WHITE MOUNTAINS INSURANCE GROUP LTD
Form 8-K
September 07, 2001

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

SEPTEMBER 5, 2001
Date of Report (Date of earliest event reported)

WHITE MOUNTAINS INSURANCE GROUP, LTD.
(Exact name of registrant as specified in its charter)

BERMUDA	1-8993	94-2708455
(State or other jurisdiction of incorporation or organization)	(Commission file number)	(I.R.S. Employer Identification No.)

80 SOUTH MAIN STREET, HANOVER, NEW HAMPSHIRE 03755
(Address of principal executive offices)

(603) 643-1567
(Registrant's telephone number, including area code)

ITEM 5. OTHER EVENTS.

OneBeacon Insurance Group ("OneBeacon"), a wholly owned subsidiary of White Mountains Insurance Group, Ltd. (the "Registrant") announced that it has reached a non-binding agreement in principle with Liberty Mutual Insurance Group ("Liberty Mutual") to transfer OneBeacon's property and casualty business, staff and operations in 42 states and the District of Columbia to Liberty Mutual. Under the terms of the proposed agreement, Liberty Mutual will assume all new and renewal business effective November 1, 2001 (the "Effective Date"). Additionally, OneBeacon will reinsure 66 2/3% of the net premuims written and the net liability for loss and loss adjustment expense of all policies subject to the proposed agreement during the first twelve months after the Effective Date and 33 1/3% of such net premiums written and net liability for loss and loss adjustment expense written during the following twelve months.

The OneBeacon press release dated September 5, 2001 and the Summary of Significant Terms of the Non-Binding Agreement in Principle are attached herewith as Exhibit 99(a) and 99(b), respectively, and are incorporated by reference in their entirety.

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS.

(c) Exhibits. The following exhibits are filed herewith:

EXHIBIT NO.	DESCRIPTION
99(a)	Text of press release issued by OneBeacon Insurance Group, dated September 5, 2001.
99(b)	Summary of significant Terms of Non-Binding Agreement in Principle between OneBeacon Insurance Group and Liberty Mutual Insurance Group.

SIGNATURES

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

WHITE MOUNTAINS INSURANCE GROUP, LTD.

Dated: September 7, 2001

By: /s/ J. Brian Palmer

J. Brian Palmer
Chief Accounting Officer

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(2,402,109

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$

(2,402,109

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Total liabilities and Deficiency in Stockholders' equity

$

11,693,826

$

11,693,826

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

	As Previously Reported	Adjustment	Reference	As Restated
Sales	$ 18,900	$		18,900
Cost of sales	$ 15,639	$		15,639
Gross margin	$ 3,261	$		3,261

Selling, general & administrative	$	1,190,967	$	390,000	b	$	1,580,967
Research and development	$	-	$			$	-
Depreciation and amortization	$	336,824	$				336,824
Total operating expenses	$	1,527,791	$	390,000	b	$	1,917,791
Net loss from operations	$	(1,524,530)	$	(390,000)	b	$	(1,914,530)
Net gain (loss) in fair value of debt derivative							
and warrant liability	$	2,337,263	$	1,156,698	c	$	3,493,961
Other income (expense)	$	8,483	$				8,483
Interest income (expense)	$	(826,827)	$				(826,827)
Net income (loss)	$	(5,611)	$	766,698	b,c	$	761,087
Net income (loss) per share-basic	$	(0.00)	$	0.01		$	0.01
Net income (loss) per share-fully diluted		NA	$	0.01		$	0.01

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APPLIED DNA SCIENCES, INC
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
JUNE 30, 2007
(Unaudited)

NOTE I - RESTATEMENT OF FINANCIAL STATEMENTS (continued)

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

	As Previously Reported	Adjustment	Reference	As Restated
Sales	$ 18,900	$		18,900
Cost of sales	$ 15,639	$		15,639
Gross margin	$ 3,261	$		3,261
Selling, general & administrative	$ 4,955,055	$ (563,750)	d	$ 4,391,305
Research and development	$ 75,276	$		$ 75,276
Depreciation and amortization	$ 1,021,199	$		1,021,199
Total operating expenses	$ 6,051,530	$ (563,750)	d	$ 5,487,780
Net loss from operations	$ (6,048,269)	$ 563,750)	d	$ (5,484,519)
Net gain (loss) in fair value of debt derivative and warrant liability	$ 18,606,563	$ (4,355,942)	e	$ 14,250,621
Other income (expense)	$ 17.976	$		17,976
Interest income (expense)	$ (9,117,785)	$ 5,940,556	f	$ (3,177,229)
Net income (loss)	$ 3,458,485	$ 2,148,364	d,e,f	$ 5,606,849
Net income (loss) per share-basic	$ 0.03	0.02		$ 0.05
Net income (loss) per share-fully diluted	0.02	0.01		$ 0.03

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

	As Previously Reported	Adjustment	Reference	As Restated
Sales	$ 18,900	$		$ 18,900
Cost of sales	$ 15,639	$		$ 15,639
Gross margin	$ 3,261	$		$ 3,261
Selling, general & administrative	$ 70,072,368	$ 5,838,514	g	$ 75,910,882
Research and development	$ 968,711	$		$ 968,711
Depreciation and amortization	$ 1,380,626	$		$ 1,380,626
Total operating expenses	$ 72,421,705	$ 5,838,514	g	$ 78,260,219
Net loss from operations	$ (72,418,444)	$ (5,838,514)	g	$ (78,256,958)
Net gain (loss) in fair value of debt derivative and warrant liability	$ 35,307,553	$ (4,355,942)	e	$ 30,951,611
Other income (expense)	$ 49,318			49,318

Interest income (expense)	$	(47,119,730)	$	10,058,055	h	$ (37,061,675)
Net income (loss)	$	(84,181,303)	$	(136,401)	g,e,h	$ (84,317,703)

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APPLIED DNA SCIENCES, INC
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
JUNE 30, 2007
(Unaudited)

NOTE I - RESTATEMENT OF FINANCIAL STATEMENTS (continued)

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

		As Previously Reported		Adjustment	Reference		As Restated
Cash flows from operating activities:							
Net income (loss)	$	3,458,485	$	2,148,364	a	$	5,606,849
Adjustments to reconcile to net used in operating activities							
Depreciation and amortization	$	1,021,199				$	1,021,199
Organization expenses	$		$			$	
Preferred shares issued in exchange for services	$	-	$			$	-
Warrants issued to consultants	$	606,850	$	(563,750)	d	$	43,100
Income attributable to repricing of warrants and debt derivatives	$	(10,118,917)	$	(4,131,704)	i	$	(14,250,621)
Financing costs attributable to issuance of warrants			$	2,271,000	j	$	2,271,000
Amortization of beneficial conversion feature -convertible notes	$	-	$			$	-
Amortization of capitalized finance costs	$	247,238	$			$	247,238
Amortization of debt discount attributable to convertible debenture	$	-	$	276,090	k	$	276,090
Fair value of common stock issued to related party in excess of debt	$	-	$			$	-
Common stock issued in exchange for services	$	710,200	$			$	710,200

Common stock issued in exchange for intellectual property	$	-	$		$	-
Common stock issued as penalty in connection with financing	$	773,958	$		$	773,958
Common stock canceled-previously issued for services rendered	$	(480,000)	$		$	(480,000)
Change in assets and liabilities:						
Increase in accounts receivable	$	(18,900)	$		$	(18,900)

APPLIED DNA SCIENCES, INC
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
JUNE 30, 2007
(Unaudited)

NOTE I - RESTATEMENT OF FINANCIAL STATEMENTS (continued)

	As Previously Reported	Adjustment	Reference	As Restated
Increase in prepaid expenses and deposits	$ (145,849)	$		$ (145,849)
Decrease in other assets	$ 5,940	$		$ 5,940
Decease in due related parties	$ (52,662)	$		(52,662)
Increase (decrease) in accounts payable and accrued liabilities	$ 1,685,792	$		1,685,792
Net cash used in operating activities	$ (2,306,666)	$		(2,306,666)
Cash flows from investing activities:		$		
Payments for patent filing	$ -	$		
Capital expenditures	$ (35,851)	$		(35,851)
Net cash used in investing activities	$ (35,851)	$		(35,851)
Cash flows from financing activities		$		
Proceeds from sales of common stock, net	$ -	$		
Proceeds form issuance of convertible notes	$ 4,242,500	$		4,242,500
Proceeds from exercise of options and warrants	$ -	$		-
Payment of debt	$ -	$		-
Proceeds from loans	$ -	$		-
Advances from shareholders	$ -	$		-
Net cash provided by financing activities	$ 4,242,500	$		4,242,500
Net increase in cash and cash equivalents	$ 1,899,983	$		1,899,983
Cash and cash equivalents at beginning of period	$ 31,190	$		31,190

Cash and cash equivalents at end of period	$	1,931,173	$	1,931,173

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APPLIED DNA SCIENCES, INC
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
JUNE 30, 2007
(Unaudited)

NOTE I - RESTATEMENT OF FINANCIAL STATEMENTS (continued)

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

	As Previously Reported	Adjustment	Reference	As Restated
Cash flows from operating activities:				
Net income (loss)	$ (84,181,303)	$ (136,400)	g,e,f	$ (84,317,703)
Adjustments to reconcile to net used in operating activities				
Depreciation and amortization	$ 1,374,467	$ (5,756)	l	$ 1,368,711
Organization expenses	$ 88,500	$		$ 88,500
Preferred shares issued in exchange for services	$ 1,500,000	$		$ 1,500,000
Warrants issued to consultants	$ 3,583,016	$ 5,838,514	g	$ 9,421,530
Income attributable to repricing of warrants and debt derivatives	$ (26,819,908)	$ (4,131,703)	i	$ (30,951,611)
Financing costs attributable to issuance of warrants	$ 27,265,174	$ (1,846,500)	m	$ 25,418,674
Amortization of beneficial conversion feature -convertible notes	$ 10,461,000	$		$ 10,461,000
Amortization of capitalized finance costs	$ 247,238	$		$ 247,238
Amortization of debt discount attributable to convertible debenture	$ -	$ 276,090	k	$ 276,090
Fair value of common stock issued to related party in excess of debt	$ 1,365,000	$		$ 1,365,000
Common stock issued in exchange for services	$ 31,284,573	$		$ 31,284,573

Common stock issued in exchange for intellectual property	$	14,689,100	$		$	14,689,100
Common stock issued as penalty in connection with financing	$	1,550,487	$		$	1,550,487
Common stock canceled-previously issued for services rendered	$	(1,343,845)	$		$	(1,343,845)
Change in assets and liabilities:			$		$	
Increase in accounts receivable	$	(18,900)	$		$	(18,900)

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APPLIED DNA SCIENCES, INC
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
JUNE 30, 2007
(Unaudited)

NOTE I - RESTATEMENT OF FINANCIAL STATEMENTS (continued)

	As Previously Reported	Adjustment	Reference	As Restated
Increase in prepaid expenses and deposits	$ (163,472)	$		$ (163,472)
Decrease in other assets	$ (3,128)	$		$ (3,128)
Decease in due related parties	$ -	$		$ -
Increase (decrease) in accounts payable and accrued liabilities	$ 4,079,990	$ 5,755	1	$ 4,085,745
Net cash used in operating activities	$ (15,042,011)	$		$ (15,042,011)
Cash flows from investing activities:				
Payments for patent filing	$ (25,698)	$		$ (25,698)
Capital expenditures	$ (48,602)	$		$ (48,602)
Net cash used in investing activities	$ (74,300)	$		$ (74,300)
Cash flows from financing activities				
Proceeds from sales of common stock, net	$ 432,000	$		$ 432,000
Proceeds form issuance of convertible notes	$ 13,446,500	$		$ 13,446,500
Proceeds from exercise of options and warrants	$ 343,750	$		$ 343,750
Payment of debt	$ (24,854)	$		$ (24,854)
Proceeds from loans	$ 2,750,000	$		$ 2,750,000
Advances from shareholders	$ 100,088	$		$ 100,088
Net cash provided by financing activities	$ 17,047,484	$		$ 17,047,484
Net increase in cash and cash equivalents	$ 1,931,173	$		$ 1,931,173
Cash and cash equivalents at beginning of period	$ -	$		$ -

Cash and cash equivalents at end of period	$ 1,931,173	$	$ 1,931,173

APPLIED DNA SCIENCES, INC
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
JUNE 30, 2007
(Unaudited)

NOTE I - RESTATEMENT OF FINANCIAL STATEMENTS (continued)

a. Subsequent to the filing of the Company's June 30, 2006 quarterly report, the Company identified and amended its September 30, 2005 financial statements. The Company reported in the initial June 30, 2006 quarterly filing adjustments relating to warrant valuations in the current year, but upon subsequent review, realized these adjustments related to the prior year. The following table describes the effect on Additional Paid in Capital and Accumulated Deficit within the balance sheet and change in operations:

	Unaffected SE items	Additional Paid in Capital	Accumulated Deficit	Total Deficiency	Prior year Activity charged to operations
Balance, October 1, 2004-As previously reported and restated	$ 11,989,533	$ 6,118,993	$ (22,815,034)	$ (4,706,508)	
Unchanged activity reported as previously filed during year ended September 30, 2005	(11,857,297)	73,916,958	(64,824,755)	(2,765,094)	
Balance as previously filed, September 30, 2005	132,236	80,035,951	(87,639,789)	(7,471,602)	
Activity corrected with amended September 30, 2005 filing, but subsequent to previously filed June 30, 2006:					
Correction of fair value of warrants issued for services rendered in December 2004	-	(394,698)	394,698	-	$ (394,698)
Fair value of warrants issued to non employees and consultants in December 2004	-	3,169,052	(3,169,052)	-	3,169,052
Fair value of warrants issued to non employees in February 2005	-	72,017	(72,017)	-	72,017
Correction of warrants issued to consultants and employees in June 2005	-	(849,047)	849,047	-	(849,047)
Adjustment for cancellation of previously issued warrants during	-	287,440	(287,440)	-	287,440

year ended September 30, 2005					
Balance per amended September 30, 2005	132,236	82,320,715	(89,924,553)	(7,471,602)	2,284,764
Unchanged activity reported as previously filed during nine months ended June 30, 2006	(213,648)	(460,109)	5,743,249	5,069,492	
Previously filed June 30, 2006	(81,412)	81,860,606	$ (84,181,304)	$ (2,402,110)	
Correction in warrant valuation		136,400	(136,400)	-	(136,400)
Amended June 30, 2006:	$ (81,412)	$ 81,997,006	$ (84,317,704)	$ (2,402,110)	
Net change to operations:					$ 2,148,364

b. For the three months ended June 2006, the Company capitalized (and credited operations) finance costs paid and charged to operations in the previous quarter. The correction is to reflect within the proper accounting period the incurred capitalized financing costs. Net effect for the three months ended June 30, 2006: $390,000 reduction in operating expenses. Net effect for the nine months ended June 30, 2006: None

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APPLIED DNA SCIENCES, INC
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
JUNE 30, 2007
(Unaudited)

NOTE I - RESTATEMENT OF FINANCIAL STATEMENTS (continued)

c. Subsequent to the filing of the Company's June 30, 2006 quarterly report, the Company amended its March 31, 2006 filing to correct warrant valuations. The following table reconciles the amended Net gain in fair value of debt derivative and warrant liability:

Debt derivative and warrant liability balance as reported in March 2006 amended QSB:	$ 7,631,128
Debt derivative and warrant liability balance as reported in June 2006 amended QSB (unchanged)	5,698,286
Net change	1,932,842
Effect on gain created by initial warrant valuations relating to warrants issued in conjunction with convertible debt issued in June 2006 (unchanged)	1,561,119
Amended Net gain in fair value of debt derivative and warrant liability:	$ 3,493,961

d. The Company originally charged Selling, General and Administration for warrants issued relating to financing activities. The correct charge is to interest expense.

e. The Company change in net gain in fair value of debt derivative and warrant liability is comprised of the following:

The Company reported change in debt derivative and warrant valuation as an interest charge. Reclassification from interest expense	$ 5,940,556
Correction noted in (a) above	(2,148,364)
Correction noted in (d) above	563,750
Net change in Net gain in fair value of debt derivative and warrant liability:	$ 4,355,942

f. Reclassification from interest expense to gain on change in fair value of debt derivative and warrant liability. The Company originally recorded in error the change in debt derivative and warrant valuations as a credit to interest expense. This correction is a reclassification to the proper account. Net effect was $5,940,556.

g. The Company amended in prior filings the original recorded non financing related warrants which were recorded as a charge to interest expense. The corrected proper treatment is a charge to selling general and administration expense.

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APPLIED DNA SCIENCES, INC
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NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
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(Unaudited)

NOTE I - RESTATEMENT OF FINANCIAL STATEMENTS (continued)

h. The Inception to date change in interest expense is comprised of the following:

Reclassification from interest expense as described in (f) above:	$ 5,940,556
Reclassification from selling, general and administration expense as described in (g) above	$ 5,838,514
Correction as noted in (a) above	(2,148,364)
Correction as noted in (d) above	563,750
Correction in warrant valuation as noted in (a) above	(136,400)
Net change in inception to date reported interest expense:	$ 10,058,055

i. The change in reported net gain in fair value of debt derivative and warrant liability is comprised of the following:

Reclassification with the cash flow statement initial warrant valuations relating to financing (see j below)	$ 2,271,000
Correction as noted in (a) above	2,148,364
Correction as noted in (d) above	(563,750)
Reclassification of amortization of capitalized financing costs (see k below)	276,090
Net change in reported fair value of debt derivative and warrant liability:	$ 4,131,704

j. Effect of recording the non cash financing costs relating to issuance of warrants of $2,271,000 (reclassified from net change in fair value of debt and derivative valuations)

k. Recording the non cash amortization relating to the financing costs described in (j) above. (Reclassified from net change in fair value of debt and derivative valuations)

l. Correction of inception to date non cash depreciation and amortization on the cash flow statement.

m. Correct the life to date non cash financing costs attributable to warrants, net of amortization (k).

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

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

· discuss our future expectations;

· contain projections of our future results of operations or of our financial condition; and

· state other "forward-looking" information.

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

Introduction

We provide botanical DNA encryption, embedment and authentication solutions that can help protect companies, governments and consumers from counterfeiting, fraud, piracy, product diversion, identity theft, and unauthorized intrusion into physical locations and databases. Our SigNature Program provides a secure, accurate and cost-effective means for customers to incorporate our SigNature DNA Markers in, and then quickly and reliably authenticate and identify, a broad range of items such as artwork and collectibles, fine wine, consumer products, digital media, financial instruments, identity cards and other official documents. Having the ability to reliably authenticate and identify counterfeit versions of such items enables companies and governments to detect, deter, interdict and prosecute counterfeiting enterprises and individuals.

Our SigNature Program enables our potential clients to cost-effectively:

· assure manufacturers, suppliers, distributors, retailers and end-users that their products are authentic and can be forensically authenticated;

· integrate our SigNature DNA Markers with existing security solutions such as barcodes, radio frequency identification (RFID) tags, holograms, microchips and other securities measures; and

· add value to the "bottom-line" by helping to diminish product diversion and counterfeiting.

Counterfeit and diverted products continue to pose a significant and growing problem with consumer packaged goods, especially for prestige and established brands worldwide. Piracy, identity theft and forged documents and items are also highly prevalent in vertical markets such as digital media, fine art, luxury goods, and alcoholic beverages. Key aspects of our strategy include:

· continuing to improve and customize our solution to meet our potential customers' needs;

· continuing to develop and enhance our existing DNA marker authentication technologies;

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- expanding our customer base both domestically and abroad by targeting high volume markets; and
- augmenting our competitive position through strategic acquisitions and alliances.

Plan of Operations

General

We expect to generate revenues principally from sales of our SigNature Program. We are currently attempting to develop business in six target markets: art and collectibles, fine wine, consumer products, digital recording media, pharmaceuticals, and homeland security. We intend to pursue both domestic and international sales opportunities in each of these vertical markets.

Currently the Company is being funded by Bridge Loans primarily provided by the CEO. We are currently seeking additional capital to sustain or expand our prototype and sample manufacturing, and sales and marketing activities, and to otherwise continue our business operations. We have no commitments for any future funding, and may not be able to obtain additional financing or grants on terms acceptable to us, if at all, in the future. If we are unable to obtain additional capital this would restrict our ability to grow and may require us to curtail or discontinue our business operations. Additionally, while a reduction in our business operations may prolong our ability to operate, that reduction would harm our ability to implement our business strategy. If we can obtain any equity financing, it may involve substantial dilution to our then existing shareholders.

Recent Agreements

<u>Printcolor Screen Ltd. Agreement</u>

On May 30, 2007, we entered into a Technology Reseller Agreement with Printcolor Screen Ltd., or Printcolor. Under the terms of the agreement, we have been granted the exclusive right to supply our SigNature DNA Markers to Printcolor and Printcolor has been granted rights to affix our SigNature DNA Markers onto Printcolor products for distribution to its customers for an initial period of three years. This initial period will automatically renew for successive one year periods unless terminated earlier. We will be paid certain fees based on purchase orders received from Printcolor.

<u>IIMAK Agreement</u>

On April 18, 2007, we entered into a Joint Development and Marketing Agreement with International Imaging Materials, Inc., or IIMAK. In this agreement with IIMAK, the parties agreed to jointly develop thermal transfer ribbons incorporating our SigNature DNA Markers to help prevent counterfeiting and product diversion for an initial six (6) month period. This period may be extended by mutual written agreement. Upon the successful development of commercially feasible ribbons incorporating SigNature DNA Markers, we will be paid royalties based on a calculation of net receipts by IIMAK from sales of such products. We will receive the exclusive right to supply DNA taggants to IIMAK and IIMAK will receive the exclusive right to manufacture and sell such products worldwide.

<u>Supima Cotton Agreement</u>

On June 27, 2007, we entered into a Feasibility Study Agreement with Supima, a non-profit organization for the promotion of U.S. pima cotton growers. In connection with the agreement we will undertake a study of the feasibility of establishing a method or methods to authenticate and identify U.S. produced pima cotton fibers. Under the terms of the agreement, we will receive payments from Supima upon signing of the agreement and in five monthly installments beginning on July 6, 2007. Upon successful completion of the feasibility study, we may offer authentication services to member companies of Supima (as well as non–member companies) to confirm the Supima cotton content of textile items such as apparel and home fashion products. We are obligated to pay Supima a percentage of any fees that we receive from such companies for authentication services we provide them. We are also obligated to pay Supima fifty percent of the aggregate amount of payments that we received from Supima for the feasibility study out of any fees we receive from providing authentication services. In addition, until the earlier of either (i) five years or (ii) the repayment to Supima of fifty percent of the aggregate amount of payments that we received from Supima for the feasibility study, we are obligated to pay Supima a fee for each authentication service that we provide. The agreement may be terminated by us or Supima after sixty (60) days upon fourteen (14) days prior written notice.

Product Research and Development

We anticipate spending approximately $200,000 for product research and development activities during the next twelve (12) months. This projected expenditure for product research and development activities is dependent upon our ability to obtain sources of financing or generate revenues. There is no guarantee that we will be successful in raising the funds required or generating revenues sufficient to fund the projected research and product development costs during the next twelve (12) months.

Acquisition of Plant and Equipment and Other Assets

We do not anticipate the sale of any material property, plant or equipment during the next 12 months. We anticipate spending approximately $200,000 on the acquisition of leasehold improvements during the next 12 months. This projected expenditure for leasehold improvements is dependent upon our ability to obtain sources of financing or generate revenues. There is no guarantee that we will be successful in raising the funds required or generating revenues sufficient to fund the projected costs of the leasehold improvements during the next 12 months.

Number of Employees

We currently have seven employees and two part-time employees. We anticipate that it may become desirable to add additional full and/or part time employees to discharge certain critical functions during the next 12 months. Specifically, the company expects to increase its staffing dedicated to sales, product prototyping, manufacturing of DNA Markers and forensic authentication services. In order for us to attract and retain quality personnel, we anticipate we will have to offer competitive salaries. Any such increase in personnel is dependent upon our ability to generate sufficient revenues or obtain sources of financing. There is no guarantee that we will be successful in raising the funds required or generating revenues sufficient to fund an increase in the number of our employees. If we expand by hiring additional employees, we will incur additional costs for such personnel.

Critical Accounting Policies

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

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

The accounting policies identified as critical are as follows:

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

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Equity Issued with Registration Rights

In connection with the placements of our convertible notes and warrants to certain investors during the fiscal quarters ended December 31, 2003, December 31, 2004, March 31, 2005, March 31, 2006 and June 30, 2006, we granted certain registration rights that provide for liquidated damages in the event of failure to timely perform under the agreements. Although these notes and warrants do not provide for net-cash settlement, the existence of liquidated damages provides for a defacto net-cash settlement option. Therefore, the common stock underlying the notes and warrants subject to such liquidated damages does not meet the tests required for shareholders' equity classification, and accordingly has been reflected between liabilities and equity in the accompanying consolidated balance sheet until such time as the conditions are eliminated.

Warrant Liability

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

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

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

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

Fair Value of Intangible Assets

We have adopted SFAS No. 142, Goodwill and Other Intangible Assets, whereby we periodically test our intangible assets for impairment. On an annual basis, and when there is reason to suspect that their values have been diminished or impaired, these assets are tested for impairment, and write-downs will be included in results from operations. On July 12, 2005, we acquired certain intellectual properties from Biowell through an Asset Purchase Agreement in exchange for 36 million shares of our restricted common stock having an aggregate fair value at the date of issuance of $24.12 million. The value of the acquired intangible assets was $9,430,900, with the balance of the purchase price, or $14,689,100, charged to operations as a cost of the transaction.

During the year ended September 30, 2006, the Company's management preformed an evaluation of its intangible assets (intellectual property) for purposes of determining the implied fair value of the assets at September 30, 2006. The test indicated that the recorded remaining book value of its intellectual property exceeded its fair value, as determined by discounted cash flows. As a result, upon completion of the assessment, management recorded a non-cash impairment charge of $5,655,011, net of tax, or $0.05 per share during the year ended September 30, 2006 to reduce the carrying value of the patents to $2,091,800. Considerable management judgment is necessary to estimate the fair value. Accordingly, actual results could vary significantly from management's estimates.

The identifiable intangible assets acquired and their carrying values at June 30, 2007 are:

Trade secrets and developed technologies (Weighted average life of 7 years)	$ 9,430,900
Patents (Weighted average life of 5 years)	34,257
Total Amortized identifiable intangible assets-Gross carrying value:	$ 9,465,157
Less:	
Accumulated Amortization	(1,980,664)
Impairment	(5,655,011)
Net:	$ 1,829,482
Residual value:	$ 0

Total amortization expense charged to operations for the three and nine months ended June 30, 2007 was $92,661 and $277,983, respectively. Amortization expense changed to operations for the three and nine months ended June 30, 2006 was $338,853 and $1,015,571 respectively.

Estimated amortization expense as of June 30, 2007 is as follows:

2007	$ 277,982
2008	370,642
2009	365,504
2010	363,791
2011 and thereafter	451,563
Total	$ 1,829,482

Use of Estimates

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

Restatement of Consolidated Financial Statements

The Company has restated its consolidated financial statements as of and for the year ended September 30, 2005 and the quarterly unaudited data for the first three quarters of 2006 and all of 2005.

These restatements and resulting revisions relate to the accounting treatment for and disclosure regarding the issuance by the Company of options and warrants to acquire the Company's common stock. In addition the Company corrected certain errors in accounting for the exchange of its common stock for previously incurred debt with a Company director. These errors were discovered in connection with comments raised by the SEC in its review and comment on the Company’s Registration Statement on Form SB-2, as amended.

In this regard, you should rely on the restated financial results for the fiscal year ended September 30, 2005 and for each of the quarters in the year 2005 and the first, second and third quarters of 2006. As the Company previously reported in its Current Report on Form 8-K, dated May 16, 2006, you should not rely on the Company's previously issued consolidated financial statements and other financial information for these reporting periods.

The consolidated financial statements for the three months ended June 30, 2006 have been restated from the amounts previously reported to correct the accounting for financial derivatives. While the effect of the corrections to the financial statements is fully described in accompanying notes to the restated consolidated financial statements, the following is a summary of the net effect of the errors on these consolidated financial statements:

Specific line items of the Statement of Operations have changed to properly reflect the classification of warrant valuations relating to the issuance of both financing and non financing related activities. The impact of these restatement adjustments is to increase net loss by $136,401 from September 16, 2002 (date of inception) through June 30, 2006 and to increase net income $766,698 and $2,148,364 for the three and nine months ended June 30, 2006, respectively. There was no effect on total cash flows provided by (used in) operations, investing or financing activities.

Comparison of Results of Operations for the Three Months Ended June 30, 2007 and 2006

Revenues

From our inception on September 16, 2002, we have not generated significant revenues from operations.

Costs and Expenses

Selling, General and Administrative

Selling, general and administrative expenses increased from $1.581 million for the three months ended June 30, 2006 to $1.969 million for the three months ended June 30, 2007. This increase of $0.388 million, or 25%, is primarily attributable to an increase in increase in cost incurred in connection with professional services.

Research and Development

Research and development expenses increased from $0 for the three months ended June 30, 2006 to $25,504 for the same period in 2007. The increase of $25,504 is attributed to more research and development activity related to the recent development and feasibility study agreements than during the prior period.

Depreciation and Amortization

In the three months ended June 30, 2007, depreciation and amortization decreased by $228,467 from $336,824 to $108,357 for the period compared to the same period in 2006. The decrease is attributable to the reduced amortization of our intellectual property due to our impairment recorded in the period ended September 30, 2006.

Total Operating Expenses

Total operating expenses increased to $2.103 million from $1.918 million, or an increase of $0.19 million primarily attributable to an increase in costs incurred in connection with professional services.

Other Income/Loss

Gain on reevaluation of debt derivative and warrant liability increased by $0.941 million from a gain of $3.49 million for the three months ended June 30, 2006 to a gain of $4.431 million for the three months ended June 30, 2007.

Interest Expenses

Interest expense for the three months ended June 30, 2007 decreased by $0.306 million to $0.521 million from $0.827 million in the same period of 2006. The decrease in interest expense was due to the conversion into common stock in 2007 of the convertible notes issued in connection with financings effected in 2006.

Net Income (loss)

Net income for the three months ended June 30, 2007 increased to $1.808 million from a net income of $0.761 million in the prior period primarily attributable to an increased loss on reevaluation of debt derivative and warrant liability.

Liquidity and Capital Resources

Our liquidity needs consist of our working capital requirements, indebtedness payments and research and development expenditure funding. Historically, we have financed our operations through the sale of equity and convertible debt as well as borrowings from various credit sources. We have very limited financial resources and have been existing through bridge loans by our Chief Executive Officer and others. If we are unable to secure additional financing, we may have to curtail or cease operations.

In fiscal 2005, we completed two private placements of convertible debt and associated warrants. In November and December, 2004 we issued and sold $1.465 million in aggregate principal amount of promissory notes, convertible at $0.50 per share, and associated warrants to purchase up to 2,930,000 shares of our common stock, exercisable at $0.75 per share for three years from their date of issuance, to 13 investors (the "December 2004 Placement"). Each promissory note was automatically convertible into shares of our common stock at a price of $0.50 per share upon the closing of a subsequent private placement by us for at least $1 million. In January and February of 2005, we issued and sold $7.371 million in aggregate principal amount of 10% Secured Convertible Promissory Notes, convertible at $0.50 per share, and associated warrants to purchase up to 14,742,000 shares of our common stock, exercisable at $0.75 per share until five years from their date of issuance, to 61 investors (the "January and February 2005 Placement"). Upon the closing of the January and February 2005 Offering, the notes issued in the December 2004 Placement automatically converted into an aggregate of 2,930,000 shares of our common stock, and upon the filing of this registration statement on February 15, 2005, the notes issued in the January and February 2005 Placement automatically converted into an aggregate of 14,742,000 shares of our common stock. Additional private placements in fiscal 2005 raised $243,000. We also received proceeds of $60,000 from the exercise of a warrant to purchase 100,000 shares of our common stock in fiscal 2005. The $9.135 million in gross proceeds from these private placements and warrant exercises were used to fund commissions, fees and expenses associated with the placements, consultants and public reporting costs, salaries and wages, royalties, research and development, facility costs as well as general working capital needs. Since the conversion price of the notes issued in the November and December 2003, December 2004, December 2005 and the January and February 2005 placements were less than the market price of our common stock at the time these notes were issued, we recognized a charge relating to the beneficial conversion feature of these notes during the quarter in which they are issued.

In fiscal 2006, we completed three additional private placements of convertible debt and associated warrants. On November 3, 2005, we issued and sold a promissory note in the principal amount of $550,000 to Allied International Fund, Inc. ("Allied"). Allied in turn financed a portion of the making of this loan by borrowing $450,000 from certain persons, including $100,000 from James A. Hayward, a director and our Chief Executive Officer. The terms of the promissory note provided that we issue upon the funding of the note warrants to purchase 5,000,000 shares of our common stock at an exercise price of $0.50 per share to certain persons designated by Allied. On November 9, 2005, we issued nine warrants to Allied and eight other persons to purchase an aggregate of 5,500,000 shares of our common stock at an exercise price of $0.50 per share. These warrants included a warrant to purchase 1,100,000 shares that was issued to James A. Hayward, a director and our Chief Executive Officer. We paid $55,000 in cash to VC Arjent, Ltd. for its services as the placement agent with respect to this placement. All principal and accrued but unpaid interest under the promissory note was paid in full shortly after the closing of and from the proceeds of a private placement we completed on March 8, 2006. On March 8, 2006, we issued and sold an aggregate of 30 units consisting of (i) a $50,000 principal amount secured convertible promissory note bearing interest at 10% per annum and convertible at $0.50 per share, and (ii) a warrant to purchase 100,000 shares of our common stock at an exercise price of $0.50 per share, for aggregate gross proceeds of $1.5 million. The units were sold pursuant to subscription agreements by and between each of the purchasers and Applied DNA Operations Management, Inc., a Nevada corporation and our wholly owned subsidiary (our “Subsidiary”). The $2.050 million in gross proceeds from these first two offerings were held by our Subsidiary for our benefit and used to fund commissions, fees and expenses associated with the placements, to repay the outstanding promissory note described above plus accrued interest thereunder, to fund financing fees, consultants and public reporting costs, salaries and wages, research and development, facility costs as well as and general working capital needs. On March 24, 2006, we commenced an offering (the “Offshore Offering”) of up to 140 units, at a price of $50,000 per unit, for a maximum offering of $7 million for sale to “accredited investors” who are not “U.S. persons.” The units being sold as part of the Offshore Offering consisted of (i) a $50,000 principal amount secured convertible promissory note, and (ii) a warrant to purchase 100,000 shares of our common stock at a price of $0.50 per share. On May 2, 2006, we closed on the first tranche of the Offshore Offering in which we sold 20 units for aggregate gross proceeds of $1,000,000. We paid Arjent Limited $375,000 in commissions, fees and expenses from these gross proceeds. On June 15, 2006, we completed the second tranche of the Offshore Offering in which we sold 59 units for aggregate gross proceeds of $2,950,000. We paid Arjent Limited $442,500 in commissions, fees and expenses from these gross proceeds. Additionally, on July 10, 2006 we issued 2.4 million shares of our common stock to Arjent Limited at $0.001 per share as partial consideration for its services in connection with the Offshore Offering.

Hayward Bridge Notes and Warrants

During the period ended June 30, 2006, we issued sold an aggregate principal amount of $550,000 in secured convertible promissory notes bearing interest at 10% per annum and warrants to purchase an aggregate of 1,100,000 shares of our common stock to James A. Hayward, our President, a director, the Chairman of the Board of Director and our Chief Executive Officer.

On April 23, 2007, we issued and sold to James A. Hayward a $100,000 principal amount secured promissory note (“April Note”) bearing interest at a rate of 10% per annum and a warrant (“April Warrant”) to purchase 200,000 shares of our common stock. On June 30, 2007, we issued and sold to James A. Hayward a $250,000 principal amount secured promissory note (“June Note”) bearing interest at a rate of 10% per annum and a warrant (“June Warrant”) to purchase 500,000 shares of our common stock. On July 30, 2007, we issued and sold to James A. Hayward a $200,000 principal amount secured promissory note (“July Note”) bearing interest at a rate of 10% per annum and a warrant (“July Warrant”) to purchase 400,000 shares of our common stock.

The April Note and accrued but unpaid interest thereon are convertible into shares of common stock of the Company at a price of $0.50 per share by the holder at any time from April 23, 2007, through April 22, 2008, and shall automatically convert on April 22, 2008 at a conversion price of $0.15. At any time prior to conversion, we have the right to prepay the April Note and accrued but unpaid interest thereon upon 3 days prior written notice (during which period the holder can elect to convert the note). The April Warrant is exercisable for a four-year period commencing on April 23, 2008, and expiring on April 22, 2012, at a price of $0.50 per share. The April Warrant may be redeemed at our option at a redemption price of $0.01 upon the earlier of (i) April 22, 2010, and (ii) the date our common stock has traded on The Over the Counter Bulletin Board at or above $1.00 per share for 20 consecutive trading days.

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The June Note and accrued but unpaid interest thereon are convertible into shares of our common stock at a price of $0.50 per share by the holder of the promissory note at any time from June 30, 2007, through June 29, 2008, and shall automatically convert on June 30, 2008 at a conversion price of $0.087732076 per share, which is equal to a 20% discount to the average volume, weighted average price of our common stock for the ten trading days prior to issuance. At any time prior to conversion, we have the right to prepay the June Note and accrued but unpaid interest thereon upon 3 days prior written notice (during which period the holder can elect to convert the note). The June Warrant is exercisable for a four-year period commencing on June 30, 2008, and expiring on June 29, 2012, at a price of $0.50 per share. The June Warrant may be redeemed at our option at a redemption price of $0.01 upon the earlier of (i) June 29, 2010, and (ii) the date our common stock has traded on The Over the Counter Bulletin Board at or above $1.00 per share for 20 consecutive trading days.

The July Note and accrued but unpaid interest thereon are convertible into shares of our common stock at a price of $0.50 per share by the holder at any time from July 30, 2007, through July 29, 2008, and shall automatically convert on July 30, 2008 at a conversion price of $0.102568072 per share, which is equal to a 20% discount to the average volume, weighted average price of our common stock for the ten trading days prior to issuance. At any time prior to conversion, we have the right to prepay the July Note and accrued but unpaid interest thereon upon 3 days prior written notice (during which period the holder can elect to convert the note). The July Warrant is exercisable for a four-year period commencing on July 30, 2008, and expiring on July 29, 2012, at a price of $0.50 per share. The July Warrant may be redeemed at our option at a redemption price of $0.01 upon the earlier of (i) July 29, 2010, and (ii) the date our common stock has traded on The Over the Counter Bulletin Board at or above $1.00 per share for 20 consecutive trading days.

Until the principal and interest under the April, June and July Notes is paid in full, or converted into our common stock, the April, June and July Notes will be secured by a security interest in all of our assets. This security interest is *pari passu* with the security interest granted to the holders of $150,000 of $50,000 principal amount secured convertible promissory notes issued in the June Offering on June 27, 2007 and with the security interest granted to the holders of $1,500,000 of $50,000 principal amount secured convertible promissory notes issued as part of an offering completed on March 8, 2006.

<u>June Offering</u>

On June 27, 2007, we completed a private placement offering (the “June Offering”) in which we issued and sold to certain investors an aggregate of 3 units (the “Units”) of our securities, each Unit consisting of (i) a $50,000 Principal Amount of 10% Secured Convertible Promissory Note (the “June Offering Notes”) and (ii) warrants (the “June Offering Warrants”) to purchase 100,000 shares of our common stock. The June Offering Notes and accrued but unpaid interest thereon are convertible into shares of our common stock at a price of $0.50 per share by the holders of the Notes at any time from June 27, 2007 to June 26, 2008, and shall automatically convert at $0.15 per share on June 27, 2007. At any time prior to conversion, we have the right to prepay the June Offering Notes and accrued but unpaid interest thereon upon 3 days notice (during which period the holders can elect to convert the June Offering Notes).

The June Offering Warrants are exercisable for a four year period commencing on June 27, 2008, and expiring on June 26, 2012, at a price of $0.50 per share. Each warrant may be redeemed at our option at a redemption price of $0.01 upon the earlier of (i) June 26, 2010, and (ii) the date our common stock has traded on The Over the Counter Bulletin Board at or above $1.00 per share for 20 consecutive trading days.

As of June 30, 2007, we had $2,000,000 in outstanding notes payable. Please see “Management’s Discussion and Analysis — Liquidity and Capital Resources” and Note C to the financial statements in this quarterly report for a full description of the terms of the outstanding promissory notes.

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

As of June 30, 2007, we had a working capital deficit of approximately $10.549 million. For the nine month period ended June 30, 2007, we generated a net cash flow deficit from operating activities of $1.657 million consisting primarily of year to date losses of $8.234 million. Non-cash adjustments included $2,921,181 in depreciation and amortization charges and a non-cash increase of $142,131 attributable to the repricing of the debt derivative and warrant liability. Additionally, we had a net increase in current assets of $14,158 and a net increase in current liabilities of $3,811,641. Cash used in investing activities totaled $11,039, which was utilized for acquisition of property and equipment. We met our cash needs by issuance of debentures of $477,500, net, for the six months ended June 30, 2007.

From our inception on September 16, 2002 through June 30, 2007, we generated a cash flow deficit of $17,276,134 from operating activities. Cash flows used in investing activities was $214,058 during this period. We met our cash requirements during this period through the private placement of $432,000 of common stock, $13,924,000 from the issuance of convertible notes, $2,850,088 from the issuance of notes payable (net of repayments and costs) and $343,750 from the proceeds from the exercise of options to acquire our common stock.

We expect capital expenditures to be less than $200,000 in fiscal 2007. Our primary investments will be in laboratory equipment to support prototyping and our authentication services.

We currently require additional financing in order to meet our current and projected cash flow deficits from operations and development. We presently do not have any available credit, bank financing or other readily available external sources of liquidity. Financing transactions may include the issuance of equity or debt securities, obtaining credit facilities, or other financing mechanisms. However, the trading price of our common stock, a downturn in the U.S. or global stock and debt markets and other reasons could make it more difficult to obtain financing through the issuance of equity securities or borrowing. Further, if we issue additional equity or convertible debt securities, stockholders may experience additional dilution or the new equity securities may have rights, preferences or privileges senior to those of existing holders of our common stock. If additional financing is not available or is not available on acceptable terms, this could have a material adverse effect on our business, results of operations liquidity and financial condition, and we may be required to curtail or cease operations.

Our registered independent certified public accountants have stated in their report dated January 5, 2007, that we have incurred operating losses in the last two years, and that we are dependent upon management's ability to develop profitable operations. These factors among others may raise substantial doubt about our ability to continue as a going concern.

Pursuant to the terms of a registration rights agreement with respect to common stock underlying convertible notes and warrants we issued in private placements in November and December 2003, December 2004, and January and February, 2005, if we did not have a registration statement registering the shares underlying these convertible notes and warrants declared effective on or before June 15, 2005, we are obligated to pay liquidated damages in the amount of 3.5% per month of the face amount of the notes, which equals $367,885, until the registration statement is declared effective. At our option, these liquidated damages can be paid in cash or restricted shares of our common stock. To date we have decided to pay certain of these liquidated damages in common stock, although any future payments of liquidated damages may, at our option, be made in cash. If we decide to pay such liquidated damages in cash, we would be required to use our limited working capital and potentially raise additional funds. If we decide to pay the liquidated damages in shares of common stock, the number of shares issued would depend on our stock price at the time that payment is due. Based on the closing market prices of $0.66, $0.58, $0.70, $0.49, $0.32 and $0.20 for our common stock on July 15, 2005, August 15, 2005, September 15, 2005, October 17, 2005, November 15, 2005 and December 15, 2005, respectively, we issued a total of 3,807,375 shares of common stock in liquidated damages from August, 2005 to January, 2006 to persons who invested in the January and February, 2005 private placements. The issuance of shares upon any payment by us of further liquidated damages will have the effect of further diluting the proportionate equity interest and voting power of holders of our common stock, including investors in this offering.

We paid liquidated damages in the form of common stock only for the period from June 15, 2005 to December 15, 2005, and only to persons who invested in the January and February, 2005 private placements. We believe that we have no enforceable obligation to pay liquidated damages to holders of any shares we agreed to register under the registration rights agreement for periods after the first anniversary of the date of issuance of such shares, since they were eligible for resale under Rule 144 of the Securities Act during such periods, and such liquidated damages are grossly inconsistent with actual damages to such persons. Nonetheless, as of June 30, 2007 we have accrued approximately $7.3 million in penalties representing further liquidated damages associated with our failure to have the registration statement declared effective by the deadline, and have included this amount in accounts payable and accrued expenses.

In May 2007, we settled certain pending litigation and all other claims arising out of certain former employees' and consultants' prior employment or consulting relationships with us. We agreed to pay the former employees and consultants an aggregate amount of $605,000 in cash in five equal installments due on the first day of each month over the five month period beginning on June 1, 2007. The settlement agreements provide that each of the former employees and consultants can cause a judgment to be entered against us, APDN (B.V.I.) Inc. and Applied DNA Operations Management, Inc. in an amount equal to three times the remaining balance due to such former employee or consultant under the applicable settlement agreement, plus interest, if we default on any payment obligation to such person and we do not satisfy it within the ten day period after receiving notice of such default.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Inflation

The impact of inflation on the costs of the Company is dependent upon market conditions. The Company is not aware of any inflationary pressures that have had any significant impact on the Company's operations over the past quarter, and the Company does not anticipate that inflationary factors will have a significant impact on future operations.

Going Concern

The financial statements included in this filing have been prepared in conformity with generally accepted accounting principles that contemplate our continuance as a going concern. Our auditors, in their report dated January 5, 2007, have expressed substantial doubt about our ability to continue as going concern. Our cash position may be inadequate to pay all of the costs associated with the testing, production and marketing of our products. Management intends to use borrowings and the sale of equity or convertible debt to mitigate the effects of its cash position, however no assurance can be given that debt or equity financing, if and when required will be available. The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets and classification of liabilities that might be necessary should we be unable to continue existence.

RISK FACTORS

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

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

Currently the Company is being funded by bridge loans primarily provided by our Chief Executive Officer. We are currently seeking additional capital to sustain or expand our prototype and sample manufacturing, and sales and marketing activities, pay our accounts payable, meet our payroll obligations and otherwise continue our business operations. We have no commitments for any future funding, and may not be able to obtain additional financing or grants on terms acceptable to us, if at all, in the future. If we are unable to obtain additional capital this would restrict our ability to grow and may require us to curtail or discontinue our business operations. Additionally, while a reduction in our business operations may prolong our ability to operate, that reduction would harm our ability to implement our business strategy. If we can obtain any equity financing, it may involve substantial dilution to our then existing shareholders.

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

We incurred net losses of $2.4 million for the year ended September 30, 2006. For the three and nine months ended June 30, 2007, we incurred a net loss from operations of $2,102,503 and $6,430,912, respectively. These net losses have principally been the result of the various costs associated with our selling, general and administrative expenses as we commenced operations, acquired, developed and validated technologies, began marketing activities, and our interest expense on notes and warrants we issued to obtain financing. Our operations are subject to the risks and competition inherent in a company moving from the development stage to a new growth enterprise. We may not generate sufficient revenues from operations to achieve or sustain profitability on a quarterly, annual or any other basis in the future. Our revenues and profits, if any, will depend upon various factors, including whether our existing products and services or any new products and services we develop will achieve any level of market acceptance. If we continue to incur losses, our accumulated deficit will continue to increase, which might significantly impair our ability to obtain additional financing. As a result, our business, results of operations and financial condition would be significantly harmed, and we may be required to reduce or terminate our operations.

Our Independent Auditors Have Expressed Substantial Doubt About Our Ability to Continue As a Going Concern, Which May Hinder Our Ability to Obtain Future Financing.

In their report dated January 5, 2007, our independent auditors stated that our financial statements for the year ended September 30, 2006 were prepared assuming that we would continue as a going concern, and that they have substantial doubt about our ability to continue as a going concern. Our auditors' doubts are based on our incurring net losses of $93 million during the period from September 16, 2002 (date of inception) to September 30, 2006. We continue to experience net operating losses. Our ability to continue as a going concern is subject to our ability to generate a profit and/or obtain necessary funding from outside sources, including by the sale of our securities, obtaining loans from financial institutions, or obtaining grants from various organizations or governments, where possible. Our continued net operating losses and our auditors' doubts increase the difficulty of our meeting such goals and our efforts to continue as a going concern may not prove successful.

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

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

We Are Obligated to Pay Liquidated Damages As a Result of Our Failure to Have the Registration Statement on Form SB-2 Declared Effective Prior to June 15, 2005, and any Payment of Liquidated Damages Will Either Result in Depletion of Our Limited Working Capital or Issuance of Shares of Common Stock Which Would Cause Dilution to Our Existing Shareholders.

Pursuant to the terms of a registration rights agreement with respect to common stock underlying convertible notes and warrants we issued in private placements in November and December, 2003, December, 2004, and January and February, 2005, if we did not have a registration statement registering the shares underlying these convertible notes and warrants declared effective on or before June 15, 2005, we are obligated to pay liquidated damages in the amount of 3.5% per month of the face amount of the notes, which equals $367,885, until the registration statement is declared effective. At our option, these liquidated damages can be paid in cash or restricted shares of our common stock. To date we have decided to pay certain of these liquidated damages in common stock, although any future payments of liquidated damages may, at our option, be made in cash. If we decide to pay such liquidated damages in cash, we would be required to use our limited working capital and potentially raise additional funds. If we decide to pay the liquidated damages in shares of common stock, the number of shares issued would depend on our stock price at the time that payment is due. Based on the closing market prices of $0.66, $0.58, $0.70, $0.49, $0.32 and $0.20 for our common stock on July 15, 2005, August 15, 2005, September 15, 2005, October 17, 2005, November 15, 2005 and December 15, 2005, respectively, we issued a total of 3,807,375 shares of common stock in liquidated damages from August, 2005 to January, 2006 to persons who invested in the January and February, 2005 private placements**.** The issuance of shares upon any payment by us of further liquidated damages will have the effect of further diluting the proportionate equity interest and voting power of holders of our common stock, including investors in this offering.

We paid liquidated damages in the form of common stock only for the period from June 15, 2005 to December 15, 2005, and only to persons who invested in the January and February, 2005 private placements. We believe that we have no enforceable obligation to pay liquidated damages to holders of any shares we agreed to register under the registration rights agreement for periods after the first anniversary of the date of issuance of such shares, since they were eligible for resale under Rule 144 of the Securities Act during such periods, and such liquidated damages are grossly inconsistent with actual damages to such persons. Nonetheless, as of June 30, 2007 we have accrued approximately $7.3 million in penalties representing further liquidated damages associated with our failure to have the registration statement declared effective by the deadline, and have included this amount in accounts payable and accrued expenses.

We initially filed our registration statement on Form SB-2 with the SEC on February 15, 2005. We filed Amendment No.8 to the Form SB-2 on November 13, 2006 and the SEC's review and comment process is continuing. We can give no estimate as to when the registration statement will be declared effective. Our failure to have the registration statement declared effective has and may continue to adversely impact our ability to secure financing.

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

There has been limited market acceptance of our botanical DNA encryption, encapsulation, embedment and authentication products and services to date. Some of the factors that will affect whether we achieve market acceptance of our solutions include:

- availability, quality and price relative to competitive solutions;
- customers' opinions of the solutions' utility;
- ease of use;
- consistency with prior practices;
- scientists' opinions of the solutions' usefulness;
- citation of the solutions in published research; and
- general trends in anti-counterfeit and security solutions' research.

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

Rapid technological changes and frequent new product introductions are typical for the markets we serve. Our future success may depend in part on continuous, timely development and introduction of new products that address evolving market requirements. We believe successful new product introductions may provide a significant competitive advantage because customers invest their time in selecting and learning to use new products, and are often reluctant to switch products. To the extent we fail to introduce new and innovative products, we may lose any market share we then have to our competitors, which will be difficult or impossible to regain. Any inability, for technological or other reasons, to successfully develop and introduce new products could reduce our growth rate or damage our business. We may experience delays in the development and introduction of products. We may not keep pace with the rapid rate of change in anti-counterfeiting and security products' research, and any new products acquired or developed by us may not meet the requirements of the marketplace or achieve market acceptance.

If We Are Unable to Retain the Services of Drs. Hayward or Liang We May Not Be Able to Continue Our Operations.

Our success depends to a significant extent upon the continued service Dr. James A. Hayward, our Chief Executive Officer; and Dr. Benjamin Liang, our Secretary and Strategic Technology Development Officer. We do not have employment agreements with Drs. Hayward or Liang. Loss of the services of Drs. Hayward or Liang could significantly harm our business, results of operations and financial condition. We do not maintain key-man insurance on the lives of Drs. Hayward or Liang.

The Markets for our SigNature Program are Very Competitive, and We May be Unable to Continue to Compete Effectively in this Industry in the Future.

The principal markets for our SigNature Program are intensely competitive. We compete with many existing suppliers and new competitors continue to enter the market. Many of our competitors, both in the United States and elsewhere, are major pharmaceutical, chemical and biotechnology companies, or have strategic alliances with such companies, and many of them have substantially greater capital resources, marketing experience, research and development staff, and facilities than we do. Any of these companies could succeed in developing products that are more effective than the products that we have or may develop and may be more successful than us in producing and marketing their existing products. Some of our competitors that operate in the anti-counterfeiting and fraud prevention markets include: Applied Optical Technologies, Authentix, Biowell, ChemTAG, Collectors Universe Inc., Collotype, Data Dot Technology, Digimarc Corp., DNA Technologies, Inc., Informium AG, Inksure Technologies, L-1 Identity Solutions, Manakoa, SmartWater Technology, SureTrace, Tracetag and Warnex.

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

- product performance, features and liability;
- price;
- timing of product introductions;
- ability to develop, maintain and protect proprietary products and technologies;
- sales and distribution capabilities;
- technical support and service;
- brand loyalty;
- applications support; and
- breadth of product line.

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

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

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

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

To generate broad product lines, it is advantageous to sometimes license technologies from third parties rather than depend exclusively on the development efforts of our own employees. As a result, we believe our ability to license new technologies from third parties is and will continue to be important to our ability to offer new products. In addition, from time to time we are notified or become aware of patents held by third parties that are related to technologies we are selling or may sell in the future. After a review of these patents, we may decide to seek a license for these technologies from these third parties. There can be no assurance that we will be able to successfully identify new technologies developed by others. Even if we are able to identify new technologies of interest, we may not be able to negotiate a license on favorable terms, or at all. If we lose the rights to patented technology, we may need to discontinue selling certain products or redesign our products, and we may lose a competitive advantage. Potential competitors could license technologies that we fail to license and potentially erode our market share for certain products. Intellectual property licenses would typically subject us to various commercialization, sublicensing, minimum payment, and other obligations. If we fail to comply with these requirements, we could lose important rights under a license. In addition, certain rights granted under the license could be lost for reasons beyond our control, and we may not receive significant indemnification from a licensor against third party claims of intellectual property infringement.

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

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

· operations and financial systems;

· procedures and controls; and

· training and management of our employees.

Our future growth, if any, may be attributable to acquisitions of new product lines and new businesses. Future acquisitions, if successfully consummated, would likely create increased working capital requirements, which would likely precede by several months any material contribution of an acquisition to our net income. Our failure to manage growth or future acquisitions successfully could seriously harm our operating results. Also, acquisition costs could cause our quarterly operating results to vary significantly. Furthermore, our stockholders would be diluted if we financed the acquisitions by incurring convertible debt or issuing securities.

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

· difficulties in staffing, managing and integrating international operations due to language, cultural or other differences;

· different or conflicting regulatory or legal requirements;

· foreign currency fluctuations; and

· diversion of significant time and attention of our management.

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

Recruiting and retaining qualified scientific and production personnel to perform and manage prototype, sample, and product manufacturing and business development personnel to conduct business development are critical to our success. In addition, our desired growth and expansion into areas and activities requiring additional expertise, such as clinical testing, government approvals, production, and marketing will require the addition of new management personnel and the development of additional expertise by existing management personnel. Because the industry in which we compete is very competitive, we face significant challenges attracting and retaining a qualified personnel base. Although we believe we have been and will be able to attract and retain these personnel, we may not be able to continue to successfully attract qualified personnel. The failure to attract and retain these personnel or, alternatively, to develop this expertise internally would harm our business since our ability to conduct business development and manufacturing will be reduced or eliminated, resulting in lower revenues. We generally do not enter into employment agreements requiring our employees to continue in our employment for any period of time.

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

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

Intellectual Property Litigation Could Harm Our Business.

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

If a third party claims an intellectual property right to technology we use, we might need to discontinue an important product or product line, alter our products and processes, pay license fees or cease our affected business activities. Although we might under these circumstances attempt to obtain a license to this intellectual property, we may not be able to do so on favorable terms, or at all. Furthermore, a third party may claim that we are using inventions covered by the third party’s patent rights and may go to court to stop us from engaging in our normal operations and activities, including making or selling our product candidates. These lawsuits are costly and could affect our results of operations and divert the attention of managerial and technical personnel. A court may decide that we are infringing the third party’s patents and would order us to stop the activities covered by the patents. In addition, a court may order us to pay the other party damages for having violated the other party’s patents. The biotechnology industry has produced a proliferation of patents, and it is not always clear to industry participants, including us, which patents cover various types of products or methods of use. The coverage of patents is subject to interpretation by the courts, and the interpretation is not always uniform. If we are sued for patent infringement, we would need to demonstrate that our products or methods of use either do not infringe the patent claims of the relevant patent and/or that the patent claims are invalid, and we may not be able to do this. Proving invalidity, in particular, is difficult since it requires a showing of clear and convincing evidence to overcome the presumption of validity enjoyed by issued patents.

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

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

Accidents Related to Hazardous Materials Could Adversely Affect Our Business.

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

Potential Product Liability Claims Could Affect Our Earnings and Financial Condition.

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

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

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

Any Default on Payments Due under Settlement Agreements with Former Employees and Consultants Could Affect Our Financial Condition and Results of Operations

In May 2007, we settled certain pending litigation and all other claims arising out of certain former employees' and consultants' prior employment or consulting relationships with us. We agreed to pay the former employees and consultants an aggregate amount of $605,000 in cash in five equal installments due on the first day of each month over the five month period beginning on June 1, 2007. To date, we have made two installment payments aggregating $242,000.

The settlement agreements provide that each of the former employees and consultants can cause a judgment to be entered against us, APDN (B.V.I.) Inc. and Applied DNA Operations Management, Inc. in an amount equal to three times the remaining balance due to such former employee or consultant under the applicable settlement agreement, plus interest, if we default on any payment obligation to such person and we do not satisfy it within the ten day period after receiving notice of such default.

Matter Voluntarily Reported to the Securities and Exchange Commission

During the months of March, May, July and August 2005, we issued a total of 8,550,000 shares of our common stock to certain employees and consultants pursuant to the 2005 Incentive Stock Plan. We engaged our outside counsel to conduct an investigation of the circumstances surrounding the issuance of these shares. On April 26, 2006, we voluntarily reported the findings from this investigation to the SEC, and agreed to provide the SEC with further information arising from the investigation. We believe that the issuance of 8,000,000 shares to employees in July 2005 was effectuated by both our former President and our former Chief Financial Officer/Chief Operating Officer without approval of our board of directors. These former officers received a total of 3,000,000 of these shares. In addition, it appears that the 8,000,000 shares issued in July 2005, as well as an additional 550,000 shares issued to employees and consultants in March, May and August 2005, were improperly issued without a restrictive legend stating that the shares could not be resold legally except in compliance with the Securities Act of 1933, as amended. The members of the Company's management who effectuated the stock issuances no longer work for the Company. These shares were not registered under the Securities Act of 1933, or the securities laws of any state, and we believe that certain of these shares may have been sold on the open market, though we have been unable to determine the magnitude of such sales. If violations of securities laws occurred in connection with the resale of certain of these shares, the employees and consultants or persons who purchased shares from them may have rights to have their purchase rescinded or other claims against us for violation of securities laws, which could harm our business, results of operations, and financial condition.

There Are a Large Number of Shares Underlying Our Options and Warrants That May be Available for Future Sale and the Sale of These Shares May Depress the Market Price of Our Common Stock and Will Cause Immediate and Substantial Dilution to Our Existing Stockholders.

As of August 17, 2007, we had 160,499,549 shares of common stock issued and outstanding and outstanding options and warrants to purchase 77,644,464 shares of common stock. Unregistered shares issuable upon exercise of our options and warrants may be sold pursuant to an exemption from registration under the Securities Act. The sale of these shares may adversely affect the market price of our common stock. The issuance of shares upon exercise of options and warrants will cause immediate and substantial dilution to the interests of other stockholders since the selling stockholders may convert and sell the full amount issuable on exercise.

If We Fail to Remain Current on Our Reporting Requirements, We Could be Removed From the OTC Bulletin Board Which Would Limit the Ability of Broker-Dealers to Sell Our Securities and the Ability of Stockholders to Sell Their Securities in the Secondary Market.

Companies trading on The Over The Counter Bulletin Board (the "OTC Bulletin Board"), such as us, must be reporting issuers under Section 12 or Section 15(d) of the Securities Exchange Act of 1934, as amended, and must be current in their reports under Section 13, in order to maintain price quotation privileges on the OTC Bulletin Board. If we fail to remain current on our reporting requirements, we could be removed from the OTC Bulletin Board. As a result, the market liquidity for our securities could be severely adversely affected by limiting the ability of broker-dealers to sell our securities and the ability of stockholders to sell their securities in the secondary market. Prior to May 2001, we were delinquent in our reporting requirements, having failed to file our quarterly and annual reports for the years ended 1998 - 2000 (except the quarterly reports for the first two quarters of 1999). We have been current in our reporting requirements for the last six years, however, there can be no assurance that in the future we will always be current in our reporting requirements.

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

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

· that a broker or dealer approve a person’s account for transactions in penny stocks; and

· the broker or dealer receive from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased.

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

· obtain financial information and investment experience objectives of the person; and

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

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

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

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

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

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

ITEM 3. CONTROLS AND PROCEDURES

a) *Evaluation of Disclosure Controls and Procedures:* As of June 30, 2007, our management carried out an evaluation, under the supervision of our Chief Executive Officer (who is a director, our President, Chairman of the Board of Directors, Principal Executive Officer and Principal Financial Officer), of the effectiveness of the design and operation of the Company's system of disclosure controls and procedures pursuant to the Securities and Exchange Act and Rules 13a-15(e) and 15d-15(e) thereunder. Based upon that evaluation, the our Chief Executive Officer concluded that our disclosure controls and procedures were not effective, as of the date of their evaluation, for the purposes of recording, processing, summarizing and timely reporting material information required to be disclosed in reports filed by us under the Securities Exchange Act of 1934.

As previously disclosed in our Current Reports on Form 8-K, filed on May 18, 2006 and October 2, 2006, as a result of comments raised by the SEC, we determined that accounting errors were made in connection with

· accounting for and disclosing the fair value of warrants and options to acquire our common stock issued to non-employees as a current period expense;

· accounting for and disclosing the fair value of shares issued to a former Director in exchange for previously incurred debt;

- accounting for and disclosing the fair value of warrants issued to note holders and consultants having registration rights; and

  - accounting for and disclosing the revaluation for warrant liabilities as of each reporting period.

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Based on the impact of the aforementioned accounting errors, we determined to restate our consolidated financial statements as of September 30, 2005 and for the year ended September 30, 2005 and the quarterly unaudited data for the first three quarters of 2006 and all of 2005.

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

Changes in Internal Controls

In addition to the remedial measures undertaken during the three months ended September 30, 2006, that we have subsequently implemented the following additional measures to address the identified material weaknesses:

- We reviewed all convertible securities to identify any securities that may have embedded beneficial conversion features or derivatives; and

- We have improved the supervision and training of our accounting staff to understand and implement applicable accounting requirements, policies and procedures applicable to the accounting and disclosure of convertible securities and derivatives.

PART II--OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

Paul Reep v. Applied DNA Sciences, Inc., Case No.: BC345702, Case No. BC367661

Plaintiff Paul Reep, a former employee, commenced this action against us on January 10, 2006. Mr. Reep asserted eight causes of action for breach of contract, breach of an oral agreement, negligent misrepresentation, interference with prospective business advantages, defamation, fraud, accounting and constructive trust, unjust enrichment. The relief sought included declaratory relief, unspecified compensatory damages, unpaid salary, unspecified penalties under the California Labor Code, interest, and attorneys' fees. We successfully moved the court in California to indefinitely stay all proceedings in this matter in light of a forum selection clause designating Nevada state courts as the proper forum.

On April 11, 2007, Paul Reep filed suit against us, Applied DNA Operations Management, Inc., APDN (B.V.I.), Inc., Jun-Jei Sheu, Ben Liang, James A. Hayward, Larry Lee and Peter Brocklesby in the Clark County District Court, Nevada (Paul Reep v. Applied DNA Sciences, et al., Clark County District Court Case No. A539250), alleging causes of action for breach of written contract, breach of oral contract, defamation, fraud and violations of the California Labor Code, and seeks approximately $360,000 in specified damages, additional damages according to proof, potential punitive damages, and fees and costs, but failed to serve the complaint or summons on any of the named defendants with respect to this matter.

On March 9, 2007, we filed suit in California against Mr. Reep, Peter Brocklesby, Cheri Lu Brocklesby, and other former employees for unjust enrichment and breach of fiduciary duty in connection with the unauthorized issuance of our common stock. On June 19, 2007, we agreed, for reasons of cost efficiency, to lift the stay on Mr. Reep's California lawsuit so that it will proceed as a consolidated case with our lawsuit against Reep instead of pursuing separate lawsuits in different jurisdictions. We dispute all of the allegations and intend to vigorously defend this action. This matter is in its early stages.

Douglas A. Falkner v. Applied DNA Sciences, Inc./N.C. Industrial Commission File No. 585698

Plaintiff Douglas Falkner ("Falkner") filed a worker’s compensation claim in North Carolina for an alleged work-related neck injury that he alleges occurred on January 14, 2004. Falkner worked as Business Development and Operations Manager at our sole East Coast office at the time of the alleged injury. Plaintiff Falkner was the only employee employed by us in North Carolina at the time of the alleged injury and we have employed no other employees in North Carolina at any other time. The claim has been denied and is being defended on several grounds, including the lack of both personal and subject matter jurisdiction. Specifically, we contend that we did not employ the requisite minimum number of employees in North Carolina at the time of the alleged injury and that the company is therefore not subject to the North Carolina Workers' Compensation Act. The claim was originally set for hearing in January 2007, but was continued to allow the parties to engage in further discovery.

Settlement of Litigation

On May 2, 2007, we, APDN (B.V.I.) Inc., our wholly-owned subsidiary, Applied DNA Operations Management, Inc., our wholly-owned subsidiary, James A. Hayward, our Chief Executive Officer and one of our directors, and Jun-Jei Sheu, one of our directors (the “Applied DNA parties”), entered into agreements with each of Angela Wiggins, John D. Barnett, Chanty Cheang and Adrian Butash, Jaime Cardona, all of whom are either a former employee or consultant of ours (collectively, the “former employees and consultants”) to settle certain pending litigation and all other claims arising out of the former employees’ and consultants’ employment or consulting relationships with us.

Pursuant to the terms of these settlement agreements, the Applied DNA parties on the one hand, and the former employees and consultants on the other, agreed to release each other from any and all liabilities in connection with or arising from the former employees' and consultants' prior employment or consulting relationships, and to dismiss certain lawsuits previously disclosed by us, including the following: Applied DNA Sciences, Inc. v. Paul Reep, Adrian Butash, John Barnett, Chanty Cheang, Jaime Cardona, and Angela Wiggins (U.S. District Court for the Central District of California case number CV06-2027 RGK); Barnett, et al. v. Applied DNA Sciences, et al., Los Angeles County Superior Court (case number BC 350904); Angela Wiggins v. Applied DNA Sciences, Inc., Applied DNA Operations Management, Inc., APDN (B.V.I.) Inc., Peter Brocklesby and James A. Hayward (Los Angeles Superior Court case number BC369331), which was filed by Angela Wiggins on April 10, 2007. In exchange for the consideration referenced in the Settlement Agreement, the Company agreed to pay the former employees and consultants an aggregate amount of $605,000 in cash in five equal installments due on the first day of each month over the five month period beginning on June 1, 2007. To date, we have made two installment payments aggregating $242,000.

The settlement agreements provide that each of the former employees and consultants can cause a judgment to be entered against us, APDN (B.V.I.) Inc. and Applied DNA Operations Management, Inc. (and not the individual Applied DNA Parties) in an amount equal to three times the remaining balance due to such former employee or consultant under the applicable settlement agreement, plus interest, if we default on our payment obligation to such person and we do not satisfy it within the ten day period after receiving notice of such default.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

As a company that reports under Section 15(d) of the Securities Exchange Act, we are not subject to the proxy rules of Section 14. In accordance with Nevada law and pursuant to our bylaws, we sought the approval of the matters described below through the solicitation of proxies. Our annual meeting of stockholders was held on May 16, 2007. At the meeting, the stockholders:

(1) voted to reelect the existing members of the board of directors, James A. Hayward, Yacov Shamash, Jun-Jei Sheu and Sanford R. Simon, each for a one-year term or until their successors are duly elected and qualified;

(2) ratified the appointment of Russell Bedford Stefanou Mirchandani LLP as the Company's independent registered public accounting firm for the fiscal year ending September 30, 2007;

(3) approved an amendment to the Company's Articles of Incorporation to increase the number of shares of common stock the Company has the authority to issue to 410,000,000; and

(4) approved an amendment to the Company's 2005 Incentive Stock Plan to increase the number of shares of common stock subject to the Plan to 20,000,000.

The number of votes cast for, against or withheld, and the number of abstentions with respect to each such matter is set forth below.

MATTER	FOR	AGAINST/WITHHELD	ABSTAINED
(1) Election of Directors:			
James A. Hayward	68,129,155	145,708	
Yacov Shamash	68,129,023	145,840	
Jun-Jei Sheu	66,493,485	1,781,378	
Sanford R. Simon	67,799,163	475,700	
(2) Ratification of Auditors	67,895,259	249,050	130,554
(3) Ratification and Approval of the Charter Amendment	64,915,372	3,326,883	32,607
(4) Ratification and Approval of the Charter Amendment	44,010,949	2,904,837	127,756

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

3(i)1 Articles of Incorporation of Applied DNA Sciences, Inc. as amended, filed herewith.

3(i)2 Certificate of Designation , Powers, Preferences and Rights of the Founders' Series of Convertible Preferred Stock, filed herewith.

10.1 Joint Development and Marketing Agreement, dated April 18, 2007 by and between Applied DNA Sciences and International Imaging Materials, Inc. filed as an exhibit to the current report on Form 8-K filed with the SEC on April 24, 2007 and incorporated herein by reference.

10.2 Technology Reseller Agreement, dated May 30, 2007 by and between Applied DNA Sciences and Printcolor Screen Ltd. filed as an exhibit to the current report on Form 8-K filed with the SEC on June 1, 2007 and incorporated herein by reference.

10.3 Feasibility Study Agreement, dated June 27, 2007 by and between Applied DNA Sciences and Supima filed as an exhibit to the current report on Form 8-K filed with the SEC on July 3, 2007 and incorporated herein by reference.

31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14 and Rule 15d-14(a), promulgated under the Securities and Exchange Act of 1934, as amended.

31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14 and Rule 15d 14(a), promulgated under the Securities and Exchange Act of 1934, as amended.

32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer).

32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Financial Officer).

SIGNATURES

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

APPLIED DNA SCIENCES, INC.

Date: August 20, 2007	By: /s/ JAMES A. HAYWARD James A. Hayward Chief Executive Officer (Principal Executive Officer, Principal Financial Officer and Principal Accounting Officer)