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APPLIED DNA SCIENCES INC
Form 10QSB/A
May 23, 2006

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

FORM 10-QSB/A
Amendment No. 1

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

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

For the Quarterly period ended March 31, 2006

Commission file number 002-90519

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

Nevada
(State or other jurisdiction of
incorporation or organization)

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

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

11790
(Zip Code)

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

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

Yes No

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

Yes No

The number of shares of Common Stock, \$0.001 par value, outstanding on March 31, 2006, was 118,582,385 shares, held by approximately 1,380 shareholders.

Transitional Small Business Disclosure Format (check one):

Yes No

APPLIED DNA SCIENCES, INC
QUARTERLY REPORT ON FORM 10-QSB FOR THE
QUARTERLY PERIOD ENDING MARCH 31, 2006

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

APPLIED DNA SCIENCES, INC.
(A DEVELOPMENT STAGE COMPANY)
CONDENSED CONSOLIDATED BALANCE SHEET
MARCH 31, 2006
(Unaudited)

ASSETS

Current assets:

Cash and cash equivalents	\$ 77,71
Advances and other receivables	3,12

Total current assets	80,84
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Property, plant and equipment - Net of accumulated depreciation of \$6,265	42,33
Deposits and prepaid expenses	23,38
Intangible assets:	
Patents, net of accumulated amortization of \$15,168 (Note B)	19,08
Intellectual Property , net of accumulated amortization of \$1,010,454 (Note B)	8,420,44
Total	\$ 8,586,09
=====	
Assets	

LIABILITIES AND DEFICIENCY IN STOCKHOLDERS' EQUITY

Current liabilities:	
Accounts payable and accrued liabilities	\$ 2,274,40
Accrued liabilities due related parties	2,49
Note payable (Note D)	510,42
Total current liabilities	2,787,32
Warrant Liability (Note G)	6,787,39
Convertible Note payable, net of unamortized discount (Note D)	676,79
Commitments and contingencies (Note I)	
Deficiency in Stockholders' Equity:	
Preferred stock, par value \$.001 per share; 10,000,000 shares authorized; 60,000 issued and outstanding	
Common stock, par value \$.001 per share; 250,000,000 shares authorized; 118,582,385 shares issued and outstanding	118,58
Common stock subscription	(200,00)
Additional paid-in-capital	88,220,81
Total Accumulated Deficit	(89,804,81)
Total Deficiency in Stockholders' Equity	(1,665,41)
Total liabilities and Deficiency in Stockholders' equity	\$ 8,586,09
=====	

See accompanying notes to unaudited condensed consolidated financial statements

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

For the Three Months Ended March 31	For the S Months End March 31
---	-------------------------------------

2006

2005

2006

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(as restated
see Note I)

Operating expenses:				
Selling, general and administrative	\$ 1,009,934	\$ 10,406,288	\$ 3,088,661	\$
Research and development	75,033	--	91,303	
Depreciation and amortization	341,676	7,306	684,375	
	-----	-----	-----	-----
Total operating expenses	1,426,643	10,413,594	3,864,339	
Operating loss	(1,426,643)	(10,413,594)	(3,864,339)	
Net gain/(loss) on revaluation of warrant liability	4,846,273	13,310,729	12,973,966	
Other income (expense)	(3,520)	3,100	9,493	
Interest income (expense)	(59,597)	(19,567,738)	(79,403)	
Income (taxes) benefit	--	--	--	
	-----	-----	-----	-----
Net Income (Loss)	\$ 3,356,513	\$ (16,667,503)	\$ 9,039,717	\$
Earnings (Loss) per common share:				
Basic	\$.03	\$ (0.31)	\$.08	\$
Diluted				
Weighted average shares outstanding:	\$.03	\$ (0.31)	\$.08	\$
Basic	116,483,044	53,044,883	114,487,589	
Diluted	116,533,352	53,044,883	114,550,086	

See accompanying notes to unaudited condensed consolidated financial statements

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APPLIED DNA SCIENCES, INC
(A development stage company)
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIT)
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH
MARCH 31, 2006 (Unaudited)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed
	-----	-----	-----	-----	-----	-----
Issuance of common stock to Founders in exchange for services on September 16, 2002 at \$.01 per share	-	\$ -	100,000	\$ 10	\$ 990	-
Net Loss	-	-	-	-	-	-

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Balance at September 30, 2002	-	-	100,000	10	990	-
Issuance of common stock in connection with merger with Prohealth Medical Technologies, Inc on October 1, 2002	-	-	10,178,352	1,015	-	-
Cancellation of Common stock in connection with merger with Prohealth Medical Technologies, Inc on October 21, 2002	-	-	(100,000)	(10)	(1,000)	-
Issuance of common stock in exchange for services in October 2002 at \$ 0.65 per share	-	-	602,000	60	39,070	-
Issuance of common stock in exchange for subscription in November and December 2002 at \$ 0.065 per share	-	-	876,000	88	56,852	-
Cancellation of common stock in January 2003 previously issued in exchange for consulting services	-	-	(836,000)	(84)	(54,264)	-
Issuance of common stock in exchange for licensing services valued at \$ 0.065 per share in January 2003	-	-	1,500,000	150	97,350	-
Issuance of common stock in exchange for consulting services valued at \$ 0.13 per share in January 2003	-	-	586,250	58	76,155	-
Issuance of common stock in exchange for consulting services at \$ 0.065 per share in February 2003	-	-	9,000	1	584	-
Issuance of common stock to Founders in exchange for services valued at \$0.0001 per share in March 2003	-	-	10,140,000	1,014	-	-
Issuance of common stock in exchange for consulting services valued at \$2.50 per share in March 2003	-	-	91,060	10	230,624	-

See accompanying notes to unaudited condensed consolidated financial statements

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APPLIED DNA SCIENCES, INC
(A development stage company)
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICI

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FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH
MARCH 31, 2006 (Unaudited)
(Continued)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Amount	Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed
	-----	-----	-----	-----	-----	-----	-----
Issuance of common stock in exchange for consulting services valued at \$ 0.065 per share in March 2003	-	-	6,000		1	389	-
Common stock subscribed in exchange for cash at \$1 per share in March 2003	-	-	-		-	18,000	-
Common stock issued in exchange for consulting services at \$ 0.065 per share on April 1, 2003	-	-	860,000		86	55,814	-
Common stock issued in exchange for cash at \$ 1.00 per share on April 9, 2003	-	-	18,000		2	-	-
Common stock issued in exchange for consulting services at \$ 0.065 per share on April 9, 2003	-	-	9,000		1	584	-
Common stock issued in exchange for consulting services at \$ 2.50 per share on April 23, 2003	-	-	5,000		1	12,499	-
Common stock issued in exchange for consulting services at \$ 2.50 per share, on June 12, 2003	-	-	10,000		1	24,999	-
Common stock issued in exchange for cash at \$ 1.00 per share on June 17, 2003	-	-	50,000		5	49,995	-
Common stock subscribed in exchange for cash at \$ 2.50 per share pursuant to private placement on June 27, 2003	-	-	-		-	-	24,000
Common stock retired in exchange for note payable at \$0.0118 per share, on June 30, 2003	-	-	(7,500,000)		(750)	750	-
Common stock issued in exchange for consulting services at \$0.065 per share, on June 30, 2003	-	-	270,000		27	17,523	-
Common stock subscribed in exchange for cash at							

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

See accompanying notes to unaudited condensed consolidated financial statements

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APPLIED DNA SCIENCES, INC
(A development stage company)
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH
MARCH 31, 2006 (Unaudited)
(Continued)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed
	-----	-----	-----	-----	-----	-----
Common stock canceled in July 2003, previously issued for services rendered at \$2.50 per share	-	-	(24,000)	(2)	(59,998)	-
Common stock issued in exchange for options exercised at \$1.00 in July 2003	-	-	20,000	2	19,998	-
Common stock issued in exchange for exercised of options previously subscribed at \$1.00 in July 2003	-	-	10,000	1	9,999	(10,000)
Common stock issued in exchange for consulting services at approximately \$2.38 per share, August 2003	-	-	172,500	17	410,915	-
Common stock issued in exchange for options exercised at \$1.00 in August 2003	-	-	29,000	3	28,997	-
Common stock issued in exchange for						

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

See accompanying notes to unaudited condensed consolidated financial statements

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APPLIED DNA SCIENCES, INC
(A development stage company)
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH
MARCH 31, 2006 (Unaudited)
(Continued)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed
Preferred shares issues in exchange for services at \$25.00 per share, October 2003	15,000	15	-	-	-	-
Common stock issued in exchange for consulting services at approximately \$2.85 per share, October 2003			287,439	29	820,389	-

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Common stock issued in exchange for cash at \$2.50 per share-subscription payable-October 2003	120,000	12	299,988	(300,000)
Common stock canceled in October 2003, previously issued for services rendered at \$2.50 per share	(100,000)	(10)	(249,990)	-
Common stock issued in exchange for consulting services at approximately \$3 per share, November 2003	100,000	10	299,990	-
Common stock subscribed in exchange for cash at \$2.50 per share pursuant to private placement, November, 2003	100,000	10	249,990	-
Common stock subscribed in exchange for cash at \$2.50 per share pursuant to private placement, December, 2003	6,400	1	15,999	-
Common stock issued in exchange for consulting services at approximately \$2.59 per share, December 2003	2,125,500	213	5,504,737	-
Common Stock subscribed to at \$2.50 per share in December 2003	-	-	-	104,000
Beneficial conversion feature relating to notes payable	-	-	1,168,474	-
Beneficial conversion feature relating to warrants	-	-	206,526	-
Adjust common stock par value from \$0.0001 to \$0.50 per share, per amendment of articles dated Dec 2003	-	10,223,166	(10,223,166)	-
Common Stock issued pursuant to subscription at \$2.50 share in Jan 2004	41,600	20,800	83,200	(104,000)
Common stock issued in exchange for consulting services at \$2.95 per share, Jan 2004	13,040	6,520	31,948	-
Common stock issued in exchange for consulting services at \$2.60 per share, Jan 2004	123,000	61,500	258,300	-

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APPLIED DNA SCIENCES, INC
(A development stage company)
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICI
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUG
MARCH 31, 2006 (Unaudited)
(Continued)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed
Common stock issued in exchange for consulting services at \$3.05 per share, Jan 2004			1,000	500	2,550	-
Common stock issued in exchange for employee services at \$3.07 per share, Feb 2004			6,283	3,142	16,147	-
Common stock issued in exchange for consulting services at \$3.04 per share, Mar 2004			44,740	22,370	113,640	-
Common Stock issued for options exercised at \$1.00 per share in Mar 2004			55,000	27,500	27,500	-
Common stock issued in exchange for employee services at \$3.00 per share, Mar 2004			5,443	2,722	13,623	-
Common stock issued in exchange for employee services at \$3.15 per share, Mar 2004			5,769	2,885	15,292	-
Preferred shares converted to common shares for consulting services at \$3.00 per share, Mar 2004	(5,000)	(5)	125,000	62,500	312,500	-
Common stock issued in exchange for employee services at \$3.03 per share, Mar 2004			8,806	4,400	22,238	-
Common Stock issued pursuant to subscription at \$2.50 per share in Mar. 2004			22,500	11,250	(9,000)	-
Beneficial Conversion Feature relating to Notes Payable			-	-	122,362	-
Beneficial Conversion Feature relating to Warrants			-	-	177,638	-
Common stock issued in exchange for consulting services at \$2.58 per share, Apr 2004			9,860	4,930	20,511	-

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Common stock issued in exchange for consulting services at \$2.35 per share, Apr 2004			11,712	5,856	21,667	-
Common stock issued in exchange for consulting services at \$1.50 per share, Apr 2004			367,500	183,750	367,500	-
Common stock returned to treasury at \$0.065 per share, Apr 2004			(50,000)	(25,000)	21,750	-
Preferred stock converted to common stock for consulting services at \$1.01 per share in May 2004	(4,000)	(4)	100,000	50,000	51,250	-
Common stock issued per subscription May 2004			10,000	5,000	(4,000)	-

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APPLIED DNA SCIENCES, INC
(A development stage company)
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH
MARCH 31, 2006 (Unaudited)
(Continued)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed
Common stock issued in exchange for consulting services at \$0.86 per share in May 2004			137,000	68,500	50,730	-
Common stock issued in exchange for consulting services at \$1.15 per share in May 2004			26,380	13,190	17,147	-
Common stock returned to treasury at \$0.065 per share, Jun 2004			(5,000)	(2,500)	2,175	-
Common stock issued in exchange for consulting services at \$0.67 per share in June 2004			270,500	135,250	45,310	-
Common stock issued in exchange for consulting services at \$0.89 per share in June 2004			8,000	4,000	3,120	-
Common stock issued in exchange for consulting services at \$0.65 per share in June 2004			50,000	25,000	7,250	-

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Common stock issued pursuant to private placement at \$1.00 per share in June 2004			250,000	125,000	125,000	-
Common stock issued in exchange for consulting services at \$0.54 per share in July 2004			100,000	50,000	4,000	-
Common stock issued in exchange for consulting services at \$0.72 per share in July 2004			5,000	2,500	1,100	-
Common stock issued in exchange for consulting services at \$0.47 per share in July 2004			100,000	50,000	(2,749)	-
Common stock issued in exchange for consulting services at \$0.39 per share in August 2004			100,000	50,000	(11,000)	-
Preferred stock converted to common stock for consulting services at \$0.39 per share in August 2004	(2,000)	(2)	50,000	25,000	(5,500)	-
Common stock issued in exchange for consulting services at \$0.50 per share in August 2004			100,000	50,000	250	-
Common stock issued in exchange for consulting services at \$0.56 per share in August 2004			200,000	100,000	12,500	-
Common stock issued in exchange for consulting services at \$0.41 per share in August 2004			92,500	46,250	(8,605)	-
Common stock issued in exchange for consulting services at \$0.52 per share in September 2004			1,000,000	500,000	17,500	-

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APPLIED DNA SCIENCES, INC
(A development stage company)
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH
MARCH 31, 2006 (Unaudited)
(Continued)

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

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Common stock issued in exchange for consulting services at \$0.46 per share in September 2004			5,000	2,500	(212)	-
Common stock issued pursuant to subscription at \$0.50 per share in September 2004			40,000	20,000	-	-
Preferred shares converted to common stock for consulting services at \$0.41 per share in September 2004	(4,000)	(4)	100,000	50,000	4,000	-
Preferred shares issued in exchange for service at \$25 per share in September 2004	60,000	6			1,499,994	
Warrants issued to consultants in the fourth quarter 2004					2,019,862	
Net Loss			-	-	-	-
September 30, 2004	60,000	6	23,981,054	11,990,527	6,118,993	-

See accompanying notes to unaudited condensed consolidated financial statements

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APPLIED DNA SCIENCES, INC
(A development stage company)
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY) FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH MARCH 31, 2006 (Unaudited)
(Continued)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed
Common stock issued in exchange for consulting services at \$0.68 per share in October 2004	-	-	200,000	100,000	36,000	-
Common stock returned to treasury at \$0.60 per share, Oct 2004	-	-	(1,069,600)	(534,800)	(107,298)	-
Common stock issued in exchange for consulting services at						

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\$0.60 per share in October 2004	-	-	82,500	41,250	8,250	-
Common Stock issued pursuant to subscription at \$0.60 share in October 2004	-	-	500,000	250,000	50,000	(300,000)
Common stock issued in exchange for consulting services by noteholders at \$0.50 per share in October 2004	-	-	532,500	266,250	-	-
Common Stock issued pursuant to subscription at \$0.50 share in October 2004	-	-	500,000	250,000	-	-
Common Stock issued pursuant to subscription at \$0.45 share in October 2004	-	-	1,000,000	500,000	(50,000)	(450,000)
Common stock issued in exchange for consulting services by noteholders at \$0.45 per share in October 2004	-	-	315,000	157,500	(15,750)	-
Common Stock issued in exchange for consulting services at \$0.47 share in November 2004	-	-	100,000	50,000	(3,000)	-
Common Stock issued in exchange for consulting services at \$0.80 share in November 2004	-	-	300,000	150,000	90,000	-
Common Stock issued in exchange for consulting services at \$1.44 share in November 2004	-	-	115,000	57,500	108,100	-
Common Stock issued in exchange for employee services at \$1.44 share in November 2004	-	-	5,000	2,500	4,700	-

See accompanying notes to unaudited condensed consolidated financial statements

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

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MARCH 31, 2006 (Unaudited)
(Continued)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed
	-----	-----	-----	-----	-----	-----
Common Stock issued in exchange for employee services at \$0.60 share in November 2004	-	-	60,000	30,000	6,000	(4,000)
Beneficial Conversion discount relating to Notes Payable	-	-	-	-	936,541	-
Beneficial Conversion Feature relating to Warrants	-	-	-	-	528,459	-
Common stock issued at \$0.016 in exchange for note payable in December 2004			5,500,000	2,750,000	(2,661,500)	
Common Stock issued in exchange for consulting services at \$1.44 share in December 2004	-	-	5,796,785	2,898,393	5,418,814	-
Common stock issued pursuant to subscription at \$0.50 per share in December 2004	-	-	2,930,000	1,465,000	-	(125,000)
Warrants issued to consultants in December 2004	-	-			394,698	
Warrants exercised at \$0.10 per share in January 2005	-	-	25,000	12,500	(10,000)	-
Common Stock issued in settlement of debt at \$0.33 per share in January 2005	-	-	1,628,789	814,395	(276,895)	-
Warrants exercised at \$0.10 per share in January 2005	-	-	17,500	8,750	(7,000)	-
Common Stock issued in settlement of debt at \$0.33 per share in January 2005	-	-	2,399,012	1,199,503	(407,830)	-
Common Stock issued in						

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exchange for consulting services at \$1.30 per share in January 2005	-	-	315,636	157,818	252,509	-
Common Stock issued in settlement of debt at \$0.33 per share in February 2005	-	-	75,757	37,879	(12,879)	-

See accompanying notes to unaudited condensed consolidated financial statements

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A development stage company)
 CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)
 FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH
 MARCH 31, 2006 (Unaudited)
 (Continued)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed
	-----	-----	-----	-----	-----	-----
Warrants exercised at \$0.10 per share in February 2005	-	-	20,000	10,000	(8,000)	-
Common Stock issued in settlement of debt at \$0.33 per share in February 2005	-	-	606,060	303,030	(103,030)	-
Warrants exercised at \$0.10 per share in February 2005	-	-	45,000	22,500	(18,000)	-
Common Stock issued in settlement of debt at \$0.40 per share in February 2005	-	-	1,500,000	750,000	(150,000)	-
Common Stock issued in settlement of debt at \$0.33 per share in February 2005	-	-	278,433	139,217	(47,334)	-
Common Stock issued in exchange for consulting services at \$1.17 per share in February 2005	-	-	17,236	8,618	11,548	-
Common stock issued pursuant to subscription at \$0.50 per share in February 2005	-	-	300,000	150,000	-	-

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Common Stock issued in exchange for consulting services at \$0.95 per share in February 2005	-	-	716,500	358,250	322,425	-
Common Stock issued in exchange for consulting services at \$0.95 per share in February 2005	-	-	10,500	5,250	4,725	-
Common stock issued pursuant to subscription at \$0.50 per share in March 2005	-	-	13,202,000	6,601,000	-	-
Common Stock issued in exchange for consulting services at \$1.19 per share in March 2005	-	-	185,000	92,500	127,650	-
Options exercised at \$0.60 per share in March 2005	-	-	100,000	50,000	10,000	-
Common Stock issued in exchange for consulting services at \$0.98 per share in March 2005	-	-	1,675,272	837,636	804,131	-

See accompanying notes to unaudited condensed consolidated financial statements

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APPLIED DNA SCIENCES, INC
(A development stage company)
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH
MARCH 31, 2006 (Unaudited)
(Continued)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed
	-----	-----	-----	-----	-----	-----
Common Stock issued in exchange for consulting services at \$0.92 per share in March 2005	-	-	24,333	12,167	10,219	-
Common Stock issued in exchange for consulting services at \$0.99 per share in March 2005	-	-	15,000	7,500	7,350	-
Common stock issued						

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pursuant to subscription at \$0.50 per share in March 2005	-	-	1,240,000	620,000	-	-
Common stock canceled For shares issued in exchange of debt in March 2005	-	-	(500,000)	(250,000)	-	-
Common stock subscribed Canceled in March 2005	-	-	-	-	-	750,000
Common Stock issued in exchange for consulting services at \$0.89 per share in March 2005	-	-	10,000	5,000	3,900	-
Adjust common stock par value from \$0.50 to \$0.001 per share, per amendment of articles dated March 2005	-	-	-	(32,312,879)	32,312,879	-
Beneficial Conversion discount relating to Notes Payable in March 2005	-	-	-	-	4,179,554	-
Beneficial Conversion Feature relating to Warrants in March 2005	-	-	-	-	3,191,446	-
Stock options granted to employees in exchange for services rendered, at exercise price below fair value of common stock in March 2005	-	-	-	-	180,000	-
Common Stock issued in exchange for consulting services at \$0.80 per share in April 2005	-	-	160,000	160	127,840	-
Common Stock issued in exchange for consulting services at \$0.80 per share in April 2005	-	-	40,000	40	31,960	-

See accompanying notes to unaudited condensed consolidated financial statements

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APPLIED DNA SCIENCES, INC
(A development stage company)
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICI
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH
MARCH 31, 2006 (Unaudited)

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(Continued)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed
	-----	-----	-----	-----	-----	-----
Common Stock issued in exchange for consulting services at \$0.75 per share in April 2005	-	-	850,000	850	636,650	-
Common Stock issued in exchange for consulting services at \$0.33 per share in April 2005	-	-	500,000	500	164,500	-
Common Stock canceled during April 2005, previously issued for services rendered at \$3.42 per share	-	-	(10,000)	(10)	(34,190)	-
Common Stock issued in settlement of debt at \$0.33 per share in April 2005	-	-	75,758	77	24,923	(25,000)
Common Stock issued in exchange for consulting services at \$0.68 per share in April 2005	-	-	50,000	50	33,950	-
Proceeds received against subscription Payable in June 2005	-	-	-	-	-	118,000
Common Stock canceled in June 2005, previously issued for services rendered at \$0.50 per share	-	-	(10,000)	(10)	(4,990)	-
Cancellation of previously granted stock options granted to employees for services rendered, at exercise price below fair value of common stock	-	-	-	-	(180,000)	-
Warrants issued to consultants and Employees during the quarter ended June 30, 2005	-	-	-	-	849,046	-
Common Stock issued in exchange for consulting services at \$0.60 per share in July 2005	-	-	157,000	157	94,043	-
Common Stock issued in						

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exchange for intellectual property at \$0.67 per share in July 2005	-	-	36,000,000	36,000	24,084,000	-
Common Stock issued in exchange for consulting services at \$0.60 per share in July 2005	-	-	640,000	640	383,360	-
Common Stock issued in exchange for employee services at \$0.48 per share in July 2005	-	-	8,000,000	8,000	3,832,000	-

See accompanying notes to unaudited condensed consolidated financial statements

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APPLIED DNA SCIENCES, INC
(A development stage company)
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH
MARCH 31, 2006 (Unaudited)
(Continued)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed
	-----	-----	-----	-----	-----	-----
Common Stock issued in exchange for consulting services at \$0.48 per share in August 2005	-	-	250,000	250	119,750	-
Common Stock issued in exchange for consulting services at \$0.94 per share in September 2005	-	-	121,985	122	168,217	-
Common Stock penalty shares issued pursuant to pending SB-2 registration at \$0.62 per share in September 2005	-	-	814,158	814	501,858	-
Common Stock penalty shares issued pursuant to pending SB-2 registration at \$0.70 per share in September 2005	-	-	391,224	391	273,466	-
Common Stock issued in exchange for consulting services at \$0.94 per share in September 2005	-	-	185,000	185	173,715	-

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Common Stock returned in September 2005, previously issued for services rendered at \$0.40 per share	-	-	(740,000)	(740)	(353,232)	56,000
Adjustment to warrants previously issued and canceled during the year ended Sept 30, 2005	-	-	-	-	(287,440)	-
Cumulative effect of Warrant revaluation	-	-	-	-	7,005,371	-
Net Loss	-	-	-	-	-	-
Balance as of September 30, 2005	60,000	\$ 6	112,230,392	\$ 112,230	\$88,885,173	\$ 20,000

See accompanying notes to unaudited condensed consolidated financial statements

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APPLIED DNA SCIENCES, INC
(A development stage company)
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH
MARCH 31, 2006 (Unaudited)
(Continued)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed
Common stock issued pursuant to subscription at \$0.50 per share in October 2005	-	-	400,000	400	199,600	(200,000)
Common Stock issued in exchange for consulting services at \$0.75 per share in October 2005	-	-	100,000	100	74,900	-
Common Stock returned in October 2005, previously issued for services rendered at \$0.60 per share	-	-	(350,000)	(350)	(209,650)	-
Common stock issued pursuant to subscription at \$0.50 per share in December 2005	-	-	40,000	40	19,960	(20,000)

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Common Stock penalty shares issued pursuant to pending SB-2 registration at \$0.51 per share in December 2005	-	-	505,854	506	257,481	-
Fair value related to warrants issued in November 2005	-	-	-	-	563,750	-
Effect of Warrant Revaluation	-	-	-	-	(1,758,900)	-
Net Loss	-	-	-	-	-	-
Balance as of December 31, 2005	60,000	\$ 6	112,926,246	\$ 112,926	\$88,032,313	\$(200,000)

See accompanying notes to unaudited condensed consolidated financial statements

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APPLIED DNA SCIENCES, INC
(A development stage company)
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIE
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH
MARCH 31, 2006 (Unaudited)
(Continued)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	Stoc Subscri Recei
Common Stock returned in January 2006, previously issued for services rendered at \$0.60 per share			(250,000)	(250)	(149,750)		
Penalty shares issued pursuant to pending SB-2 registration at \$0.32 per share in January 2006			806,212	806	257,182		
Penalty shares issued pursuant to pending SB-2 registration at \$0.20 per share in January 2006			1,289,927	1,290	256,695		
Warrants issued in January 2006					43,100		
Common Stock							

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issued in exchange for consulting services at \$0.17 share in February 2006			160,000	160	27,040		
Common Stock issued in exchange for consulting services at \$0.16 share in February 2006			3,800,000	3,800	604,200		
Common Stock returned in March 2006, previously issued for services rendered at \$0.80 per share Valuation of Warrant Liabilities in connection with Private Placement (Note C)			(150,000)	(150)	(119,850)		(730,111)
Net Loss							
Balance as of March							
31, 2006	----- 60,000 =====	--- 6 ===	----- 118,582,385 =====	----- \$ 118,582 =====	----- \$88,220,817 =====	----- \$(200,000) =====	----- \$ - =====

See accompanying notes to unaudited condensed consolidated financial s

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(A DEVELOPMENT STAGE COMPANY)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Six Months March 31, 2006
Net cash used in operating activities	\$(1,508,503)
Net cash used in investing activities	(44,972)
Net cash provided by financing activities	1,600,000
Net increase in cash and cash equivalents	46,525
Cash and cash equivalents at beginning of period	31,190
Cash and cash equivalents at end of period	\$ 77,715

Supplemental Disclosures of Cash Flow Information:

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Cash paid during period for interest	--
Cash paid during period for taxes	--
Non-cash transaction	
Common stock issued for services	710,200
Common stock issued in exchange for intellectual property	--
Common stock issued in exchange for previously incurred debt	
Common stock penalty shares issued pursuant to pending SB-2 registration	773,958
Common stock canceled-previously issued for services rendered	(480,000)
Common stock retired	
Amortization of beneficial conversion feature	--
Preferred Shares in exchange for services	--
Warrants issued to consultants	606,850
Acquisition:	
Common stock retained	--
Assets acquired	--
Total consideration paid	--
Organization expenses - note issued in exchange of shares retired	--

See accompanying notes to unaudited condensed consolidated financial s

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APPLIED DNA SCIENCES, INC
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
MARCH 31, 2006
(UNAUDITED)

NOTE A - SUMMARY OF ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited consolidated financial statements as of March 31, 2006 and for the six month periods ended March 31, 2006 and 2005 have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"), including Form 10-QSB and Regulation S-B. The information furnished herein reflects all adjustments (consisting of normal recurring accruals and adjustments), which are, in the opinion of management, necessary to fairly present the operating results for the respective periods. Certain information and footnote disclosures normally present in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to such rules and regulations. The Company believes that the disclosures provided are adequate to make the information presented not misleading. These financial statements should be read in conjunction with the audited financial statements and explanatory notes for the year ended September 30, 2005 as disclosed in the company's 10-KSB for that year as filed with the SEC, as it may be amended.

The results of the six month period ended March 31, 2006 are not necessarily indicative of the results to be expected for the full year ending September 30, 2006.

Estimates

The preparation of the financial statements in conformity with generally

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accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Business and Basis of Presentation

On September 16, 2002, Applied DNA Sciences, Inc. (the "Company") was incorporated under the laws of the State of Nevada. The Company is in the development stage, as defined by Statement of Financial Accounting Standards No. 7 ("SFAS No. 7") and its efforts have been principally devoted to developing DNA embedded biotechnology security solutions in the United States. To date, the Company has generated nominal sales revenues, has incurred expenses and has sustained losses. Consequently, its operations are subject to all the risks inherent in the establishment of a new business enterprise. For the period from inception through March 31, 2006, the Company has accumulated losses of \$89,804,818.

The unaudited condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated in the consolidated financial statements.

Reclassification

Certain prior period amounts have been reclassified for comparative purposes.

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Stock-Based Compensation

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123R (revised 2004), "Share-Based Payment" which is a revision of FASB Statement No. 123, "Accounting for Stock-Based Compensation". Statement 123R supersedes APB opinion No. 25, "Accounting for Stock Issued to Employees", and amends FASB Statement No. 95, "Statement of Cash Flows". Generally, the approach in Statement 123R is similar to the approach described in Statement 123. However, Statement 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro-forma disclosure is no longer an alternative. This statement does not change the accounting guidance for share based payment transactions with parties other than employees provided in Statement of Financial Accounting Standards No. 123(R). This statement does not address the accounting for employee share ownership plans, which are subject to AICPA Statement of Position 93-6, "Employers' Accounting for Employee Stock Ownership Plans." On April 14, 2005, the SEC amended the effective date of the provisions of this statement. The effect of this amendment by the SEC is that the Company had to comply with Statement 123R and use the Fair Value based method of accounting no later than the first quarter of 2006. The Company implemented SFAS No. 123(R) on January 1, 2006 using the modified prospective method. The fair value of each option grant issued after January 1, 2006 will be determined as of grant date, utilizing the Black-Scholes option pricing model. The amortization of each option grant will be over the remainder of the vesting period of each option grant.

As more fully described in financial statements as included in Form 10-KB for the year ended September 30, 2005, the Company granted stock options over the years to employees of the Company under a non-qualified employee stock option plan. As of September 30, 2005, 3,660,000 options were outstanding and exercisable. The Company did not grant any stock options to employees during the

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quarter ended March 31, 2006. The Company did not recognize compensation expense related to employees stock options in the quarter ended March 31, 2006. The impact on earnings for the remainder of fiscal 2006 for stock based compensation will depend on future stock option issuances.

In prior years, the Company applied the intrinsic-value method prescribed in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," to account for the issuance of stock options to employees and accordingly compensation expense related to employees' stock options were recognized in the prior year financial statements to the extent options granted under stock incentive plans had an exercise price less than the market value of the underlying common stock on the date of grant.

Had compensation costs for the Company's stock options been determined based on the fair value at the grant dates for the awards, the Company's net loss and loss per share would have been as follows:

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	For the six months ended	
	March 31, 2006	March 31, 2005
Net income (loss) attributable to common stockholders -as reported and restated	\$ 9,039,717	\$(34,549,004)
Add:		
Total stock based employee compensation expense as reported under intrinsic value method (APB No. 25)	-	-
Deduct:		
Total stock based employee compensation expense as reported under fair value based method (SFAS No. 123)	-	-
Net Income (loss) -Pro Forma	\$ 9,039,717	(34,549,004)
Net Income (loss) attributable to common stockholders - Pro forma	\$ 9,039,717	(34,549,004)
Basic income (loss) per share -as reported	\$ 0.08	\$ (0.86)
Basic income (loss) per share - Pro forma	\$ 0.08	\$ (0.86)
Diluted income (loss) per share -as reported	\$ 0.08	\$ (0.86)
Diluted income (loss) per share - Pro forma	\$ 0.08	\$ (0.86)

Derivative Financial Instruments

The Company's derivative financial instruments consist of embedded derivatives related to the 10 % Secured Convertible Promissory Notes (the "Serial Notes") entered into on March 7, 2006, 2006 (see Note D). These embedded derivatives include certain conversion features, variable interest features, call options and default provisions. The accounting treatment of derivative financial instruments requires that the Company record the derivatives and related warrants at their fair values as of the inception date of the Note Agreement (estimated at \$858,600) and at fair value as of each subsequent balance sheet date. In addition, under the provisions of EITF Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock," as a result of entering into the Notes, the Company is required to classify all other non-employee stock options and warrants as derivative liabilities and mark them to market at each reporting

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date. The fair value of such options and warrants that were reclassified as liabilities from additional paid-in capital at March 31, 2006 totaled \$730,111. Any change in fair value will be recorded as non-operating, non-cash income or expense at each reporting date. If the fair value of the derivatives is higher at the subsequent balance sheet date, the Company will record a non-operating, non-cash charge. If the fair value of the derivatives is lower at the subsequent balance sheet date, the Company will record non-operating, non-cash income. Conversion-related derivatives were valued using the Binomial Option Pricing Model with the following assumptions: dividend yield of 0%; annual volatility of 157.55%; and risk free interest rate of 4.82% as well as probability analysis related to trading volume restrictions. The remaining derivatives were valued using discounted cash flows and probability analysis. The derivatives are classified as long-term liabilities (see Note F).

New Accounting Pronouncements

FAS 129-1. In April 2004, the FASB issued FASB Staff Position (FSP) 129-1, "Disclosure Requirements under SFAS 129, "Disclosure of Information about Capital Structure," Relating to Contingently Convertible Securities." The FSP interprets how the disclosure provisions of SFAS 129 apply to contingently convertible securities and their potentially dilutive effect on earnings per share. The Company is in a loss position for the three and nine months ended October 2, 2004, therefore, adoption of this FSP did not have a material effect on the Company's financial position, results of operations, or cash flows.

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Staff Accounting Bulletin No. 107. In March 2005, the staff of the SEC issued Staff Accounting Bulletin No. 107 (" SAB 107 "). The interpretations in SAB 107 express views of the staff regarding the interaction between SFAS 123(R) and certain SEC rules and regulations and provide the staff's views regarding the valuation of share-based payment arrangements for public companies. In particular SAB 107 provides guidance related to share-based payment transactions with nonemployees, the transition from public entity status, valuation methods (including assumptions such as expected volatility and expected term), the accounting for certain redeemable financial instruments issued under share-based payment arrangements, the classification of compensation expense, non-GAAP financial measures, first-time adoption of SFAS 123(R) in an interim period, capitalization of compensation cost related to share-based payment arrangements, the accounting for income tax effects of share-based payment arrangements upon adoption of SFAS 123(R), the modification of employee share options prior to adoption of SFAS 123(R) and disclosures in Management's Discussion and Analysis subsequent to adoption of SFAS 123(R).

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

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made in fiscal years beginning after the date this Statement is issued. The Company does not expect the adoption of this SFAS to have a material impact on its consolidated financial position, results of operations or cash flows.

NOTE B - INTANGIBLE ASSET AMORTIZATION

The Company has adopted SFAS No. 142, Goodwill and Other Intangible Assets, whereby the Company periodically test its intangible assets for impairment. On an annual basis, and when there is reason to suspect that their values have been diminished or impaired, these assets are tested for impairment, and write-downs will be included in results from operations.

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

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The identifiable intangible assets acquired and their carrying value at March 31, 2006 are:

Amortizable Intangible Assets	Gross Carrying Amount	Accumulated Amortization	Net	Weighted Average Amortization Residual Value	Period (Years)
Trade secrets and developed technologies	9,430,900	1,010,454	8,420,446	--	7
Patents	34,257	15,168	19,089	--	5
	-----	-----	-----	-----	-----
Total Amortized Identifiable Intangible Assets	\$ 9,465,157	\$ 1,025,622	\$8,439,535	--	6.99
	=====	=====	=====	=====	=====

Total amortization expense charged to operations for the six months ended March 31, 2006 and 2005 were \$ 677,040 and \$7,306 respectively.

NOTE C - NOTES PAYABLE

Notes payable at March 31, 2006 consist of the following:

10% Secured Convertible Promissory Notes , net of unamortized debt discount of \$ 823,210 (see below)	\$ 676,790
4% convertible note payable, unsecured, and due August 1, 2005; currently in default; Noteholder has the option to convert unpaid principal together with accrued and unpaid interest to 180,000 shares of the Company's restricted common stock. The Company is in default under	

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the terms of the Note Agreements.	410,429
7.5% note payable to BioCogent, Ltd., an entity controlled by the Company's President and CEO ; unsecured and repayment of principal and accrued and unpaid interest due upon the earlier of the (i) receipt by the Company of \$250,000 in debt or, equity or other infusion of capital or (ii) by June 30, 2006.	100,000

	1,187,219
Less : Current portion	(510,429)
	\$ 676,790

10% Secured Convertible Promissory Notes

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

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

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

In conjunction with the Notes, the Company issued warrants to purchase

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

The Company recorded the fair value of the derivatives (\$346,500) and warrants (\$ 512,100) to debt discount, aggregating \$858,600, which will be amortized to interest expense over the term of the Notes. Amortization of \$35,390 was recorded for the three months ended March 31, 2006.

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

Future minimum principal payments are as follows under notes payable for the year ending March 31, 2006:

2006	\$ 510,429
2007	1,500,000

	\$ 2,010,429

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NOTE D - CAPITAL STOCK

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

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

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

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

In October 2002 the Company issued 602,000 shares of common stock in exchange for services valued at \$0.065 per share. In accordance with EITF 96-18 the measurement date to determine fair value was in October 2002. This was the date at which a commitment for performance by the counter party to earn the equity instrument was reached. The Company valued the shares issued at approximately \$0.065 per share, which presents the fair value of the services received which did not differ materially from the value of the stock issued.

In November and December 2002, the Company issued 876,000 shares of

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common stock in exchange for subscription at \$0.065 per share. In accordance with EITF 96-18 the measurement date to determine fair value was in October 2002. This was the date at which a commitment for performance by the counter party to earn the equity instrument was reached. The Company valued the shares issued at approximately \$0.065 per share, which presents the fair value of the services received which did not differ materially from the value of the stock issued.

In January 2003, the Company canceled 836,000 shares of common stock previously issued in exchange for consulting services.

In January 2003, the Company issued 1,500,000 shares of common stock in exchange for a licensing agreement. The Company valued the shares issued at approximately \$0.065 per share, which represents the fair value of the license received which did not differ materially from the value of the stock issued. The Company charged the cost of the license to operations.

In January 2003, the Company issued 586,250 shares of common stock in exchange for consulting services. In accordance with EITF 96-18 the measurement date to determine fair value was in October 2002. This was the date at which a commitment for performance by the counter party to earn the equity instrument was reached. The Company valued the shares issued at approximately \$0.13 per share, which presents the fair value of the services received which did not differ materially from the value of the stock issued.

In February 2003, the Company issued 9,000 shares of common stock in exchange for consulting services. In accordance with EITF 96-18 the measurement date to determine fair value was in October 2002. This was the date at which a commitment for performance by the counter party to earn the equity instrument was reached. The Company valued the shares issued at approximately \$0.065 per share, which presents the fair value of the services received which did not differ materially from the value of the stock issued.

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In March 2003, the Company issued 10,140,000 shares of common stock to Company's founders in exchange for services. In accordance with EITF 96-18 the measurement date to determine fair value was in September 2002. This was the date at which a commitment for performance by the counter party to earn the equity instrument was reached. The Company valued the shares issued at approximately \$0.0001 per share, which presents the fair value of the services received which did not differ materially from the value of the stock issued.

In March 2003, the Company issued 91,060 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately \$2.53 per share, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

In March 2003, the Company issued 6,000 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately \$0.065 per share, which represents the fair value of the services received which did not differ materially from the value of the stock issued. In March 2003, the Company received subscription for 18,000 shares of common stock in exchange for cash at \$1 per share.

On April 1, 2003, the Company issued 860,000 shares of common stock in exchange for consulting services provided to the Company. In accordance with EITF 96-18 the measurement date to determine fair value was in October 2002. This was the date at which a commitment for performance by the counter party to earn the equity instrument was reached. The Company valued the shares issued at

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approximately \$0.065 per share, which presents the fair value of the services received which did not differ materially from the value of the stock issued.

On April 9, 2003, the Company issued 18,000 shares of common stock in exchange for previously issued options to purchase the Company's common stock at \$1.00 per share.

On April 9, 2003, the Company issued 9,000 shares of common stock in exchange for consulting services provided to the Company. In accordance with EITF 96-18 the measurement date to determine fair value was in October 2002. This was the date at which a commitment for performance by the counter party to earn the equity instrument was reached. The Company valued the shares issued at approximately \$0.065 per share, which presents the fair value of the services received which did not differ materially from the value of the stock issued.

On April 23, 2003, the Company issued 5,000 shares of common stock in exchange for consulting services provided to the Company. The Company valued the shares issued at approximately \$2.50 per share, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

On June 12, 2003, the Company issued 10,000 shares common stock in exchange for consulting services provided to the Company. The Company valued the shares issued at approximately \$2.50 per share, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

On June 17 2003, the Company issued 50,000 shares of common stock in exchange for cash at \$1.00 per share.

On June 30, 2003, the Company issued 270,000 shares of common stock in exchange for consulting services provided to the Company. In accordance with EITF 96-18 the measurement date to determine fair value was in October 2002. This was the date at which a commitment for performance by the counter party to earn the equity instrument was reached. The Company valued the shares issued at approximately \$0.065 per share, which presents the fair value of the services received which did not differ materially from the value of the stock issued.

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On June 30, 2003, the Company received \$10,000 as subscription for options to purchase the Company's common stock at \$1.00 per share.

In June, 2003, the Company received \$48,000 in connection with a subscription to purchase the Company's common stock pursuant to a private placement.

In connection with the Company's acquisition of ProHealth, the controlling owner of ProHealth granted the Company an option to acquire up to 8,500,000 shares of the Company's common stock in exchange for \$100,000 . The option expired on December 10, 2004. On June 30, 2003, the Company exercised its option and acquired 7,500,000 common shares under this agreement in exchange for an \$88,500 convertible promissory note payable to the former controlling owner. The Company had an option through December 10, 2004 to acquire the remaining 1,000,000 shares from the former controlling owner in exchange for \$11,500. On June 30, 2003, the Company retired the 7,500,000 shares common acquired pursuant to the option agreement.

In July 2003 the Company issued 213,060 shares of common stock for consulting services provided to the Company. The Company valued the shares issued at approximately \$2.01 per share, which represents the fair value of the

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services received which did not differ materially from the value of the stock issued.

In July 2003, the Company canceled 24,000 shares of common stock, previously issued for services valued at \$2.50 per share.

In July 2003, the Company received \$20,000 in exchange for previously issued options to purchase the Company's common stock at \$1.00 per share.

In July 2003, the Company issued 10,000 shares of common stock for cash previously subscribed at \$1.00 per share.

In August 2003, the Company issued 172,500 shares of common stock in exchange for consulting services provided to the Company. The Company valued the shares issued at approximately \$2.38 per share, which represents the fair value of the services received which did not differ materially from the value of the stock issued

In August 2003, the Company received \$29,000 in exchange for previously issued options to purchase the Company's common stock at \$1.00 per share.

In September 2003, the Company issued 395,260 shares of common stock in exchange for consulting services provided to the Company. The Company valued the shares issued at approximately \$2.42 per share, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

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

In September 2003, the Company issued 6,400 shares of common stock issued in exchange for cash at \$2.50 per share pursuant to private placement.

In September 2003, the Company received \$95,000 in exchange for previously issued options to purchase the Company's common stock at \$1.00 per share.

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In September 2003, the Company received \$2,600 in connection with a subscription to purchase the Company's common stock pursuant to a private placement.

The Company valued the shares issued for consulting services at the rate which represents the fair value of the services received which did not differ materially from the value of the stock issued.

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

In October 2003, the Company issued 287,439 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately \$2.85 per share for a total of \$820,418, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

In October 2003, the Company issued 120,000 shares of common stock for shares previously subscribed at \$2.50 per share in September 2003. In October

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2003, the Company canceled 100,000 shares of common stock previously issued in exchange for services at \$2.50 per share.

In November 2003, the Company issued 100,000 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately \$3.00 per share, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

In November 2003, the Company sold 100,000 shares of common stock subscribed for cash at \$2.50 per share pursuant to private placement.

In December 2003, the Company sold 6,400 shares of common stock subscribed for cash at \$2.50 per share pursuant to private placement.

In December 2003, the Company issued 2,125,500 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately \$2.59 per share, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

In December 2003, the Company received \$104,000 in exchange for a common stock subscription at \$2.50 per share pursuant to private placement.

In January 2004, the Company issued 41,600 shares of common stock at \$2.50 share pursuant to a subscription made on December 2003.

In January 2004, the Company issued 13,040 shares of common stock at \$2.95 per share in exchange for consulting services valued at \$38,468.

In January 2004, the Company issued 123,000 shares of common stock at \$2.60 per share in exchange for consulting services valued at \$319,800.

In January 2004, the Company issued 1,000 shares of common stock at \$3.05 per share in exchange for consulting services valued at \$3,050.

In February 2004, the Company issued 6,283 shares of common stock at \$3.07 per share in exchange for employee services valued at \$19,288.

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In March 2004, the Company issued 44,740 shares of common stock at \$3.04 per share in exchange for consulting services valued at \$136,010.

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

In March 2004, the Company issued 5,443 shares of common stock at \$3.00 per share in exchange for employee services valued at \$16,344.

In March 2004, the Company issued 5,769 shares of common stock at \$3.15 per share in exchange for employee services valued at \$18,177.

In March 2004, the Company converted 5,000 preferred shares into 125,000 shares of common stock at \$3.00 per share in exchange for employee services valued at \$375,000.

In March 2004, the Company issued 8,806 shares of common stock at \$3.03 per share in exchange for employee services valued at \$26,639.

In April 2004, the Company issued 22,500 shares of common stock at \$0.10 for subscription of warrants to be exercised.

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In April 2004, the Company issued 9,860 shares of common stock at \$2.58 per share in exchange for employee services valued at \$25,441.

In April 2004, the Company issued 11,712 shares of common stock at \$2.35 per share in exchange for consulting services valued at \$27,523.

In April 2004, the Company issued 367,500 shares of common stock at \$1.50 per share in exchange for consulting services valued at \$551,250.

In April 2004, the Company retired 50,000 shares of common stock previously issued for consulting services at \$0.065 per share or \$3,250.

In May 2004, the Company converted 4,000 preferred shares into 100,000 shares of common stock at \$1.01 per share in exchange for consulting services valued at \$101,250.

In May 2004, the Company issued 10,000 shares of common stock at \$0.10 per share in a stock subscription for \$1,000.

In May 2004, the Company issued 137,000 shares of common stock at \$0.86 per share in exchange for consulting services valued at \$119,233.

In May 2004, the Company issued 26,380 shares of common stock at \$1.15 per share in exchange for consulting services valued at \$30,337.

In June 2004, the Company retired 5,000 shares of common stock previously issued for consulting services at \$0.065 per share or \$325.

In June 2004, the Company issued 270,500 shares of common stock at \$0.67 per share in exchange for consulting services valued at \$180,560.

In June 2004, the Company issued 8,000 shares of common stock at \$0.89 per share in exchange for consulting services valued at \$7,120.

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In June 2004, the Company issued 50,000 shares of common stock at \$0.645 per share in exchange for consulting services valued at \$32,250.

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

In July 2004, the Company issued 100,000 shares of common stock at \$0.54 per share in exchange for consulting services valued at \$54,000.

In July 2004, the Company issued 5,000 shares of common stock at \$0.72 per share in exchange for consulting services valued at \$3,600.

In July 2004, the Company issued 100,000 shares of common stock at \$0.47 per share in exchange for consulting services valued at \$47,250.

In August 2004, the Company converted 2,000 preferred shares into 50,000 shares of common stock at \$0.39 in exchange for consulting services valued at \$19,500.

In August 2004, the Company issued 100,000 shares of common stock at \$0.39 in exchange for consulting services valued at \$39,000.

In August 2004, the Company issued 100,000 shares of common stock at \$0.50 in exchange for consulting services valued at \$50,250.

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In August 2004, the Company issued 200,000 shares of common stock at \$0.56 in exchange for consulting services valued at \$112,500.

In August 2004, the Company issued 92,500 shares of common stock at \$0.41 in exchange for consulting services valued at \$37,645.

In September 2004, the Company issued 1,000,000 shares of common stock at \$0.52 in exchange for consulting services valued at \$517,500.

In September 2004, the Company issued 45,000 shares of common stock at \$0.50 in exchange for consulting services valued at \$22,288.

In September 2004, the Company converted 4,000 preferred shares into 100,000 shares of common stock at \$0.54 in exchange for consulting services valued at \$54,000.

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

In October 2004, the Company issued 200,000 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately \$0.68 per share for a total of \$136,000, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

In October 2004, shareholders returned 1,069,600 shares to treasury issued earlier in exchange for services valued at \$642,098.

In October 2004, the Company issued 82,500 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately \$0.60 per share for a total of \$49,500, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

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In October 2004, the Company sold 500,000 shares of common stock subscribed for cash at \$0.60 per share pursuant to private placement.

In October 2004, the Company issued 532,500 shares of common stock to existing noteholders. The Company valued the shares issued at approximately \$0.50 per share for a total of \$266,250.

In October 2004, the Company sold 500,000 shares of common stock subscribed for cash at \$0.50 per share pursuant to private placement.

In October 2004, the Company sold 1,000,000 shares of common stock subscribed for cash at \$0.45 per share pursuant to private placement.

In October 2004, the Company issued 315,000 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately \$0.45 per share for a total of \$141,750, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

In November 2004, the Company issued 100,000 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately \$0.47 per share for a total of \$47,000, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

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In November 2004, the Company issued 300,000 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately \$0.80 per share for a total of \$240,000, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

In November 2004, the Company issued 115,000 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately \$1.44 per share for a total of \$165,600, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

In November 2004, the Company issued 5,000 shares of common stock in exchange for employee services. The Company valued the shares issued at approximately \$1.44 per share for a total of \$7,200, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

In November 2004, the Company issued 60,000 shares of common stock in exchange for employee services. The Company valued the shares issued at approximately \$0.60 per share for a total of \$36,000, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

In December 2004, the Company issued net 5,500,000 shares of common stock for default as per terms of notes payable for \$88,500. Out of total, 3,500,000 shares were retained in escrow on behalf of another party for future deferred compensation.

In December 2004, the Company issued 5,796,785 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately \$1.44 per share for a total of \$8,317,207, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

In December 2004, the Company issued 2,930,000 shares of common stock subscribed for cash at \$0.50 per share pursuant to the exercise terms of a promissory note payable.

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During the three months ended March 31, 2005, the Company received \$10,750 in exchange for previously issued options to purchase the Company's common stock at \$.10 per share.

In January 2005, the Company received \$2,500 in exchange for previously issued options to purchase the Company's common stock at \$.10 per share.

In January 2005, we exchanged \$537,500 of previously issued convertible notes payable for 1,628,789 shares of common stock.

In January 2005, the Company received \$1,750 in exchange for previously issued options to purchase the Company's common stock at \$.10 per share.

In January 2005, we exchanged \$791,673 of previously issued convertible notes payable for 2,399,012 shares of common stock.

In January, 2005, the Company issued 315,636 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately \$1.30 per share for a total of \$410,327, which represents the fair value of the services received which did not differ materially from the value of

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the stock issued.

In February 2005, we exchanged \$25,000 of previously issued convertible notes payable for 75,757 shares of common stock.

In February 2005, the Company received \$2,000 in exchange for previously issued options to purchase the Company's common stock at \$.10 per share.

In February 2005, we exchanged \$200,000 of previously issued convertible notes payable for 606,060 shares of common stock.

In February 2005, the Company received \$ 4,500 in exchange for previously issued options to purchase the Company's common stock at \$.10 per share.

In February 2005, we exchanged \$600,000 of previously issued convertible notes payable for 1,500,000 shares of common stock.

In February 2005, we exchanged \$91,883 of previously issued convertible notes payable for 278,433 shares of common stock.

In February, 2005, the Company issued 17,236 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately \$1.17 per share for a total of \$20,166, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

In February, 2005, the Company exchanged \$150,000 of previously issued convertible notes payable for 300,000 shares of common stock .

In February, 2005, the Company issued 716,500 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately \$0.95 per share for a total of \$680,675, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

In February, 2005, the Company issued 10,500 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately \$0.95 per share for a total of \$9,975, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

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In March, 2005, the Company exchanged \$ 6,601,000 of previously issued convertible notes payable for 13,202,000 shares of common stock.

In March, 2005, the Company issued 185,000 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately \$1.19 per share for a total of \$220,150, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

In March 2005, the Company received \$ 60,000 in exchange for previously issued options to purchase the Company's common stock at \$.60 per share.

In March, 2005, the Company issued 1,675,272 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately \$0.98 per share for a total of \$1,641,767, which represents the

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fair value of the services received which did not differ materially from the value of the stock issued.

In March, 2005, the Company issued 24,333 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately \$0.92 per share for a total of \$22,386, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

In March, 2005, the Company issued 15,000 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately \$0.99 per share for a total of \$14,850, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

In March, 2005, the Company exchanged \$ 620,000 of previously issued convertible notes payable for 1,240,000 shares of common stock.

In March, 2005, the Company canceled shares previously issued within the quarter for exchange of debt valued at \$250,000.

In March, 2005, the Company issued 10,000 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately \$0.89 per share for a total of \$8,900, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

The Company recognized an imbedded beneficial conversion feature present in the January/February Offering note ("January/February PPM"). The Company allocated a portion of the proceeds equal to the intrinsic value of that feature to additional paid in capital. The Company recognized and measured an aggregate of \$ 4,179,554 of the proceeds, which is equal to the intrinsic value of the imbedded beneficial conversion feature, to additional paid in capital and a discount against the Bridge Offering. Upon conversion of the debt to common stock, the debt discount attributed to the beneficial conversion feature was charged in full to operations as interest expense.

The Company recognized the value attributable to the warrants in the amount of \$3,191,446 to additional paid in capital and a discount against the January/February 2005 PPM.

For the year ended September 30, 2005, the Company reclassified the \$7,371,000 to Warrant Liability (see Note B).

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In March, 2005, the Company granted an aggregate of 300,000 stock options to employees that vested immediately. The exercise prices of the stock options granted were below the fair value of the Company's common stock at the grant date. Compensation expense of \$180,000 was charged to operations during the period ended March 31, 2005.

In April, 2005, the Company issued 160,000 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately \$0.80 per share for a total of \$128,000, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

In April, 2005, the Company issued 40,000 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately \$0.80 per share for a total of \$32,000, which represents the fair

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value of the services received which did not differ materially from the value of the stock issued.

In April, 2005, the Company issued 850,000 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately \$0.75 per share for a total of \$637,500, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

In April 2005, we exchanged \$165,000 of previously issued convertible notes payable for 500,000 shares of common stock. In April, 2005, a shareholder returned 10,000 shares previously issued for services valued at \$34,200 in exchange for a cash settlement.

In April 2005, we exchanged previously issued convertible notes payable for 75,758 shares of common stock.

In April 2005, the Company issued 50,000 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately \$0.68 per share for a total of \$34,000, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

In June 2005, a shareholder returned 10,000 shares previously issued for services valued at \$5,000.

In June 2005, the Company cancelled 300,000 stock options previously granted valued at \$180,000.

In July 2005, the Company issued 157,000 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately \$0.60 per share for a total of \$94,200, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

In July 2005, the Company issued 36 million shares in exchange for intellectual property at approximately \$0.67 per share for a total of \$24,120,000 (see Note C).

In July 2005, the Company issued 640,000 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately \$0.60 per share for a total of \$384,000, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

In July 2005, the Company issued 8,000,000 shares of its common stock without restalign:center;">Percent

of Class

Charles T. Munger

50,000 3.6

J.P. Guerin

175,002 (1) 12.7

The Guerin Family Trust

125,002 (2) 9.1

RWWM Inc.

252,871 (3) 18.3

Richard D. Esbenshade

135,097 (4) 9.8

Gerald L. Salzman

31,636 (5) 2.3

Peter D. Kaufman

None -

Gary L. Wilcox

None -

Mary Conlin

None -

All directors and executive officers as a group (five persons)

256,638 (6) 18.6

175,002 shares are held by The Guerin Family Trust and another trust for which Mr. Guerin is a trustee and a (1) beneficiary. Mr. Guerin's and the trusts' business address is 355 South Grand Avenue, Suite 1710, Los Angeles, California 90071.

(2) Mr. Guerin is a trustee and a beneficiary of this trust.

According to a Schedule 13G/A filed with the Securities and Exchange Commission on February 13, 2018, RWWM Inc. d/b/a Roseman Wagner Wealth Management, RWWM Inc. 401K Profit Sharing Plan, Roseman (3) Wagner Partners, L.P., The Scott and Tara Roseman Foundation, Scott P. Roseman and Aaron J. Wagner may be deemed to be the beneficial owners of 252,871 shares in the aggregate. According to the Schedule 13G/A, the address of each reporting person is 4970 Rocklin Road, Suite 200, Rocklin, California 95677.

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According to a Schedule 13G filed with the Securities and Exchange Commission on February 7, 2012, Richard D. Esbenshade may be deemed to be the beneficial owner of 135,097 shares. The Company believes that Mr. Esbenshade's current address is 350 South Grand Avenue, Suite 5000, Los Angeles, California 90071.

(5) 20,580 of such shares are held by a pension plan of Mr. Salzman.

(6) This figure eliminates double counting of 125,002 shares of the Guerin Family Trust, for which Mr. Guerin is a trustee and a beneficiary.

AMENDMENT TO THE COMPANY'S BYLAWS

TO INCREASE THE SIZE OF THE BOARD OF DIRECTORS

(Item 2 on the Proxy Card)

The Company is asking shareholders to approve an amendment to the Company's Bylaws to increase the size of the Board of Directors. The amendment accomplishes this by (i) increasing the permissible range of the size of the Board of Directors, which is now between three and five directors, to between three and seven directors; and (ii) setting the number of directors at six until such time as it may be changed within the new range by resolution of the Board of Directors in accordance with the Bylaws.

The Company would like to increase the size of the Board of Directors to benefit from the talented contributions of a sixth member. This will also allow the Company to satisfy a new obligation under California law to have at least one woman serving on the Board of Directors, without requiring one of the existing five directors to resign. Increasing the upper end of the range to seven members will also provide the Board of Directors with the flexibility to add another member if an exceptional candidate is identified, without again needing to seek shareholder approval of an amendment to the Bylaws.

The shareholders are being asked to approve the following amendment to Article III, Section 2 of the Company's Bylaws. If approved, such Section shall read as follows:

Number of Directors. The authorized number of directors shall not be less than three (3) nor more than seven (7), until changed by amendment of the articles of incorporation or these bylaws. The exact number of directors shall be fixed, within the limits specified, by resolution duly adopted by the Board of Directors. Until changed by resolution duly adopted by the Board of Directors, the exact number of directors shall be six (6).

Approval of the amendment to the Company's Bylaws will require votes in favor of the amendment from holders of a majority of the outstanding shares entitled to vote. Abstentions and broker non-votes are the equivalent of "against" votes. A marked version of the proposed amendment compared to the existing language of Article III, Section 2 of the Company's Bylaws is attached as Annex A to this Proxy Statement.

Proxies given without instructions will be voted FOR approval of the amendment to the Company's Bylaws.

**RATIFICATION OF APPOINTMENT OF THE COMPANY'S
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

(Item 4 on the Proxy Card)

The audit committee of the Board of Directors has selected Squar Milner LLP (“Squar Milner”) to serve as the Company’s independent registered public accounting firm for fiscal 2018. A representative of Squar Milner is expected to be present at the Annual Meeting to make such statements as Squar Milner may desire and to answer appropriate questions from shareholders.

Ratification of the appointment of Squar Milner as the Company’s independent registered public accounting firm for the current fiscal year will require that the votes cast in favor of ratification exceed the votes cast against ratification. Abstentions have no effect on the outcome. Brokers and other nominees have the discretion under applicable rules to vote on the ratification of Squar Milner when they have not received voting instructions from the beneficial owner on a timely basis.

If Squar Milner’s appointment is not ratified, the audit committee will consider whether to retain Squar Milner, but still may retain the firm. Even if the appointment is ratified, the audit committee, in its discretion, may change the appointment of the Company’s independent registered public accounting firm at any time during the year if it determines that such a change would be in the Company’s best interest.

Proxies given without instructions will be voted FOR ratification of Squar Milner as the Company’s independent accountants.

OTHER MATTERS REGARDING

THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Audit Fees

Squar Milner billed aggregate fees of approximately \$285,000 for professional services rendered for audits of the Company's fiscal 2018 financial statements and its internal control over financial reporting, and for the three quarterly reviews of the financial statements included in the Company's Forms 10-Q for fiscal 2018. Squar Milner billed aggregate fees of approximately \$285,000 for the same services in fiscal 2017.

Audit-Related Fees

"Audit-related fees" include fees billed for assurance and related services that are reasonably related to the performance of the audit and not included in the "audit fees" mentioned above. There were no such fees billed by Squar Milner in fiscal 2018 and 2017.

Tax Fees

There were no fees billed by Squar Milner in either fiscal 2018 or 2017 for tax compliance, tax advice or tax planning. The Company's tax services are performed by a separate outside accounting firm.

All Other Fees

The "audit fees" mentioned above are the only fees billed by Squar Milner in fiscal 2018 and 2017.

Pre-Approval Policy

Pursuant to the rules and regulations of the Securities and Exchange Commission, before the Company's independent registered public accounting firm is engaged to render audit or non-audit services, the engagement must be approved by the Company's audit committee or entered into pursuant to a pre-approval policy. The audit committee has adopted a pre-approval policy, and it was previously attached as Appendix C to the Company's proxy statement dated December 29, 2016.

The policy requires the audit committee to specifically pre-approve each service that the Company's independent auditor provides to the Company (including audit services, tax services and other services), with the exception of certain audit-related services that do not impair the firm's independence. Generally, pre-approval under the policy is provided for a period of 12 months and relates to a particular category or group of services. Pre-approval fee levels for all services are also established periodically by the audit committee. To ensure prompt handling of unexpected matters, the chair of the audit committee has been delegated authority under the policy to amend or modify any pre-approved non-audit services and fees, with any such action to be reported to the full committee at its next scheduled meeting. The audit committee does not delegate its responsibilities to pre-approve services performed by the independent auditor to management or to the Board generally. The policy also contains a list of non-audit services which the Company's independent auditor is prohibited from providing if the results of those services would be subject to audit procedures during the audit of the Company's financial statements.

The audit committee pre-approved all services provided by Squar Milner during fiscal 2018.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires the Company's directors and its executive officer and all persons who own more than 10% of a registered class of the Company's equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission. The directors, executive officer and greater than 10% shareholders are required to furnish the Company with copies of all Section 16(a) forms they file. Based solely on a review of the copies of such forms received by the Company and written representations from certain reporting persons, the Company believes that during fiscal 2018 all filing requirements were timely satisfied, except that J.P. Guerin filed four late Forms 4 with respect to four different transactions in June 2018.

OTHER MATTERS

Other Business

The Board of Directors does not know of any matter to be presented at the Annual Meeting which is not listed in the notice of Annual Meeting and discussed above. If other matters should come before the meeting, however, the persons named in the form of proxy will vote in accordance with their best judgment.

Cost of Solicitation

The solicitation of proxies for the Annual Meeting will be made primarily by mail. The Company may reimburse persons holding shares in their names as custodians, nominees, or fiduciaries for expenses they may incur in obtaining instructions from beneficial owners of such shares.

Proposals of Security Holders

It is expected that the Company's 2020 Annual Meeting will be held on or about February 12, 2020. Shareholders desiring to submit proposals for action at that meeting will be required to submit them to the Company on or before August 30, 2019. Any such shareholder proposal must also be proper in form and substance, as determined in accordance with the Securities Exchange Act of 1934 and the rules and regulations promulgated thereunder.

Shareholders intending to present proposals from the floor of the 2019 Annual Meeting in compliance with Rule 14a-4 promulgated under the Securities Exchange Act of 1934, must notify the Company of such intentions before November 13, 2019. After such date, the Company's proxy in connection with the 2020 Annual Meeting will confer discretionary authority on the Board to vote on any such proposals.

Annual Report to Shareholders

Enclosed with this Proxy Statement is the Annual Report of the Company for the year ended September 30, 2018.

Additional Information

If any person who was a beneficial owner of Common Stock of the Company on the record date for the Annual Meeting of Shareholders desires additional information, a copy of the Company's Annual Report on Form 10-K will be furnished without charge upon receipt of a written request prior to the date of the Annual Meeting. The request should identify the person requesting the Report as a shareholder of the Corporation as of December 21, 2018. The exhibits of that Report will also be provided upon request and payment of copying charges. Requests should be directed to Mr. Gerald L. Salzman, Daily Journal Corporation, 915 E. 1st Street, Los Angeles, California 90012.

By Order of the Board of Directors

Michelle Stephens
Secretary

DATED: December [__], 2018

Annex A

Proposed Amendment to Bylaws

If Item 2 is approved by shareholders, Article III, Section 2 of the Company's bylaws will be amended as set forth below. Proposed additions are indicated by underline and proposed deletions are indicated by strike-through.

Article III, Section 2. Number of Directors. The authorized number of directors shall not be less than three (3) nor more than ~~five (5)~~ seven (7), until changed by amendment of the articles of incorporation or these bylaws. The exact number of directors shall be fixed, within the limits specified, by resolution adopted by the Board of Directors. Until changed by resolution duly adopted by the Board of Directors, the exact number of directors shall be ~~three (3)~~ six (6).