Consequently, forward-looking statements are inherently subject to risks and uncertainties and actual results and outcomes may differ materially from the results and outcomes discussed in or anticipated by the forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include, without limitation, those specifically addressed under the heading "Risks Related to Our Business" below, as well as those discussed elsewhere in this Annual Report on Form 10-KSB. Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this Annual Report on Form 10-KSB. We file reports with the Securities and Exchange Commission ("SEC"). We make available on our website under "Investor Relations/SEC Filings," free of charge, our annual reports on Form 10-KSB, quarterly reports on Form 10-QSB, current reports on Form 8-K and amendments to those reports as soon as reasonably practicable after we electronically file such materials with or furnish them to the SEC. Our website address is www.adnas.com. You can also read and copy any materials we file with the SEC at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. You can obtain additional information about the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site (www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including us.

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

OUR BUSINESS

Overview

We are a provider of proprietary DNA-embedded biotechnology security products that protect corporate and intellectual property from counterfeiting, fraud, piracy, product diversion and unauthorized intrusion. We offer a cost effective method to detect, deter, interdict and prosecute counterfeiting enterprises. We provide proprietary DNA-embedded biotechnology solutions to companies to protect corporate and intellectual property from counterfeiting, fraud, piracy, product diversion and unauthorized intrusion. We use segments of naturally occurring botanical DNA that have unique characteristics, which are one-of-a-kind sequences. Using various anti-counterfeit mediums, or substrates, such as ink, microchips, glue, paints and holograms, we can authenticate the unique DNA characters to ensure that the product has not been counterfeited or tampered with.

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

Our mission is to become the recognized stantard in providing total security solutions to protect corporate and intellectual property from counterfeiting and fraud.. The Company will deliver its products to a global market via existing and emerging strategic business development agreements with recognized leaders in the security industry and through collaborations with

leading Security Consultancy companies.

We have acquired the exclusive license to sell, market, and sub-license all of Biowell's DNA anti-counterfeit and fraud prevention biotechnology and products in North America (U.S. and Canada), Latin America and Europe. The exclusive license also gives us the initial rights to future biotechnologies developed by Biowell and also new applications for the existing technology that may be developed for the marketplace. Biowell has selected us to be its marketing and licensing partner to introduce the DNA biotechnology products to the world's largest consumer markets. In addition to marketing the DNA products

in its territory, we will develop DNA production laboratories in the United States, as well as develop capabilities in DNA authentication, analysis and detection products with ongoing relationships with the Department of Energy's national laboratory system.

We have a very seasoned and experienced management team. This was a key factor in establishing the partnership with Biowell. Our combined executive team has professional experience totaling more than 100 years in the areas of anti-counterfeiting technology, microchip development, security, printing, marketing, and corporate sub-licensing development. Our management team has also been active in the International Anti-Counterfeiting Coalition, Homeland Security technology communities, and the anti-fraud investigation industry. Our executives have developed strong links with major international corporations, intellectual property and copyright holders, U.S. Government affiliations, and international anti-fraud organizations.

License Agreement with Biowell Technology

In consideration for the granting of the exclusive license to us, Biowell received 1.5 million shares of our common stock, with the option to purchase another 500,000 shares. In return, we received the option to purchase 500,000 shares of Biowell common stock.

License Agreement with Biowell Technology

In consideration for the granting of the exclusive license to us, Biowell received 1.5 million shares of our common stock, with the option to purchase another 500,000 shares. In return, we received the option to purchase 500,000 shares of Biowell common stock.

On August 20, 2004, we entered into a provisional Letter of Agreement with Biowell to acquire certain assets in return for shares of our common stock. Subsequent to the Letter of Agreement, the Company and Biowell entered into an oral agreement to sell all rights, title and interest in its intellectual property to us. On December 17, 2004, we entered into a superceding conditional Agreement with Biowell to acquire all of the Intellectual Property of Biowell in exchange for shares of our common stock. We expect to enter into a definitive agreement on or before January 31, 2005, which is subject to certain conditions including our raising $5,000,000 in capital and our discharging of all debts.

Biowell DNA Technologies

Every living thing has a unique DNA code in its cellular composition. By taking the DNA from a plant material, Biowell is able to create a group of DNA codes that can be turned into a unique and traceable marking for any product.

In the early 1980's the primary emphasis in DNA research was applied to pharmaceutical applications. There was very little focus in the living biotechnology arena. During the 1990's, a group of elite scientists, led by Dr.

Sheu Jun-Jei of Taiwan, focused on the first research and development of a DNA based anti-counterfeit biotechnology. In the late 1990's, Dr. Sheu made a major breakthrough in biotechnology, and patents with commercial applications were filed. Two additional patent applications have been filed during this reporting period.. Biowell was formed in Taiwan in October of 1999 to hold these pending patents and continues to advance in the areas of DNA anti-counterfeiting biotechnology.

The key to this exclusive biotechnology is the ability to mix or attach scientifically selected and processed DNA to specific media such as paint, glue, polymer, and ink. In doing this, the characteristics of DNA are used to distinguish genuine products from counterfeits. This technology can also be used to authenticate microchips and circuit boards that contain them. The DNA AC (anti-counterfeit) biochip is a Biowell product in which DNA is embedded into a microchip. When biochips are embedded into circuitry, the biological data can be read electronically and the component can be authenticated. Without authentication, the device will not operate.

Intellectual Property

Key to our success is ongoing research and development. Biowell has over 10 patents pending and we have filed two new patent applications this year. While patents are an important asset, they are not the only instruments used to sequester a competitive position for us. We are developing numerous tools to maintain technical superiority, which includes licensing other component and complementary technologies that will keep pace with our speed to market efforts.

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

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

If a third party claims an intellectual property right to technology we use, we might need to discontinue an important product or product line, alter our products and processes, pay license fees or cease our affected business activities. Although we might under these circumstances attempt to obtain a license to this intellectual property, we may not be able to do so on favorable terms, or at all.

Global Market Penetration

We have redirected our sales and marketing strategy to place a premium on business-to-business opportunities. In order to effectively service our products globally, we may enter into both exclusive and non-exclusive agreements. Each of

these agreements will have time limits and have very specific revenue targets set against them. In the case of an exclusive agreement, we may further limit our relationship to certain products that are offered for sale in a specific region. All exclusive agreements will have time limits with specific targets for revenue to be derived out of a given region. Additionally, we have and will retain the right to allow certain global partners (as we decide from time to time) to sell into a restricted exclusive market with the provision that a fee be paid to the exclusive licensee in a given region for products sold in that region that are covered under their exclusive license. This provision was adopted to allow for certain Fortune 50 companies to pursue selling our products and services globally without restrictions and encumbrances with specific geographical regions.

Our Products

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

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

Easy to Customize -- We can tailor the DNA tagging to meet the customer's product requirements. For example, the DNA codes can be generated based on one or more DNA sources and one or more anti-counterfeit technologies.

Easy and Quick to Use -- With the DNA instant verification kit or scanner, instant verification can be obtained at the point-of-purchase. Hence, the authentication process can be performed quickly. Traditional anti-counterfeit technology analysis requires anywhere from 24 to 48 hours. Our technology will achieve an effective and timesaving deterrent against counterfeiters.

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

DNA Marker

Our first anti-counterfeiting product is the DNA Marker, an agent that can be used to authenticate textile products. The DNA Marker can be applied at any point in the manufacturing process, from the freshly cut raw fibers through to the finished garment. As the DNA Marker can be applied to any fabric from cotton to wool, this will help textile vendors and governments determine the origin of thread, yarn and fabric through to the high-end garment manufacturers who suffer lost sales at the hands of counterfeiters. DNA Marker protection will also help preserve jobs at the legitimate textile and clothing manufacturers as well as ensuring that the proper taxes are collected on textiles and garments from authorities. The DNA Marker will remain effective into the 22nd century and will be detectable throughout the different manufacturing stages without degrading. It can be detected in a variety of manners from inspection under infrared light to laboratory forensic analysis that authenticates it to a certainty of 99.9999 percent Driven by market needs, this is the first of what is expected to be a number of products and services based upon the DNA marker technology. We will continuously assess the anti-counterfeit needs of markets, companies and

governmental organizations and will develop proprietary technologies, solutions and products for these opportunities.

Inks

DNA anti-counterfeit ink has been developed as two major applications. The first ink is Biowell's unique anti-counterfeit ink (covert ink), which can be authenticated at a forensic-science level of certainty, in a lab, with detailed DNA analysis. The second application is an enhanced version of the first, integrating into the original anti-counterfeit ink an additional instant detection function for on-site authentication (overt ink).

This instant verification process has been designed to allow sampling at any point in the product supply chain. By swabbing testing fluid containing a special activation buffer across the authentic DNA ink surface, a biochemical reaction occurs between the coating of the DNA molecules in the ink and the buffer fluid. This reaction manifests as a reversible color change, with the ink changing color from blue to pink, and back to blue within seconds. Testing can be repeated at various checkpoints throughout the product supply chain.

Proprietary production techniques are used to manufacture DNA with the unique property for integration with ink. The key to utilizing DNA for anti-counterfeit purposes lies in the preservation of DNA. The system of production ensures that DNA can survive for over 100 years. In addition, special materials are used to shield purified DNA from environmental variation, which allows perpetual preservation of DNA and permanent proof of authenticity for genuine products.

DNA ink can be applied to:

- General Company Use: trade marks, patents, company logos, important documents
- Financial industry: currency, stocks, checks, bills, bonds, checks
- Retail: event tickets, VIP tickets, clothing labels
- Medicines: capsule and pill surface printing
- Inner package: foil blister packs
- Outer package: boxes, bottles
- Arts: paintings, artifacts, collectibles and memorabilia
- Others: lottery tickets, stamps, custom seals, passports, visas, etc.

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

DNA Labels

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

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

DNA Chip

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

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

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

The signal of a DNA chip is generated through an interaction between DNA and a specially devised mechanism known as a DNA chip reader. A real DNA chip will generate an analogical signal and be received by the reader after the chip is stimulated. An LCD display screen provides immediate authentication by reading the unique DNA signals embedded in the chip.

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

We believe that the DNA chip system is more secure than all other systems; since it cannot be copied or hacked, and works with specially configured readers.

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

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

Demands for Security and Positive Identification

As nations are threatened by terrorism and corporations try to prevent corporate fraud and 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. 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 will explore contracting with consultants in Washington D.C. that will assist with identifying and securing potential Government contracts that will utilize the DNA technology for identity and authentication. In 2004, we won the "Best of New technology" prize at the Security Industry Association conference in Washington D.C. in competition against some of the world's largest corporations. Shortly thereafter, we were inducted into the InteGuard Alliance, a consortium of 29 major companies providing security services and security technology to the US Government.

We intend to work in collaboration with Biowell and other security organizations in order to continue to research and develop new product lines derived from, but not limited to, DNA technology. Research and development of new product lines is an ongoing commitment of our and is currently underway in the Biowell labs.

Business Strategy and Approach

Our goal is to establish three integrated business operations addressing and servicing the needs of the marketplace for anti-counterfeit, fraud prevention, and homeland security solutions.

Intellectual Property Development, Product Operations & Partnerships

We are a developer of security solutions that protects corporate and intellectual property from counterfeiting, fraud, piracy and product diversion using a proprietary line of DNA embedded biotechnology products accompanied by monitoring and enforcement support, we produce solutions customized to their customer's need. We intend to market and sell DNA anti-counterfeit and fraud prevention products and oversee laboratory facilities where consumer and corporate products can be tested for authenticity. It will oversee the development of new product lines that will address specific and individual customer needs. Additionally, this division will identify strategic licensees and partnerships in multiple sectors that will license and sell our products and biotechnologies. This will include sub-licensing the technology to key partners in each sector with an established base of customers. These new partners will be able to enhance their client services by adding our technology to the existing product line or current security methods to deter fraud and counterfeiting.

Consultant & Enforcement Operations

As a service to our clients, we will consult with them on how to best protect their intellectual property and products. We will offer worldwide investigative and DNA analysis services for the enforcement and prosecution of counterfeiters and fraud itself and through our subcontractors or sub-licensees.

International Sub-License Operations

This division will oversee the activities of all international sub-license alliances and partnerships. This division will also develop a corporate policy for all marketing and promotional activities.

We intend to seek alliances with existing anti-counterfeit networks in each market. We will train these networks to use our technology to detect and monitor counterfeit and fraud, and we will use our own anti-counterfeit and security experts to help detect counterfeiting attempts against corporations and government agencies.

By combining our three operations, we will provide multiple security solutions. Each division will produce separate revenue streams and integrated organizational structures that we believe will make us a leader in the field of anti-counterfeit and fraud prevention services.

Our management team and advisory board have a unique combination of skills for providing integrated DNA anti-counterfeit and fraud prevention systems for the protection and tracking of documents, products, and intellectual property:

-- Strong Security Knowledge Base -- Our team has the experience to analyze and provide solutions that address the security needs of companies in such diverse market segments as pharmaceuticals, designer clothing, luxury goods and cosmetics, aerospace, defense, diamonds, automotive, holography and chip manufacturing. Several team members are published authors in the area of security and are recognized globally as experts in their fields.

-- Leading Technology -- We have exclusive rights to all patent pending, leading DNA anti-counterfeit, and fraud prevention technologies created by Biowell. We also have an agreement in place with HoloMex, Inc., a leading security hologram manufacturer, to create DNA-holograms, a new generation security product. Our management also hasan in-depth understanding of microchip design and applications.

-- Strategic Corporate Relationships -- Our management has personal and corporate relationships with leaders in key industries such as: high-end fashion retail, computers, entertainment, automobiles, aerospace, defense and pharmaceuticals. We will utilize these existing relationships to introduce our anti-counterfeiting products and generate contracts, although no discussions have yet been held. Each industry has multiple facets for the anti-counterfeit DNA technology. For example, fashion retail can use our anti-counterfeit chip in its high-end fashion handbags, while a company producing fine wines can take advantage of our DNA-embedded label. Our proprietary technologies offer immediate and affordable detection and security for all of their trademarks and products.

-- Strong Technology Alliances -- Our products can also work with and supplement products in key anti-fraud and security industries, such as:

  - Electronics security
  - Hologram manufacturing
  - Radio Frequency Identification (RFID) systems
  - Isotopic Markers
  - Security papers and printing
  - Other security-related products, systems, and services

-- Law Enforcement Expertise -- Our management includes former federal law enforcement, security, and intelligence officers who provide us with extensive hands-on experience in:

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

Patents Pending

Patent Name	Application No.	Filed by	Date Filed
A Method of Utilizing Nucleic Acids as Markers for Product Anti-Counterfeit Labeling and Verification	089108443	Biowell	March 17,
	00107580.2		May 18, 20
	09/832,048; published 20020187263-A1		April 9, 2
EppenLocker (A Leakage-Prevention Apparatus of Microcentrifuge)	089204158	Biowell	March 10,
Multiple Tube Structure for Multiple in a Closed Container	089210575	Biowell	June 20, 2
Method for Processing Multi-PCR in Closed Vessel	89111477	Biowell	June 12, 2
Method for Mixing Nucleic Acid in Water Insoluble Media and Application Thereof	2002-294229	Biowell	August 31,
	03007023.9		March 27,
	92121973		August 11,
Method for Hiding Secret Message Carrying a DNA Molecule and a Method for Decoding the Secret Message Hiding by thereof	92121490	Biowell	August 6,
	pending		August 6,
Method for Transferring Giveback Funds by Recognizing Plurality of Objects	92119302	Biowell	July 15, 2
	03150071.4		July 31, 2

Anti-Counterfeit Chip Recognizing Device	None	Biowell	To be file

A System and Method for Marking Textiles Using DNA	60/463215	Biowell Applied DNA Sciences	April 16,
A System and Method for Marking Textiles Using Nucleic Acids	2004/012031	Applied DNA Sciences	April 15,
System and Method for Authenticating Clients on a Local Area Network Using Nucleic Acids	10/825968	Applied DNA Sciences	January 21

Sales and Marketing

We employ a multi-tier sales and marketing strategy. We develop strategic alliances and marketing partners, by setting up alliances with Biowell's technology partners, granting licenses to existing anti-counterfeit suppliers and partner with industry leaders for intellectual property development.

We provide anti-counterfeiting and security solutions through our sales force covering a multitude of potential clients either directly or via resellers.

Customers

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

Competition

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

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

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

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

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

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

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

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

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

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

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

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

Management Strategy

In anticipation of internal growth, we will organize resources to manage our development effectively, minimizing organic growth, while optimizing our use of excess capacity, where core competency in the biotech arena is made available. Our Chief Executive Officer is responsible for the strategic direction, coordinating with our overseas technology partner Biowell and others as well as operations. Our President is responsible for government entity relations, corporate governance and building shareholder value. Our Chief Financial Officer covers overall financial management, financial reporting, corporate administration, investors relations. Our Vice President covers specific industries, such as the pharmaceutical, cosmetic and comestible sectors and acts as our media spokesperson, clarifying for the pharmaceutical and nutraceutical industries, allied health professionals and consumers the advantages of our anti-counterfeit, diversion and piracy applications and products.

Employees

As of January 12, 2005, we employed 11 full-time employees, of which five are in management, five are sales & marketing executives and one is in

administration.

Giuliani Partners

On or about August 6, 2004, we engaged Giuliani Partners LLC as our strategic marketing partner and advisor. Giuliani Partners has extensive experience in advising corporations and organizations in various business sectors. The engagement agreement had an effective date of September 1, 2004.

Giuliani Partners has been engaged, on a non-exclusive basis, to provide advice and assistance to us regarding issues associated with our proprietary DNA embedded security solutions. Giuliani Partners will assist us with strategic positioning and enhancement of our business, and will assist us in the development of domestic and international marketing strategies for our DNA products and services. The term of the engagement is one year from the effective date, with automatic one year renewals unless either party expresses, in writing, an intention not to renew within 60 days prior to the expiration of the term.

As compensation for Giuliani Partners' performance, we will pay Giuliani Partners an aggregate advisory fee of $2,000,000 payable in increments over the term and renewal term. The initial payment of $500,000 was made by us on or about September 7, 2004. Additionally, we will issue a net-exercisable warrant to purchase shares of our common stock at a later date. Fees were placed in escrow during Giuliani Partners' completion of its due diligence review.

All our promotional materials will be submitted to Giuliani Partners for its review, including all advertising, written sales promotion, press releases, news clippings and other publicity matters relating to Giuliani Partners' engagement and the strategic relationship created.

We have agreed to maintain confidentiality with regard to our relationship with Giuliani Partners, wherever appropriate, and have indemnified Giuliani Partners, its controlling persons, respective partners, shareholders, directors, officers, employees, agents, affiliates and representatives and will hold them harmless against any actions, judgments, claims, etc.

ITEM 2. DESCRIPTION OF PROPERTY

Presently, we maintain our principal office at 9229 W. Sunset Boulevard, Suite 830, Los Angeles, California 90069. We signed a lease for our office space in November 2003. The office space, which is provided to us for $11,312.70 per month for the first twelve months of the lease, for $ 11,635.92 for the second 12 months and $ 12,031.01 for the last 12 months of the lease, has approximately 5,387 square feet. We consider the premises adequate for our purposes for the immediate future. Our Web address is www.adnas.com.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. 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.

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

There were no matters submitted to a vote of shareholders for the year

ended September 30, 2004.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS MARKET INFORMATION

Market Information

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

The following table sets forth the quarterly quotes of high and low prices for our Common Stock on the OTC Bulletin Board during the fiscal years September 30, 2003 and September 30, 2004. In February of 2003, we changed our year end to September 30.

Year ended 9/30/04	High	Low
December 31, 2003	$3.54	$2.45
March 31, 2004	$3.55	$1.51
June 30, 2004	$2.55	$0.71
September 30, 2004	$0.96	$0.43

Year ended 9/30/03*	High	Low
December 31, 2002	$2.55	$0.05
March 31, 2003	$2.48	$2.05
June 30, 2003	$2.85	$2.30
September 30, 2003	$2.80	$2.40

* We have disclosed the numbers with both years ending on September 30 for comparative purposes. Our prior year end was December 31.

The source of this information is NASDAQ Over the Counter Bulletin Board Research Reports and Yahoo Finance Historical Prices reports, as well as broker-dealers making a market in our Common Stock. These prices reflect inter-dealer prices, without retail markup, mark-down or commission and may not represent actual transactions. Number of Stockholders

As of January 7, 2005, the approximate number of holders of record of our Common Stock, which is our only class of common equity, is 465 This number does not include holders of securities in street name.

Dividends

We are in the developmental stage and accordingly have not generated any revenues nor had net profits on operations and therefore are currently proscribed under the Nevada Revised Statutes from declaring dividends. We have not paid any cash dividends on our Common Stock or our Preferred Stock. Our Board of Directors has no present intention of declaring any cash dividends, as we expect to re-invest all profits in the business for additional working capital for continuity and growth. The declaration and payment of dividends in the future will be determined by our Board of Directors considering the conditions then existing, including our earnings, financial condition, capital

requirements, and other factors.

OUR CAPITAL STRUCTURE

We are authorized to issue 10,000,000 shares of Preferred Stock and 100,000,000 shares of common stock. We have designated one series of convertible preferred stock, and as of this date, 60,000 shares are issued and outstanding.

Both our Preferred Stock and common stock had a par value of $0.0001 per share through December 3, 2003. On December 12, 2003, we increased the par value of our common stock to $0.50 and our Preferred Stock to $0.001 per share by filing Articles of Amendment to our Articles of Incorporation.

The authorized classes, and the amount or number of each, which are authorized and outstanding as of January 7, 2005 are as follows:

Security	Authorized	Issued and Outstanding	Ex
Preferred Stock	10,000,000	60,000	
Common Stock	100,000,000	30,909,292	
2003 Offering Units	2,000	183.5	
Underlying Common Stock	3,200,000	293,600	
Underlying Warrants* ($0.60/share)	1,000,000	91,750	S
Bridge Unit Offering	33.5	33.5	
Underlying Notes	33.5	33.5	
Underlying Shares		5,583,333	
Underlying Warrants (Repriced at $0.60/share)	1,675,000	1,675,000	S
Underlying Warrants ($0.10/share)	335,000	335,000	S
Consulting Warrants (Stonestreet & Walehaven) ($0.70/share)	750,000	750,000	A
[Stephanie] Stern Warrants ($3.00/share)	62,503	62,503	D
Hutchison Warrants ($0.60/share)	1,000,000	1,000,000	
Directors and Advisors Warrants ($0.60/share)	3,000,000	2,850,000	O
Alpha Spectrum Warrants ($0.50/share)	50,000	50,000	O
Lee Warrants ($0.60/share)	600,000	600,000	
Bonus Compensation Warrants (Lower of $1.00 or 55% of 20 day average bid and ask)	1,000,000	136,000	O
Hart Compensation Warrants Lower of $1.00 or 65% of 20 day average bid and ask)	250,000	250,000	M

Founders Compensation Warrants ($0.60)	560,000	296,000	Ja

*As consideration for consenting to a filing date extension, all bridge note investor's warrant exercise prices were adjusted from $3.20 per share to $0.60 per share, and for each Unit purchased, 7,500 shares with registration rights were issued.

Preferred Stock

The 10,000,000 shares of Preferred Stock authorized are undesignated as to preferences, privileges and restrictions. As the shares are issued, the Board of Directors must establish a "series" of the shares to be issued and designate the preferences, privileges and restrictions applicable to that series. To date, the Board has designated a Founders' Series of Convertible Preferred Stock, which, in six months from the date of issuance, shall be convertible at the option of the holder and upon our reaching certain financial objectives, into shares of our restricted Common Stock. Each share, when eligible, is convertible into 25 fully paid and non-assessable shares of our Common Stock, subject to a leak out agreement that extends the 144 Rule to two years. Holders will be permitted to

sell, after a one year holding period through a three year holding period, 1% of the issued and outstanding shares of our common stock every 90 days. This series has been authorized by the Board of Directors. As of January 13, 2005, there are a total of 60,000 convertible preferred shares issued and outstanding.

Common Stock

Our authorized common equity consists of One Hundred Million (100,000,000) shares of a single class of Common Stock, having a par value of $0.50 per share. As of January 13, 2005, there were 30,909,292 shares issued and outstanding. The holders of our Common Stock (i) have general ratable rights to dividends from funds legally available therefore, when, as and if declared by the Board of Directors; (ii) are entitled to share ratably. In all assets available for distribution to shareholders upon liquidation, dissolution or winding up of our affairs; (iii) do not have preemptive, subscription or conversion rights, nor are there any redemption or sinking fund provisions applicable thereto; and (iv) are entitled to one vote per share on all matters on which shareholders may vote at all shareholder meetings. The Common Stock does not have cumulative voting rights, which means that the holders of more than fifty percent of the Common Stock voting for election of directors can elect one hundred percent of our directors if they choose to do so.

2003 Offering Units

In September 2003, we sold 16 units at $4,000 a unit, for a total of $64,000, and between October and December 2003, we sold 167.5 units for a total of $670,000 in a private offering of its securities under Regulation D of the Securities Act of 1933, and Rule 506 promulgated thereunder. Each Unit consisted of 1,600 shares of our Common Stock plus 500 Common Stock Purchase Warrants.

The Warrants are exercisable on a one for one basis at an exercise price of $3.50 per share for a two year exercise period from the date of issuance. The Units, and their constituent securities, were granted piggyback registration rights.

Bridge Unit Offering

From November through December 2003, we sold 23.25 units (the "Units") to accredited investors at a price of $50,000 per Unit (the "Offering") for a total

of $1,162,500. Each Unit consists of (i) a $50,000 Principal Amount 10% Secured Convertible Promissory Note ("Note" or "Notes"), (ii) warrants to purchase 50,000 shares of our common stock, exercisable for a period of five years at a price of $3.20 per share ("$3.20 Warrant") and (iii) warrants to purchase 10,000 shares of our common stock, exercisable for a period of five years at a price of $0.10 per share ("$0.10 Warrant" and together with the $3.20 Warrant, the "Warrants"). The Notes are convertible into shares of our common stock at a price of $2.50 per share.

Notes

All of the Notes have been either repaid or converted.

Bridge Offering Warrants

Each $3.20 Warrant offered, which has been repriced to a $0.60 Warrant, entitled the registered holder to purchase 50,000 shares of Common Stock at an exercise price of $0.60 per share during a five-year period commencing on the initial closing of the Offering. Each $0.10 Warrant offered entitled the registered holder to purchase 10,000 shares of Common Stock at an exercise price of $0.10 per share during a five-year period commencing on the initial closing of the Offering.

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

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

In November of 2002, we created a special compensation plan to pay the founders, consultants and professionals that had been contributing valuable services to us during the previous nine months. The plan is called the Professional/Employee/ Consultant Compensation Plan (the "Plan"). Share and option issuances from the Plan were to be staggered over the following six to eight months, and consultants that were to continue providing services thereafter either became employees or received renewed contracts from us in July of 2003, which contracts contained a more traditional cash compensation component. The Plan was designed by the Board to meet our important team building objectives in our early stages, and to be temporary. As of December 31, 2004, a total of 1,440,003 shares have been issued from the Plan and 560,000 options, 264,000 of which were exercised as of as of December 31, 2004.

December 5, 2003, an additional 32,000 options were exercised. [ANDREA]

Each qualified and eligible recipient of shares and/or options under the Plan received securities in lieu of cash payment for services. Each recipient agreed, in his or her respective consulting contract with us, to sell a limited number of shares monthly. Management feels that this carefully designed Plan was successful in attracting and retaining a strong team at a time when we had no established revenue stream and limited or no outside financing. Because recipients sold their respective shares in a controlled manner, there was also no apparent negative impact to the market from sales of these unrestricted securities, which was an important objective of the Board when the Plan was contemplated.

In our financial statements, shares that were issued from November 2002 through June 30, 2003 that were valued at $0.065 per share were shares issued from this Plan created in November of 2002 on the basis of contracts executed at

that time for previously rendered services. Common Stock disclosed as being issued in exchange for cash at $1.00 per share represents options that were exercised under this Plan. In December of 2004, we adjusted the exercise price to $0.60 per share.

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

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a) (b) (c)	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number Remaini for Fut
Professional/Consultant/ Employee Stock and Stock Option Compensation Plan	2,000,000	$177,600	-0
Total	2,000,000	$177,600	-0

As of December 31, 2004, a total of 1,440,000 shares have been issued from the Plan and 560,000 options, 264,000 of which were exercised as of that date.

SALES OF UNREGISTERED SECURITIES DURING THE QUARTER ENDED SEPTEMBER 30, 2004

The issuances of unregistered securities which occurred during the fiscal year were as follows:

Unless otherwise noted, each of the issuances described below is considered by us to be exempt from registration by reason of Section 4(2) of the Securities Act of 1933.

On June 30, 2004, we issued 50,000 shares of our common stock to an investor relations firm as compensation for services performed on our behalf.

On July 23, 2004 and August 2, 2004, we issued an aggregate of 55,000 shares of our common stock to our legal counsel as compensation for legal services performed on our behalf.

From July through September 2004, we issued an aggregate of 1,550,000 shares of our common stock to certain of our officers, directors and employees as compensation for services performed on our behalf.

On September 21, 2004, we issued 100,000 shares of our common stock pursuant to a conversion by one of the holders of our convertible preferred stock.

SUBSEQUENT SALES OF UNREGISTERED SECURITIES

Unless otherwise noted, each of the issuances described below is considered by us to be exempt from registration by reason of Section 4(2) of the Securities Act of 1933.

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

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

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

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

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

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

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

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

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

Also on January 10, 2005, we issued additional shares to our investors in accordance with an adjustment provision in our private placement and placement agent agreement. We issued a total of 3,249,750 shares of Common Stock to 24 investors.

On January 13, 2005, we issued additional shares to two consultants in accordance with an adjustment provision in their consulting agreements. A total of 662,000 shares were issued.

ITEM 6. PLAN OF OPERATIONS

When used in this Form 10-KSB and in our future filings with the Securities and Exchange Commission, the words or phrases will likely result, management expects, or we expect, will continue, is anticipated, estimated or similar expressions are intended to identify forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Readers are cautioned not to place undue reliance on any such forward-looking statements, each of which speak only as of the date made. These statements are subject to risks and uncertainties, some of which are described below. Actual results may differ materially from historical earnings and those presently anticipated or projected. We have no obligation to publicly release the result of any revisions that may be made to any forward-looking statements to reflect anticipated events or circumstances occurring after the date of such statements.

Business Strategy and Approach

The Company has 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

The company has proprietary DNA security technology, and develops 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 OEM 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 use highly reputable outside labs to provide independent third party validation testing to assure maximum quality control, objectivity and strict security procedures in handling and shipping. No compromise can enter the security chain of our product(s).

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.

Consultant & Enforcement Operations

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

This division will oversee the activities of all international sub-licensees and partnerships. This division will also develop a corporate policy for all marketing and promotional activities.

We intend to establish alliances with existing anti-counterfeit experts, agencies and companies in each market. This collaborative security consortium will employ DNA technology to detect illegal activities, counterfeiting and fraud, and provide the gold standard in security for corporations and government agencies.

These operations will provide multiple security solutions. Each sub-licensee or collaborative partnership will produce separate revenue streams and be operational via integrated organizational structures.

Our management and advisory board and strategic consultants have the

knowledge, experience, contacts and skills to provide a comprehensive DNA security business, with advanced anti-counterfeit and fraud prevention systems for the protection and tracking of currency, documents, consumer products, and intellectual property.

Strong Security Knowledge Base -- Our executives and consultants have the requisite experience to provide solutions that address the security needs of major companies in such diverse markets as pharmaceuticals, automotive, cosmetics, apparel and accessories, aerospace, luxury goods, among others.

Developing Technology - We plan to acquire all rights, title and interest in all patents, patents pending, developing, DNA anti-counterfeit, and fraud prevention technologies created by Biowell. We also 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 OEM's in these specialist fields.

Strategic Corporate Relationships - The management has personal and corporate relationships with leaders in key industries such as: pharmaceuticals, cosmetics/beauty, fashion, retail, computers, entertainment, automobiles, petroleum, fine arts and collectibles.

The Company will utilize its existing relationships and develop new ones to introduce its anti-counterfeiting technology to generate business. Each industry has unique requirements and needs for their anti-counterfeit solutions, and the company's DNA technology stands at the pinnacle of available maximum security technologies. For example, the company's 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. The Company's 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) o Security Holograms (DNA enhanced)
- Radio Frequency Identification systems (DNA + RFID)
- Security papers and printing
- Holograms (DNA holograms)
- Other security-related products and systems

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

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

Critical Accounting Policy

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and judgments that affect our reported assets, liabilities, revenues, and expenses, and the disclosure of contingent assets and liabilities. We base our estimates and judgments on historical experience and on various

other assumptions we believe to be reasonable under the circumstances. Future events, however, may differ markedly from our current expectations and assumptions. While there are a number of significant accounting policies affecting our consolidated financial statements; we believe the following critical accounting policy involve the most complex, difficult and subjective estimates and judgments:

- stock-based compensation

Stock-Based Compensation

In December 2002, the FASB issued SFAS No. 148 - Accounting for Stock-Based Compensation - Transition and Disclosure. This statement amends SFAS No. 123 - Accounting for Stock-Based Compensation, providing alternative methods of voluntarily transitioning to the fair market value based method of accounting for stock based employee compensation. FAS 148 also requires disclosure of the method used to account for stock-based employee compensation and the effect of the method in both the annual and interim financial statements. The provisions of this statement related to transition methods are effective for fiscal years ending after December 15, 2002, while provisions related to disclosure requirements are effective in financial reports for interim periods beginning after December 31, 2003.

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

Revenues

We have not generated any revenues from operations from our inception. We believe we will begin earning revenues from operations during fiscal year 2005 as we transition from a development stage company to that of an active growth and acquisition stage company.

Costs and Expenses

From our inception through September 30, 2004, we have incurred losses of $22,815,034. These expenses were associated principally with equity-based compensation to employees and consultants, product development costs and professional services.

Liquidity and Capital Resources

As of September 30, 2004, we had a deficiency in working capital of $4.8 million. For the year ended September 30, 2004, we generated a net cash flow deficit from operating activities of $3,100,000, consisting primarily of year to date losses of $19,400,000, adjusted for non cash expenses of $1,625,000 for beneficial conversion amortization, $9,820,000 in net stock issued for consulting services, $1,500,000 for preferred shares in exchange for services, $2,020,000 for warrants issued to consultants as well as a net increase in current liabilities and other of $1,300,000.

Cash used in investing activities totaled $74,000, which was utilized for patent filings, facility lease deposits and property, plant, and equipment. Cash provided by financing activities totaled $3,000,000 consisting of $2,800,000 in proceeds from loans, and $124,000 and $87,000 in common stock and exercised options proceeds, respectively.

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

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

We have a variety of financing arrangements. Please see Notes C, D, E and F in the notes to our consolidated financial statements for the year ended September 30, 2004 for the terms of each separate financing arrangement.

Recent Accounting Pronouncements

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

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

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

In November 2004, the Financial Accounting Standards Board (FASB) issued SFAS 151, Inventory Costs-- an amendment of ARB No. 43, Chapter 4. This Statement amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Paragraph 5 of ARB 43, Chapter 4, previously stated that ". . . under some circumstances, items such as idle

facility expense, excessive spoilage, double freight, and rehandling costs may be so abnormal as to require treatment as current period charges. . . ." This Statement requires that those items be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal." In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. This Statement is effective for inventory costs incurred during

fiscal years beginning after June 15, 2005. Management does not believe the adoption of this Statement will have any immediate material impact on the Company. In December 2004, the FASB issued SFAS No.152, "Accounting for Real Estate Time-Sharing Transactions--an amendment of FASB Statements No. 66 and 67" ("SFAS 152) The amendments made by Statement 152 This Statement amends FASB Statement No. 66, Accounting for Sales of Real Estate, to reference the financial accounting and reporting guidance for real estate time-sharing transactions that is provided in AICPA Statement of Position (SOP) 04-2, Accounting for Real Estate Time-Sharing Transactions. This Statement also amends FASB Statement No. 67, Accounting for Costs and Initial Rental Operations of Real Estate Projects, to state that the guidance for (a) incidental operations and (b) costs incurred to sell real estate projects does not apply to real estate time-sharing transactions. The accounting for those operations and costs is subject to the guidance in SOP 04-2. This Statement is effective for financial statements for fiscal years beginning after June 15, 2005. with earlier application encouraged. The Company does not anticipate that the implementation of this standard will have a material impact on its financial position, results of operations or cash flows. On December 16, 2004, the Financial Accounting Standards Board ("FASB") published Statement of Financial Accounting Standards No. 123 (Revised 2004), Share-Based Payment ("SFAS 123R").

SFAS 123R requires that compensation cost related to share-based payment transactions be recognized in the financial statements. Share-based payment transactions within the scope of SFAS 123R include stock options, restricted stock plans, performance-based awards, stock appreciation rights, and employee share purchase plans. The provisions of SFAS 123R are effective as of the first interim period that begins after June 15, 2005. Accordingly, the Company will implement the revised standard in the third quarter of fiscal year 2005. Currently, the Company accounts for its share-based payment transactions under the provisions of APB 25, which does not necessarily require the recognition of compensation cost in the financial statements. Management is assessing the implications of this revised standard, which may materially impact the Company's results of operations in the third quarter of fiscal year 2005 and thereafter. On December 16, 2004, FASB issued Statement of Financial Accounting Standards No. 153, Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions (" SFAS 153"). This statement amends APB Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. Under SFAS 153, if a nonmonetary exchange of similar productive assets meets a commercial-substance criterion and fair value is determinable, the transaction must be accounted for at fair value resulting in recognition of any gain or loss. SFAS 153 is effective for nonmonetary transactions in fiscal periods that begin after June 15, 2005. The Company does not anticipate that the implementation of this standard will have a material impact on its financial position, results of operations or cash flows.

Product Research and Development

We anticipate continuing to incur research and development expenditures in connection with the development of our DNA embedded biotechnology security products and solutions during the next twelve months. This includes, but is not

limited to projects involving the following agencies and companies:

- Department of Energy;
- Department of Agriculture;
- Oakridge National Laboratories; and
- Holo-Mex

These projected expenditures are dependent upon our generating revenues and obtaining sources of financing in excess of our existing capital resources. There is no guarantee that we will be successful in raising the funds required or generating revenues sufficient to fund the projected costs of research and development during the next twelve months

Acquisition or Disposition of Plant and Equipment

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

Number of Employees

From our inception through the period ended September 30, 2004, we have relied on the services of outside consultants for services and currently have 11 full time employees. In order for us to attract and retain quality personnel, we anticipate we will have to offer competitive salaries to future employees. We do not anticipate our employment base will significantly change during the next 12 months. As we continue to expand, we will incur additional cost for personnel. This projected increase in personnel is dependent upon our generating revenues and obtaining 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.

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.

Cautionary Factors that may Affect Future Results

We provide the following cautionary discussion of risks, uncertainties and possible inaccurate assumptions relevant to our business and our products. These are factors that we think could cause our actual results to differ materially from expected results. Other factors besides those listed here could adversely affect us.

RISKS RELATED TO OUR BUSINESS

We Have A Limited Operating History With Which To Judge Our Performance.

We have only been engaged in our current and proposed business operations since October of 2002. Accordingly, we have a limited operating history. We may encounter risks and difficulties frequently encountered by early stage companies in new and rapidly evolving markets. We cannot assure stockholders that our business strategy will be successful or that we will successfully address these risks. Our failure to do so could materially adversely affect our business, financial condition and operating results.

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We Have A History Of Losses And We Anticipate Future Losses And Negative Cash Flow.

We incurred net losses from operations of $22,803,423 from the date of our inception through September 30, 2004. We cannot assure you that we can achieve or sustain profitability on a quarterly or annual basis in the future. If revenues grow more slowly than we anticipate, or if operating expenses exceed our expectations or cannot be adjusted accordingly, we will continue to incur losses. In addition, we require additional funds to implement, sustain and expand our manufacturing, sales and marketing activities, research and development, and our strategic alliances, particularly if a well-financed competitor emerges or if there is a rapid technological shift in our industry. There can be no assurance that financing will be available in amounts or on terms acceptable to us, if at all. The inability to obtain sufficient funds from operations or external sources would require us to curtail or cease operations.

We Need Additional Financing.

We have insufficient capital resources to fully develop and implement our business plan and need to raise additional capital through equity or debt financings, research and development financings or collaborative relationships. There is no assurance that additional capital will be available or be on terms acceptable to us. If additional capital is unavailable, we may be forced to limit or cease our business operations accordingly. In such event, it will adversely and materially effect our business operations.

Given that we are primarily a research and development company, certain economic and strategic factors may require us to raise additional capital in order to:

- Finance our biotechnology or DNA development programs;
- Fund our operating expenses;
- Pursue regulatory approvals;
- License or acquire additional DNA entity candidates or technologies;
- Develop manufacturing, marketing and sales capabilities; and
- Prosecute and defend our intellectual property rights.

Doubt About Our Ability To Continue Operations as a "Going Concern"; You May Lose All Of Your Investment If We Are Unable to Continue Operations.

Our ability to continue as a going concern is subject to substantial doubt given our current financial condition and requirements for additional funding. There can be no assurance that we will be able to obtain sufficient funds to continue the development of and, if successful, to commence the sale of our products and services under development. As a result of the foregoing, our auditors have expressed substantial doubt about our ability to continue as a going concern. If we cannot continue as a going concern, then you may lose all of your investment.

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If we raise additional funds by issuing equity securities, existing stockholders may experience a dilution in their ownership. In addition, as a condition to giving additional funds to us, future investors may demand, and may be granted, rights superior to those of existing stockholders.

Our Research And Development Efforts For New Products May Be Unsuccessful.

We incur significant research and development expenses to develop new products and technologies. There can be no assurance that any of these products

or technologies will be successfully developed or that if developed they will be commercially successful. In the event that we are unable to develop commercialized products from our research and development efforts or we are unable or unwilling to allocate amounts beyond our currently anticipated research and development investment, we could lose our entire investment in these new products and this may materially and adversely affect our business operations.

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

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

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

We are currently in the process of negotiating several of these licenses and expect that we will also negotiate these types of licenses in the future. There can be no assurances that we will be able to negotiate these licenses on favorable terms, or at all.

Our Future Success May Depend On The Timely Introduction Of New Products And The Acceptance Of These New Products In The Marketplace.

Our ability to gain access to technologies needed for new products and services depends in part on our ability to convince licensors that we can successfully commercialize their inventions. We cannot assure that we will be able to continue to 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 Fail To Introduce New Products, Or Our New Products Are Not Accepted By Potential Customers, We May Lose Market Share.

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

develop and introduce new products could reduce our growth rate or damage our business.

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

- Availability, quality and price relative to competitive products;
- The timing of introduction of the product relative to competitive products;
- Customers' opinions of the products' utility;

- Ease of use;
- Consistency with prior practices;
- Scientists' opinions of the products' usefulness;
- Citation of the product in published research; and
- General trends in life sciences research.

The expenses or losses associated with unsuccessful product development or lack of market acceptance of our new products could materially adversely affect our business, operating results and financial condition.

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

The expected growth of our operations will place a significant strain on our current management resources. To manage this expected growth, we will need to improve our:

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

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

Dependence On Key Personnel.

Our success depends on the continuing services of our management team, the loss of any of which could have a material and adverse effect on our business operations. In particular, our success depends on our Chairman of the Board, Robin (Rob) Hutchison, our President Peter Brocklesby, our Chief Marketing Officer, Adrian Botash, and our Chief Operating Officer, Karin Klemm. We do not maintain any "key man" insurance policies regarding any of these individuals. We may not be able to retain the services of our executive officers and key personnel or attract additional qualified members to management in the future. The loss of services of these individuals, or of any of our other key management or employees, could have a material adverse effect upon our business.

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

Recruiting and retaining qualified scientific and production personnel to perform research and development work and product manufacturing are critical to our success. Because the industry in which we compete is very competitive, we

face significant challenges attracting and retaining a qualified personnel base. Although we believe we have been and will be able to attract and retain these personnel, there is no assurance that we will be able to continue to successfully attract qualified personnel. In addition, our anticipated growth and expansion into areas and activities requiring additional expertise, such as clinical testing, government approvals, production, and marketing will require the addition of new management personnel and the development of additional expertise by existing management personnel. The failure to attract and retain these personnel or, alternatively, to develop this expertise internally would adversely affect our business.

We Need To Expand Our Sales And Support Organizations To Increase Market Acceptance Of Our Products.

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

Limited Board of Directors.

We currently have five directors on our Board of Directors, two of which are independent outside (non-employee) directors. We have allocated necessary capital and are actively seeking to purchase a Director and Officers Insurance Policy and will actively recruit 1-2 additional qualified outside directors upon purchase of the insurance policy.

After we purchase an appropriate D&O policy, however, we cannot guarantee that we will be able to attract or retain qualified directors.

Limitation of Officers' and Directors' Liabilities

The Company's by-laws limit directors' and officers' liabilities to the maximum extent permitted under Nevada Law. In addition, the Company is obligated under its by-laws to indemnify its directors and officers against certain liabilities incurred with respect to their service in such capacities. Each of these measures could reduce the legal remedies available to the Company and the shareholders against such individuals.

We Depend Upon Our Third Party Suppliers.

We will rely on third party suppliers to supply the raw materials that we will utilize in our manufacturing processes.

We cannot assure our ability to obtain adequate supplies of raw materials on time to manufacture our products. Our inability to obtain adequate supplies of product may materially and adversely affect our business operations.

We Have Experienced Delays in the Introduction of Our Products

We have experienced numerous delays in the introduction of our DNA embedded security and related products. These delays have been caused by lack of working capital and completion of research and development efforts. We cannot assure our

ability to raise the necessary working capital or completion of our research and development efforts in order to produce our products.

Reduction Or Delays In Research And Development Budgets And In Government Funding May Negatively Impact Our Sales.

Our future customers may include researchers at pharmaceutical and biotechnology companies, academic institutions and government and private laboratories. Fluctuations in the research and development budgets of these researchers and their organizations could have a significant effect on the demand for our products. Research and development budgets fluctuate due to numerous factors that are outside our control and are difficult to predict, including changes in available resources, spending priorities and institutional budgetary policies. Our business could be seriously damaged by any significant decrease in life sciences research and development expenditures by pharmaceutical and biotechnology companies, academic institutions or government and private laboratories. A portion of our future sales may be to researchers, universities, government laboratories and private foundations whose funding is dependent upon grants from government agencies such as the U.S. National Institute of Health ("NIH") and similar domestic and international agencies. Although the level of research funding has increased during the past several years, we cannot assure that this trend will continue. Government funding of research and development is subject to the political process, which is inherently unpredictable. Our revenues may be adversely affected if our customers delay purchases as a result of uncertainties surrounding the approval of government budget proposals. Also, government proposals to reduce or eliminate budget deficits have sometimes included reduced allocations to the NIH and other government agencies that fund research and development activities. A reduction in government funding for the NIH or other government research agencies could seriously damage our business. Also, our potential customers receive funds from government-approved grants at particular times of the year. In the past, grants have been frozen for extended periods or have otherwise become unavailable to various institutions without advance notice. The timing of the receipt of grant funds affects the timing of purchase decisions by our customers and, as a result, can cause fluctuations in our sales and operating results.

The Biomedical Research Products Industry Is Very Competitive, and We May Be Unable To Continue To Compete Effectively In This Industry In The Future.

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

- Product performance, features and liability;
- Price;
- Timing of product introductions;
- Ability to develop, maintain and protect proprietary products and technologies;

- Sales and distribution capabilities; o Technical support and service;
- Brand loyalty; o Applications support; and

- Breadth of product line.

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

We May Be Unable To Protect Our Trademarks, Trade Secrets And Other Intellectual Property Rights That Are Important To Our Business.

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

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.

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 carry product liability insurance coverage which is limited in scope and amount but which we believe to be adequate. We cannot assure, however, that we will be able to maintain this insurance at reasonable cost and on reasonable terms. We also cannot assure that this insurance will be adequate to protect us against a product liability claim, should one arise.

We Are Currently Subject To Governmental Regulation

Our business is currently subject to regulation, supervision and licensing by federal, state and local governmental authorities. We must also expend resources from time to time to comply with newly adopted regulations, as well as changes in existing regulations. If we fail to comply with these regulations, we could be subject to disciplinary actions or administrative enforcement actions. These actions could result in penalties, including fines.

RISKS RELATED TO OUR COMMON STOCK

Effect of Issuance of Preferred Stock.

Our authorized capital consists of 100,000,000 shares of Common Stock and 10,000,000 shares of Preferred Stock. We have attained board approval and written approval from holders of the majority of issued and outstanding shares of Common Stock to increase the authorized Common Stock to 400,000,000 shares and reduce the par value to $0.001 per share, and also to adopt a Stock Option Plan. We plan to file a 14C Information Statement soon after filing this 10-KSB.

The Board of Directors, without any action by our shareholders, is authorized to designate and issue shares of Preferred Stock in such series as it deems appropriate and to establish the rights, preferences and privileges of such shares, including dividends, liquidation and voting rights. The rights of holders of shares of Preferred Stock that may be issued may be superior to the rights granted to the holders of existing Shares of Common Stock. The ability of the Board of Directors to designate and issue such undesignated shares could impede or deter an unsolicited tender offer or takeover proposal regarding the Company, and the issuance of additional shares having preferential rights could adversely affect the voting power and other rights of holders of Common Stock.

The Lack of a Mature Trading Market for our Common Stock May Cause our Stock Price to Decline Significantly and Limit the Liquidity of our Common Stock.

We do not meet the listing requirements for the listing or quotation of our common stock on any national or regional securities exchange or on NASDAQ. Currently, our common stock is traded on the Over-The-Counter Bulletin Board. As a result, accurate current quotations as to the value of our common stock are unavailable making it more difficult for investors to dispose of our common stock. The lack of current quotations and liquidity can cause our stock price to decline or to trade lower than the prices that might prevail if our securities were listed or quoted on an exchange or on NASDAQ.

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

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

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

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

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

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

- sets forth the basis on which the broker or dealer made the suitability determination; and

- that the broker or dealer received a signed, written agreement from the investor prior to the transaction.

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

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

We Have Paid No Dividends On Our Common Stock

We have paid no cash dividends on our Common Stock in the past and do not intend to pay any dividends on our Common Stock in the foreseeable future. Our Board of Directors is empowered to declare dividends, if any, to holders of the common stock, based on our earnings, capital requirements, financial condition, and other relevant factors. We anticipate that we will reinvest profits from our operations, if any, into our business. We cannot assure you that we will ever pay dividends to holders of our common stock.

ITEM 7. FINANCIAL STATEMENTS

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FINANCIAL STATEMENTS AND SCHEDULES

SEPTEMBER 30, 2004 AND 2003

APPLIED DNA SCIENCES, INC.
(A development Stage Company)

APPLIED DNA SCIENCES , INC.

Index to Financial Statements

RUSSELL BEDFORD STEFANOU MIRCHANDANI LLP
CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF REGISTERED INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

We have audited the accompanying consolidated balance sheets of Applied DNA Sciences, Inc. (a development stage company) as of September 30, 2004 and the related consolidated statements of losses, deficiency in stockholders' equity, and cash flows for the years ended September 30, 2004 and 2003 and the period September 16, 2002 (date of inception) through September 30, 2004. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on the financial statements based upon our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Applied DNA Sciences , Inc. (a development stage company) at September 30, 2004 and the results of its operations and its cash flows for the years ended September 30, 2004 and 2003, and the period September 16, 2002 (date of inception) through September 30, 2004 in conformity with accounting principles generally accepted in the United States of America.

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

/s/ RUSSELL BEDFORD Stefanou MIRCHANDANI LLP

Russell Bedford Stefanou Mirchandani LLP
Certified Public Accountants

McLean, Virginia
January 11, 2005

APPLIED DNA SCIENCES , INC
(A development stage company)
CONSOLIDATED BALANCE SHEET

	September 3
ASSETS	
Current Assets:	
Cash	
Total Current Assets	--
Property, Plant and Equipment (Note A)	
Less: accumulated depreciation	
Total Property, Plant and Equipment	--
Other Assets:	
Deposits	
Intangible assets (net of accumulated amortization of $1,756) (Note A)	
Total Other Assets	--
	==
LIABILITIES AND DEFICIENCY IN STOCKHOLDERS' EQUITY	
Current Liabilities:	
Accounts payable and accrued liabilities	$
Accrued expenses - related parties (Note D)	
Convertible notes payables (Note F)	
Due to related parties (Note D)	
Note payable -related parties (Note C)	

Total Current Liabilities	
Commitments and contingencies (Note J)	
DEFICIENCY IN STOCKHOLDERS' EQUITY: (Note E)	
Convertible Preferred Stock, par value $0.001 per share; 10,000,000 shares authorized; 60,000 shares issued and outstanding at September 30, 2004	
Common Stock, par value $0.50 per share; 100,000,000 authorized; 23,981,054 shares issued and outstanding at September 30, 2004	1
Additional paid in capital	
Common stock subscribed	
Deficit accumulated during development stage	(2
Total deficiency in stockholders' equity	(
	$

See accompanying notes to consolidated financial statements

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

	For the Year Ended September 30, 2004	For the YearEnded September 30, 2003	S (thr
Operating expenses:			