

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

APPLIED DNA SCIENCES INC
Form 10QSB/A
February 15, 2005

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

Amendment No. 1
To
FORM 10-QSB

Quarterly Report Pursuant to Section 13 Or 15(D) Of The Securities Act Of 1934

For the quarterly period ended December 31, 2004

Commission file number: 002-90519

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

NEVADA
(State or other jurisdiction of
incorporation or organization)

59-2262718
(IRS Employer Identification No.)

9229 West Sunset Boulevard, Suite 830, Los Angeles, CA 90069
(Address of principal executive offices)

(310) 860-1362
(Issuer's telephone number)

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

Yes No
---- -

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Common Stock, \$0.50 par value
(Class)

47,280,993
(Outstanding as of February 8, 2005)

Table of Contents

PART I. FINANCIAL INFORMATION

| | |
|--|----|
| Item 1. Financial Statements (Unaudited)..... | 3 |
| Item 2. Management's Discussion and Analysis or Plan of Operation... | 34 |
| Item 3. Controls and Procedures..... | 40 |

PART II. OTHER INFORMATION

| | |
|--------------------------------|----|
| Item 1. Legal Proceedings..... | 41 |
|--------------------------------|----|

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

Item 2. Changes in Securities.....41

Item 3. Defaults Upon Senior Securities.....41

Item 4. Submission of Matters to a Vote of Security Holders.....41

Item 5. Other Information.....41

Item 6. Exhibits.....42

Signatures.....43

Item 1. Financial Statements (Unaudited)

APPLIED DNA SCIENCES, INC.
 (A DEVELOPMENT STAGE COMPANY)
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (Unaudited)

| ASSETS | (Unaudited) December 31, 2004 | September 30, 2004 |
|--------------------------------------|-------------------------------------|-----------------------|
| | ----- | ----- |
| Current assets: | | |
| Cash and Equivalents | \$ 62,665 | \$ 1,832 |
| Total Current Assets | 62,665 | 1,832 |
| Property, Plant and Equipment: | | |
| Furniture and Equipment | 29,507 | 29,507 |
| Less: Accumulated Depreciation | (1,756) | (1,405) |
| | 27,751 | 28,102 |
| Other Assets: | | |
| Deposits and Prepaid Expenses | 47,585 | 23,559 |
| Patent Filing | 34,257 | 29,910 |
| Less: Accumulated Amortization | (6,126) | (1,756) |
| | 28,131 | 28,154 |
| Restricted Cash | 1,065,318 | -- |
| Total Other Assets | 1,141,034 | 51,713 |
| Total Assets | \$ 1,231,450 | \$ 81,647 |
| | ===== | ===== |

LIABILITIES AND DEFICIENCY IN STOCKHOLDERS' EQUITY

Current Liabilities:

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

| | | |
|--|--------------|--------------|
| Accounts Payable and Accrued Liabilities | \$ 2,973,686 | \$ 1,770,379 |
| Accrued Liabilities Due Related Parties | 168,857 | 117,333 |
| Convertible Notes Payable | 1,675,000 | 1,625,000 |
| Due to Related Parties | 61,943 | 111,943 |
| Note Payable | 1,125,000 | 1,163,500 |
| | ----- | ----- |
| Total Current Liabilities | 6,004,486 | 4,788,156 |
| Long Term Liabilities: | | |
| Note Payable | -- | -- |
| | ----- | ----- |
| Deficiency in Stockholders' Equity: | | |
| Preferred Stock, par value \$.0001 per share; 10,000,000 shares authorized; 60,000 issued at December 31, 2004 and September 30, 2004 | 6 | 6 |
| Common Stock, par value \$.50 per share; 100,000,000 shares authorized; 40,848,239 shares and 23,981,054 shares issued and outstanding at December 31, 2004 and September 30, 2004, respectively | 20,424,120 | 11,990,527 |
| Common Stock Subscription | (880,000) | (1,000) |
| Additional Paid-In-Capital | 10,863,008 | 6,118,993 |
| Accumulated Deficit | (35,180,170) | (22,815,034) |
| | ----- | ----- |
| | (4,773,036) | (4,706,508) |
| | ----- | ----- |
| Total Liabilities and Deficiency in Stockholders' Equity | \$ 1,231,450 | \$ 81,647 |
| | ===== | ===== |

See accompanying notes to unaudited condensed consolidated financial statements

3

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

| | For The Three Months Ended December 31, 2004 ---- | For The Three Months Ended December 31, 2003 ---- | For the Period, September 16, 2002, (Date of Inception) through December 31, 2004 ----- |
|-------------------------------------|---|---|--|
| Revenues: | | | |
| Sales | \$ -- | \$ -- | \$ -- |
| COGS | \$ -- | \$ -- | \$ -- |
| Operating expenses: | | | |
| Selling, general and administrative | 10,792,921 | 7,407,750 | 31,852,994 |
| Depreciation and amortization | 4,721 | 351 | 7,882 |
| | ----- | ----- | ----- |
| Total operating expenses | 10,797,642 | 7,408,101 | 31,860,876 |
| Operating loss | (10,797,642) | (7,408,101) | (31,860,876) |

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

| | | | |
|--|-----------------|----------------|-----------------|
| Other Income (expense) | 315 | 685 | 26,700 |
| Interest (expense) | (1,567,809) | (135,074) | (3,345,995) |
| Income (taxes) benefit | -- | -- | -- |
| | ----- | ----- | ----- |
| Net loss | \$ (12,365,136) | \$ (7,542,490) | \$ (35,180,171) |
| | ===== | ===== | ===== |
| Loss per common share (basic and assuming dilution) | \$ (0.45) | \$ (0.41) | \$ (1.28) |
| | ===== | ===== | ===== |
| Weighted average shares outstanding | 27,402,160 | 18,503,162 | 27,402,160 |

See accompanying notes to unaudited condensed consolidated financial statements

4

APPLIED DNA SCIENCES, INC
(A development stage company)
CONDENSED CONSOLIDATED STATEMENT OF DEFICIENCY IN STOCKHOLDER'S EQUITY
FOR THE PERIOD SEPTEMBER 16, 2002 (Date of Inception) THROUGH
DECEMBER 31, 2004

| | Preferred Shares | Preferred Shares Amount | Common Shares | Common Amount | Additional Paid in Capital Amount | Common Stock Subscribed | Sub R |
|--|---------------------|-------------------------------|------------------|------------------|--|-------------------------------|----------|
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Issuance of common stock to Founders in exchange for services on September 16, 2002 at \$.01 per share | - | \$ - | 100,000 | \$ 10 | \$ 990 | - | \$ |
| Net Loss | - | - | - | - | - | - | |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Balance at September 30, 2002 | - | - | 100,000 | 10 | 990 | - | |
| Issuance of common stock in connection with merger with Prohealth Medical Technologies, Inc on October 1, 2002 | - | - | 10,178,352 | 1,018 | - | - | |
| Cancellation of Common stock in connection with merger with Prohealth Medical Technologies, Inc on October 21, 2002 | - | - | (100,000) | 10 | (1,000) | - | |
| Issuance of common stock in exchange for services in October 2002 at \$ 0.65 per share | - | - | 602,000 | 60 | 39,070 | - | |
| Issuance of common stock in exchange for subscription in November and December 2002 at \$ 0.065 per share | - | - | 876,000 | 88 | 56,852 | - | (56 |

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

| | | | | | | | |
|--|---|---|------------|-------|----------|---|----|
| Cancellation of common stock in January 2003 previously issued in exchange for consulting services | - | - | (836,000) | (84) | (54,264) | - | 54 |
| Issuance of common stock in exchange for licensing services valued at \$ 0.065 per share in January 2003 | - | - | 1,500,000 | 150 | 97,350 | - | |
| Issuance of common stock in exchange for consulting services valued at \$ 0.13 per share in January 2003 | - | - | 586,250 | 58 | 76,155 | - | |
| Issuance of common stock in exchange for consulting services at \$ 0.065 per share in February 2003 | - | - | 9,000 | 1 | 584 | - | |
| Issuance of common stock to Founders in exchange for services valued at \$0.0001 per share in March 2003 | - | - | 10,140,000 | 1,014 | - | - | |
| Issuance of common stock in exchange for consulting services valued at \$2.50 per share in March 2003 | - | - | 91,060 | 9 | 230,625 | - | |

See accompanying notes to unaudited condensed consolidated financial statements

5

APPLIED DNA SCIENCES, INC
(A development stage company)
CONDENSED CONSOLIDATED STATEMENT OF DEFICIENCY IN STOCKHOLDER'S EQUITY
FOR THE PERIOD SEPTEMBER 16, 2002 (Date of Inception) THROUGH
DECEMBER 31, 2004
(Continued)

| | Preferred Shares | Preferred Shares Amount | Common Shares | Common Amount | Additional Paid in Capital Amount | Common Stock Subscribed | S Subs Re |
|---|---------------------|-------------------------------|------------------|------------------|--|-------------------------------|-----------------|
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Issuance of common stock in exchange for consulting services valued at \$ 0.065 per share in March 2003 | - | - | 6,000 | 1 | 389 | - | |
| Common stock subscribed in exchange for cash at \$1 per share in March 2003 | - | - | - | - | 18,000 | - | |
| Common stock issued in exchange for consulting services at \$ 0.065 per share on April 1, 2003 | - | - | 860,000 | 86 | 55,814 | - | |
| Common stock issued in exchange for cash at \$ 1.00 per share on April 9, 2003 | - | - | 18,000 | 2 | - | - | |
| Common stock issued in | | | | | | | |

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

| | | | | | | |
|--|---|---|-------------|-------|---------|--------|
| exchange for consulting services at \$ 0.065 per share on April 9, 2003 | - | - | 9,000 | 1 | 584 | - |
| Common stock issued in exchange for consulting services at \$ 2.50 per share on April 23, 2003 | - | - | 5,000 | 1 | 12,499 | - |
| Common stock issued in exchange for consulting services at \$ 2.50 per share, on June 12, 2003 | - | - | 10,000 | 1 | 24,999 | - |
| Common stock issued in exchange for cash at \$ 1.00 per share on June 17, 2003 | - | - | 50,000 | 5 | 49,995 | - |
| Common stock subscribed in exchange for cash at \$ 2.50 per share pursuant to private placement on June 27, 2003 | - | - | - | - | - | - |
| Common stock retired in exchange for note payable at \$0.0118 per share, on June 30, 2003 | - | - | (7,500,000) | (750) | 750 | - |
| Common stock issued in exchange for consulting services at \$0.065 per share, on June 30, 2003 | - | - | 270,000 | 27 | 17,523 | - |
| Common stock subscribed in exchange for cash at \$ 1.00 per share pursuant to private placement on June 30, 2003 | - | - | - | - | - | 10,000 |
| Common stock subscribed in exchange for cash at \$ 2.50 per share pursuant to private placement on June 30, 2003 | - | - | - | - | - | 24,000 |
| Common stock issued in exchange for consulting services at approximately \$2.01 per share, July 2003 | - | - | 213,060 | 21 | 428,797 | - |

See accompanying notes to unaudited condensed consolidated financial statements

6

APPLIED DNA SCIENCES, INC
(A development stage company)
CONDENSED CONSOLIDATED STATEMENT OF DEFICIENCY IN STOCKHOLDER'S EQUITY
FOR THE PERIOD SEPTEMBER 16, 2002 (Date of Inception) THROUGH
DECEMBER 31, 2004
(Continued)

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

| | Preferred Shares | Preferred Shares Amount | Common Shares | Common Stock Amount | Additional Paid in Capital Amount | Common Stock Subscribed | Su R |
|--|---------------------|-------------------------------|------------------|---------------------------|--|-------------------------------|---------|
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Common stock canceled in July 2003, previously issued for services rendered at \$2.50 per share | - | - | (24,000) | (2) | (59,998) | - | |
| Common stock issued in exchange for options exercised at \$1.00 in July 2003 | - | - | 20,000 | 2 | 19,998 | - | |
| Common stock issued in exchange for exercised of options previously subscribed at \$1.00 in July 2003 | - | - | 10,000 | 1 | 9,999 | (10,000) | |
| Common stock issued in exchange for consulting services at approximately \$2.38 per share, August 2003 | - | - | 172,500 | 17 | 410,913 | - | |
| Common stock issued in exchange for options exercised at \$1.00 in August 2003 | - | - | 29,000 | 3 | 28,997 | - | |
| Common stock issued in exchange for consulting services at approximately \$2.42 per share, September 2003 | - | - | 395,260 | 40 | 952,957 | - | |
| Common stock issued in exchange for cash at \$2.50 per share-subscription payable-September 2003 | - | - | 19,200 | 2 | 47,998 | (48,000) | |
| Common stock issued in exchange for cash at \$2.50 per share pursuant to private placement September 2003 | - | - | 6,400 | 1 | 15,999 | - | |
| Common stock issued in exchange for options exercised at \$1.00 in September 2003 | - | - | 95,000 | 10 | 94,991 | - | |
| Common stock subscription receivable reclassification adjustment | | | | | | | |
| Common Stock subscribed to at \$2.50 per share in September 2003 | | | - | - | - | - | |

Net Loss for the year

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

| | | | | |
|-------------------------------|-------|-------|------------|-----------------------------------|
| ended September 30, 200 | - | - | - | 300,000 |
| Balance at September 30, 2003 | - | - | - | - |
| | ----- | ----- | ----- | ----- |
| | - | \$ - | 17,811,082 | \$ 1,781 \$2,577,568 \$300,000 \$ |
| | ===== | ===== | ===== | ===== |

See accompanying notes to unaudited condensed consolidated financial statements

7

APPLIED DNA SCIENCES, INC
(A development stage company)
CONDENSED CONSOLIDATED STATEMENT OF DEFICIENCY IN STOCKHOLDER'S EQUITY
FOR THE PERIOD SEPTEMBER 16, 2002 (Date of Inception) THROUGH
DECEMBER 31, 2004
(Continued)

| | Preferred Shares | Preferred Shares Amount | Common Shares | Common Stock Amount | Additional Paid in Capital Amount | Common Stock Subscribed |
|--|---------------------|-------------------------------|------------------|------------------------|--|-------------------------------|
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Preferred shares issues in exchange for services at \$25.00 per share, October 2003 | 1500 | 15 | | | | |
| Common stock issued in exchange for consulting services at approximately \$2.85 per share, October 2003 | | | 287,439 | 29 | 820,389 | - |
| Common stock issued in exchange for cash at \$2.50 per share-subscription payable-October 2003 | | | 120,000 | 12 | 299,988 | (300,000) |
| Common stock canceled in October 2003, previously issued for services rendered at \$2.50 per share | | | (100,000) | (10) | (249,990) | - |
| Common stock issued in exchange for consulting services at approximately \$3 per share, November 2003 | | | 100,000 | 10 | 299,990 | - |
| Common stock subscribed in exchange for cash at \$2.50 per share pursuant to private placement, November, 2003 | | | 100,000 | 10 | 249,990 | - |
| Common stock subscribed in exchange for cash at \$2.50 per share pursuant to private placement, December, 2003 | | | 6,400 | 1 | 15,999 | - |
| Common stock issued in | | | | | | |

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

| | | | | |
|---|-----------|------------|--------------|-----------|
| exchange for consulting services at approximately \$2.59 per share, December 2003 | 2,125,500 | 213 | 5,504,737 | - |
| Common Stock subscribed to at \$2.50 per share in December 2003 | - | - | - | 104,000 |
| Beneficial conversion feature relating to notes payable | - | - | 1,168,474 | - |
| Beneficial conversion feature relating to warrants | - | - | 206,526 | - |
| Adjust common stock par value from \$0.0001 to \$0.50 per share, per amendment of articles dated Dec 2003 | - | 10,223,166 | (10,223,166) | - |
| Common Stock issued pursuant to subscription at \$2.50 share in Jan 2004 | 41,600 | 20,800 | 83,200 | (104,000) |
| Common stock issued in exchange for consulting services at \$2.95 per share, Jan 2004 | 13,040 | 6,520 | 31,948 | - |
| Common stock issued in exchange for consulting services at \$2.60 per share, Jan 2004 | 123,000 | 61,500 | 258,300 | - |
| Common stock issued in exchange for consulting services at \$3.05 per share, Jan 2004 | 1,000 | 500 | 2,550 | - |

See accompanying notes to unaudited condensed consolidated financial statements

8

APPLIED DNA SCIENCES, INC
(A development stage company)
CONDENSED CONSOLIDATED STATEMENT OF DEFICIENCY IN STOCKHOLDER'S EQUITY
FOR THE PERIOD SEPTEMBER 16, 2002 (Date of Inception) THROUGH
DECEMBER 31, 2004
(Continued)

| | Preferred Shares | Preferred Shares Amount | Common Shares | Common Stock Amount | Additional Paid in Capital Amount | Common Stock Subscribed |
|---|------------------|-------------------------|---------------|---------------------|-----------------------------------|-------------------------|
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Common stock issued in exchange for employee services at \$3.07 per share, Feb 2004 | | | 6,283 | 3,142 | 16,147 | - |
| Common stock issued in exchange for consulting services at \$3.04 per share, Mar 2004 | | | 44,740 | 22,370 | 113,640 | - |
| Common Stock issued for | | | | | | |

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

| | | | | |
|---|--------|--------|--------|---|
| options exercised at \$1.00 per share in Mar 2004 | 55,000 | 27,500 | 27,500 | - |
| Common stock issued in exchange for employee services at \$3.00 per share, Mar 2004 | 5,443 | 2,722 | 13,623 | - |

See accompanying notes to unaudited condensed consolidated financial statements

9

APPLIED DNA SCIENCES, INC
(A development stage company)
CONDENSED CONSOLIDATED STATEMENT OF DEFICIENCY IN STOCKHOLDER'S EQUITY
FOR THE PERIOD SEPTEMBER 16, 2002 (Date of Inception) THROUGH
DECEMBER 31, 2004
(Continued)

| | Preferred Shares | Preferred Shares Amount | Common Shares | Common Stock Amount | Deficit Additional Paid in Capital Amount | Common Stock Subscribed |
|---|---------------------|-------------------------------|------------------|------------------------|---|-------------------------------|
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Common stock issued in exchange for employee services at \$3.15 per share, Mar 2004 | | | 5,769 | 2,885 | 15,293 | - |
| Preferred shared converted to common shares for consulting services at \$3.00 per share, Mar 2004 | 5000 | 5 | 125,000 | 62,500 | 312,500 | - |
| Common stock issued in exchange for employee services at \$3.03 per share, Mar 2004 | | | 8,806 | 4,403 | 22,236 | - |
| Common Stock issued pursuant to subscription at \$2.50 per share in Mar. 2004 | | | 22,500 | 11,250 | (9,000) | - |
| Beneficial Conversion Feature relating to Notes Payable | | | - | - | 122,362 | - |
| Beneficial Conversion Feature relating to Warrants | | | - | - | 177,638 | - |
| Common stock issued in exchange for consulting services at \$2.58 per share, Apr 2004 | | | 9,860 | 4,930 | 20,511 | - |
| Common stock issued in exchange for consulting services at \$2.35 per share, Apr 2004 | | | 11,712 | 5,856 | 21,667 | - |
| Common stock issued in exchange for consulting services at \$1.50 per share, Apr 2004 | | | 367,500 | 183,750 | 367,500 | - |
| Common stock returned | | | | | | |

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

| | | | | | | |
|---|------|---|----------|----------|---------|---|
| to treasury at \$0.065 per share, Apr 2004 | | | (50,000) | (25,000) | 21,750 | - |
| Preferred stock converted to common stock for consulting services at \$1.01 per share in May 2004 | 4000 | 4 | 100,000 | 50,000 | 51,250 | - |
| Common stock issued per subscription May 2004 | | | 10,000 | 5,000 | (4,000) | - |
| Common stock issued in exchange for consulting services at \$0.86 per share in May 2004 | | | 137,000 | 68,500 | 50,913 | - |
| Common stock issued in exchange for consulting services at \$1.15 per share in May 2004 | | | 26,380 | 13,190 | 17,147 | - |
| Common stock returned to treasury at \$0.065 per share, Jun 2004 | | | (5,000) | (2,500) | 2,175 | - |

See accompanying notes to unaudited condensed consolidated financial statements

10

APPLIED DNA SCIENCES, INC
(A development stage company)
CONDENSED CONSOLIDATED STATEMENT OF DEFICIENCY IN STOCKHOLDER'S EQUITY
FOR THE PERIOD SEPTEMBER 16, 2002 (Date of Inception) THROUGH
DECEMBER 31, 2004
(Continued)

| | Preferred Shares | Preferred Shares Amount | Common Shares | Common Stock Amount | Deficit Additional Paid in Capital Amount | Common Stock Subscribed |
|---|---------------------|-------------------------------|------------------|------------------------|---|-------------------------------|
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Common stock issued in exchange for consulting services at \$0.67 per share in June 2004 | | | 270,500 | 135,250 | 45,310 | - |
| Common stock issued in exchange for consulting services at \$0.89 per share in June 2004 | | | 8,000 | 4,000 | 3,120 | - |
| Common stock issued in exchange for consulting services at \$0.65 per share in June 2004 | | | 50,000 | 25,000 | 7,250 | - |
| Common stock issued pursuant to private placement at \$1.00 per share in June 2004 | | | 250,000 | 125,000 | 125,000 | - |
| Common stock issued in exchange for consulting services at \$0.54 per share in July 2004 | | | 100,000 | 50,000 | 4,000 | - |
| Common stock issued in exchange for consulting services at \$0.72 per | | | | | | |

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

| | | | | | | |
|--|--------|-----|---------|--------|----------|---|
| share in July 2004 | | | 5,000 | 2,500 | 1,100 | - |
| Common stock issued in exchange for consulting services at \$0.47 per share in July 2004 | | | 100,000 | 50,000 | (2,749) | - |
| Common stock issued in exchange for consulting services at \$0.39 per share in August 2004 | | | 100,000 | 50,000 | (11,000) | - |
| Preferred stock converted to common stock for consulting services at \$0.39 per share in August 2004 | (2000) | (2) | 50,000 | 25,000 | (5,500) | - |

See accompanying notes to unaudited condensed consolidated financial statements

11

APPLIED DNA SCIENCES, INC
(A development stage company)
CONDENSED CONSOLIDATED STATEMENT OF DEFICIENCY IN STOCKHOLDER'S EQUITY
FOR THE PERIOD SEPTEMBER 16, 2002 (Date of Inception) THROUGH
DECEMBER 31, 2004
(Continued)

| | Preferred Shares | Preferred Shares Amount | Common Shares | Common Stock Amount | Deficit Additional Paid in Capital Amount | Common Stock Subscribed |
|---|---------------------|-------------------------------|------------------|------------------------|---|-------------------------------|
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Common stock issued in exchange for consulting services at \$0.50 per share in August 2004 | | | 100,000 | 50,000 | 250 | |
| Common stock issued in exchange for consulting services at \$0.56 per share in August 2004 | | | 200,000 | 100,000 | 12,500 | - |
| Common stock issued in exchange for consulting services at \$0.41 per share in August 2004 | | | 92,500 | 46,250 | (8,787) | - |
| Common stock issued in exchange for consulting services at \$0.52 per share in September 2004 | | | 1,000,000 | 500,000 | 17,500 | - |
| Common stock issued in exchange for consulting services at \$0.46 per share in September 2004 | | | 5,000 | 2,500 | (212) | - |
| Common stock issued pursuant to subscription at \$0.50 per share in September 2004 | | | 40,000 | 20,000 | - | - |
| Preferred shares converted to common stock for consulting | | | | | | |

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

| | | | | | | |
|--|--------|-----|------------|------------|-----------|-------|
| services at \$0.41 per share in September 2004 | (4000) | (4) | 100,000 | 50,000 | 4,000 | - |
| Preferred shares issued in exchange for service at \$25 per share in September 2004 | 60,000 | 6 | | | 1,499,994 | |
| Warrants issued to consultants in the fourth quarter 2004 | | | | | 2,019,862 | |
| Net Loss | | | - | - | - | - |
| Balance at September 30, 2004 | 60,000 | \$6 | 23,981,054 | 11,990,527 | 6,118,993 | - |
| | ===== | == | ===== | ===== | ===== | ===== |

See accompanying notes to unaudited condensed consolidated financial statements

12

APPLIED DNA SCIENCES, INC
(A development stage company)
CONDENSED CONSOLIDATED STATEMENT OF DEFICIENCY IN STOCKHOLDER'S EQUITY
FOR THE PERIOD SEPTEMBER 16, 2002 (Date of Inception) THROUGH
DECEMBER 31, 2004

| | Preferred Shares | Preferred Shares Amount | Common Shares | Common Stock Amount | Additional Paid in Capital Amount | Common Stock Subscribed |
|--|---------------------|-------------------------------|------------------|------------------------|--|-------------------------------|
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Common stock issued in exchange for consulting services at \$0.68 per share in October 2004 | - | - | 200,000 | 100,000 | 36,000 | - |
| Common stock returned to treasury at \$0.60 per share, Oct 2004 | - | - | (1,069,600) | (534,800) | (107,298) | - |
| Common stock issued in exchange for consulting services at \$0.60 per share in October 2004 | - | - | 82,500 | 41,250 | 8,250 | - |
| Common Stock issued pursuant to subscription at \$0.60 share in October 2004 | - | - | 500,000 | 250,000 | 50,000 | (300,000) |
| Common stock issued in exchange for consulting services by noteholders at \$0.50 per share in October 2004 | - | - | 532,500 | 266,250 | - | - |

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

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

See accompanying notes to unaudited condensed consolidated financial statements

13

APPLIED DNA SCIENCES, INC
(A development stage company)
CONDENSED CONSOLIDATED STATEMENT OF DEFICIENCY IN STOCKHOLDER'S EQUITY
FOR THE PERIOD SEPTEMBER 16, 2002 (Date of Inception) THROUGH
DECEMBER 31, 2004

| | | | | | | |
|--|---|---|--------|--------|---------|---------|
| Common Stock issued in exchange for employee services at \$0.60 share in November 2004 | - | - | 60,000 | 30,000 | 6,000 | (4,000) |
| Beneficial Conversion discount relating to Notes Payable | - | - | - | - | 936,541 | - |
| Beneficial Conversion Feature relating to Warrants | - | - | - | - | 528,459 | - |

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

| | | | | | | |
|--|--------|-------|------------|------------|-------------|-----------|
| Common stock issued at \$0.016 in exchange for note payable in December 2004 | | | 5,500,000 | 2,750,000 | (2,661,500) | |
| Common Stock issued in exchange for consulting services at \$1.44 share in December 2004 | - | - | 5,796,785 | 2,898,393 | 5,418,815 | - |
| Common stock issued pursuant to subscription at \$0.50 per share in December 2004 | - | - | 2,930,000 | 1,465,000 | - | (125,000) |
| Warrants issued to consultants in Dec. 2004 | - | - | | | 394,698 | |
| Net Loss | - | - | - | - | - | - |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| | 60,000 | 6 | 40,848,239 | 20,424,120 | 10,863,008 | (879,000) |
| | ===== | ===== | ===== | ===== | ===== | ===== |

See accompanying notes to unaudited condensed consolidated financial statements

14

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

| | |
|---|--|
| | For The Three Months December 2004 ---- |
| Cash flows from operating activities: | |
| Net loss from operating activities | \$(12,365,136) |
| Adjustments to reconcile net loss to net cash used in operating activities: | |
| Depreciation | 4,721 |
| Organizational Expenses | |
| Preferred Shares issued in exchange for service | -- |
| Warrants issued to consultants | 394,698 |
| Amortization of beneficial conversion feature-convertible notes..... | 1,515,000 |
| Common stock issued in exchange for consultant services rendered | 9,366,507 |
| Common stock canceled-previously issued for services rendered | (642,605) |
| Changes in Assets and Liabilities: | |

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

| | |
|---|-------------|
| Increase in-other assets | (1,065,318) |
| Increase in due related parties | 1,523 |
| Increase (decrease) in accounts payable and accrued liabilities | 1,203,816 |
| | ----- |
| Net cash used in operating activities | (1,586,794) |
| Cash flows from investing activities: | |
| Payments for patent filing | (4,347) |
| Payments for security deposits | (24,026) |
| Capital expenditures | (0) |
| | ----- |
| Net cash used in investing activities | (28,373) |
| Cash flows from financing activities: | |
| Proceeds from sale of common stock, net of cost | -- |
| Proceeds from subscription of common stock | 250,000 |
| Proceeds from sale of options | 36,000 |
| Advances from shareholders | -- |
| Proceeds from notes payable..... | 1,390,000 |
| | ----- |
| Net cash provided by financing activities | 1,676,000 |
| Net increase in cash and cash equivalents | 60,833 |
| Cash and cash equivalents at beginning of period | 1,832 |
| Cash and cash equivalents at end of period | \$ 62,665 |
| | ===== |
| Supplemental Disclosures of Cash Flow Information: | |
| Cash paid during period for interest | -- |
| Cash paid during period for taxes | -- |
| Non-cash transaction | |
| Common stock issued for services | 9,366,507 |
| Common stock canceled-previously issued for services rendered | (642,605) |
| Common stock retired | -- |
| Deferred financing costs | |
| Beneficial conversion feature related to notes payable | 936,541 |
| Beneficial conversion feature related to warrants | 528,459 |
| Preferred Shares in exchange for services..... | |
| Warrants issued to consultants | 394,698 |
| Acquisition: | |
| Common stock retained | |
| Assets acquired | |
| Total consideration paid | |
| Organization expenses - note issued in excahnge of shares retired | |
| Common stock issued in exchange for note payable | 88,500 |

See accompanying notes to unaudited condensed consolidated financial statements

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

APPLIED DNA SCIENCES, INC.
(A Development Stage Company)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
DECEMBER 31, 2004
(UNAUDITED)

NOTE A - SUMMARY OF ACCOUNTING POLICIES

General

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

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month period ended December 31, 2004 is not necessarily indicative of the results that may be expected for the year ended September 30, 2005. The unaudited condensed consolidated financial statements should be read in conjunction with September 30, 2004 financial statements.

Business and Basis of Presentation

On September 16, 2002, Applied DNA Sciences, Inc. (the "Company") was incorporated under the laws of the State of Nevada. The Company is in the development stage, as defined by Statement of Financial Accounting Standards No. 7 ("SFAS No. 7") and its efforts have been principally devoted to developing DNA embedded biotechnology security solutions in the United States. To date, the Company has generated nominal sales revenues, has incurred expenses and has sustained losses. Consequently, its operations are subject to all the risks inherent in the establishment of a new business enterprise. For the period from inception through December 31, 2004, the Company has accumulated losses of \$35,180,171

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

Reclassification

Certain prior period amounts have been reclassified for comparative purposes.

Property and Equipment

Property and equipment are stated at cost and depreciated over their estimated useful lives of 3 to 5 years using the straight line method. At December 31, 2004 property and equipment consist of:

| | December 31, 2004 |
|--------------------------|-------------------|
| | ----- |
| Furniture | \$ 29,507 |
| Accumulated depreciation | 1,756 |
| | ===== |
| Net | \$ 27,751 |

Advertising

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

The Company will follow a policy of charging the costs of advertising to expenses incurred. The Company incurred advertising costs of \$4,490 and \$0, respectively during the three months ended December 31, 2004.

Intangible Assets

Intangible assets are amortized using the straight-line method over their estimated period of benefit, ranging from one to ten years. We periodically evaluate the recoverability of intangible assets and take into account events or circumstances that warrant revised estimates of useful lives or that indicate that an impairment exists. All of our intangible assets are subject to amortization.

16

APPLIED DNA SCIENCES, INC.
(A Development Stage Company)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
DECEMBER 31, 2004
(UNAUDITED)

NOTE A - SUMMARY OF ACCOUNTING POLICIES (continue)

Intangible Assets (continue)

At December 31, 2004, intangible assets consist of:

| | December 31, 2004 |
|--------------------------|----------------------|
| Intangible assets | \$ 34,257 |
| Accumulated amortization | (6,126) |
| | ----- |
| Net Intangible Assets | \$ 28,131 |
| | ===== |

Restricted Cash

Per terms of the December Promissory Note Payable agreement dated December 20, 2004, all proceeds received from note holders remain in escrow subject to (1) the filing of a Definitive Information Statement that increases the authorized Common Stock and reduces par value, and (2) the closing of a Private Placement for \$1 million or more and in the event of such occurrence the Note will automatically without notice to the note holder, in to Common Stock of the Company, at any time at \$0.50 per share plus 100% warrant coverage with said warrant being exerciseable at \$0.75 per share for a period of three years and callable at \$1.25 after the underlying stock is registered if said stock trades at above \$1.25 per share for 10 days - See Note F.

Stock Based Compensation

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure-an amendment of SFAS 123." This statement amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in APB Opinion No. 25 and related interpretations. Accordingly, compensation expense for stock options is measured as the excess, if any, of the fair market value of the Company's stock at the date of the grant over the exercise price of the related option. The Company has adopted the annual disclosure provisions of SFAS No. 148 in its financial reports for the year ended September 30, 2003 and for the subsequent periods.

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

17

APPLIED DNA SCIENCES, INC.
(A Development Stage Company)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
DECEMBER 31, 2004
(UNAUDITED)

NOTE A - SUMMARY OF ACCOUNTING POLICIES (Continued)

Stock Based Compensation (Continued)

| | For The Three Months ended December 31, 2004 | For The Three Months ended December 31, 2003 |
|--|---|---|
| Net loss - as reported | \$ (12,365,136) | \$ (7,542,490) |
| Add: Total stock based employee compensation expense as reported under intrinsic value method (APB. No. 25) | - | - |
| Deduct: Total stock based employee compensation expense as reported under fair value based method (SFAS No. 123) | - | - |
| Net loss - Pro Forma | \$ (12,365,136) | \$ (7,542,490) |
| Net loss attributable to common stockholders - Pro forma | \$ (12,365,136) | \$ (7,542,490) |
| Basic (and assuming dilution) loss per share - as reported | \$ (0.45) | \$ (0.40) |
| Basic (and assuming dilution) loss per share - Pro forma | \$ (0.45) | \$ (0.40) |

NOTE B - MERGER

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

Acquisition

On October 21, 2002, the Company completed a Plan and Agreement of Reorganization ("Merger") with ProHealth Medical Technologies, Inc. ("ProHealth") an inactive publicly registered shell corporation with no significant assets or operations. For accounting purposes, the Company shall be the surviving entity. The transaction is accounted for using the purchase method of accounting. The total purchase price and carrying value of net assets acquired of was \$ 880. From November 1988 until the date of the merger, ProHealth was an inactive entity with no significant assets and liabilities

18

APPLIED DNA SCIENCES, INC.
(A Development Stage Company)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
DECEMBER 31, 2004
(UNAUDITED)

Effective with the Merger, all previously outstanding common stock, preferred stock, options and warrants owned by the Company's shareholders were exchanged for an aggregate of 10,178,352 shares of ProHealth common stock. The value of the stock that was issued was the historical cost of the ProHealth's net tangible assets, which did not differ materially from their fair value. In accordance with SFAS No. 141, the Company is the acquiring entity.

Effective with the Merger, ProHealth changed its name to Applied DNA Sciences, Inc.

The total purchase price and carrying value of net assets acquired of ProHealth was \$1. The net assets acquired were as follows:

| | |
|---|---------|
| Common stock retained by ProHealth shareholders | \$1,015 |
| Assets acquired | (135) |
| Total consideration paid | \$880 |

In accordance with SOP 98-5, the Company expensed \$880 as organization costs.

NOTE C - RELATED PARTY TRANSACTIONS

At December 31, 2004, notes payable are as follows:

December
31, 2004

Note payable , related party, together with interest at 8% per annum, unsecured. Upon default, the Company issued noteholder 7.5 million shares of the Company's common stock. The noteholder retained 2 million shares and set aside 3.5 million in escrow as third party deferred compensation for a future transaction

\$ -

Note payable, unsecured, related party, payable from August 1, 2005, right to convert to restricted stock in lieu of cash, rate of interest 4%, 160,000 shares prior to October 31, 2005 or 180,000 shares after that date. 425,000

Due to ex-president, in September 2004, note holder entered into a private transaction, selling a total of 2,500,000 shares to him, after which he loaned

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

all proceeds of \$600,000 to us. 600,000

| | |
|--|--------------------|
| Note payable, ex-officer of the Company, due \$100,000 upon first funding, 20% rate of interest, or 100,000 shares at par value of \$0.001 | 100,000 ----- |
| | 1,125,000 |
| Less: current portion | 1,125,000 ----- |
| Note payable - long-term | \$ - ----- |

Included in current liabilities is \$61,943 at December 31, 2004, which represents advances from the stockholders of the Company. No formal agreements or repayment terms exist.

Also, the Company owed \$168,857 at December 31, 2004 to the stockholders and other related parties towards accrued expenses.

The Company leases office space under a sub lease agreement with an entity controlled by a significant former shareholder of the Company.

19

APPLIED DNA SCIENCES, INC.
(A Development Stage Company)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
DECEMBER 31, 2004
(UNAUDITED)

The Company has entered into long term employment and consulting agreements with Company's President and Chief Executive Officer and an entity controlled by a former significant Company shareholder, respectively.

NOTE D - CAPITAL STOCK

The Company is authorized to issue 10,000,000 shares of preferred stock with a \$.001 par value per share. The Company is authorized to issue 100,000,000 shares of common stock, with a \$0.50 par value per share. In January 2004, the Company passed a resolution authorizing change in the par value per common shares from \$0.0001 per share to \$0.50 per share. As of December 31, 2004, the Company has issued and outstanding 40,848,239 common share with par value of \$0.50 per share and 60,000 convertible preferred shares with par value of \$0.0001.

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

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

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

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

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

In November and December 2002, the Company issued 876,000 shares of common stock in exchange for subscription at \$ 0.065 per share. In accordance with EITF 96-18 the measurement date to determine fair value was in October 2002. This was the date at which a commitment for performance by the counter party to earn the equity instrument was reached. The Company valued the shares issued at approximately \$0.065 per share, which presents the fair value of the services received which did not differ materially from the value of the stock issued.

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

In January 2003, the Company issued 1,500,000 shares of common stock in exchange for a licensing agreement (see Note H). The Company valued the shares issued at approximately \$.065 per share, which represents the fair value of the license received which did not differ materially from the value of the stock issued. The Company charged the cost of the license to operations.

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

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

20

APPLIED DNA SCIENCES, INC.
(A Development Stage Company)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
DECEMBER 31, 2004
(UNAUDITED)

NOTE D - CAPITAL STOCK (continued)

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

In March 2003, the Company issued 91,060 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately \$2.53 per share, which represents the fair value of the services received which did

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

not differ materially from the value of the stock issued.

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

In March 2003, the Company received subscription for 18,000 shares of common stock in exchange for cash at \$1 per share.

On April 1, 2003, the Company issued 860,000 shares of common stock in exchange for consulting services provided to the Company. In accordance with EITF 96-18 the measurement date to determine fair value was in October 2002. This was the date at which a commitment for performance by the counter party to earn the equity instrument was reached. The Company valued the shares issued at approximately \$0.065 per share, which presents the fair value of the services received which did not differ materially from the value of the stock issued.

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

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

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

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

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

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

21

APPLIED DNA SCIENCES, INC.
(A Development Stage Company)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
DECEMBER 31, 2004
(UNAUDITED)

NOTE D - CAPITAL STOCK (continued)

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

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

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

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

In July 2003 the Company issued 213,060 shares of common stock for consulting services provided to the Company. The Company valued the shares issued at approximately \$ 2.01 per share, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

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

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

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

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

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

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

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

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

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

In September 2003, the Company received \$300,000 in connection with a 7subscription to purchase the Company's common stock pursuant to a private placement.

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

APPLIED DNA SCIENCES, INC.
(A Development Stage Company)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
DECEMBER 31, 2004
(UNAUDITED)

NOTE D - CAPITAL STOCK (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

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

23

APPLIED DNA SCIENCES, INC.
(A Development Stage Company)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
DECEMBER 31, 2004
(UNAUDITED)

NOTE D - CAPITAL STOCK (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In June 2004, the Company issued 270,500 shares of common stock at \$0.67 per

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

share in exchange for consulting services valued at \$180,560.

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

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

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

24

APPLIED DNA SCIENCES, INC.
(A Development Stage Company)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
DECEMBER 31, 2004
(UNAUDITED)

NOTE D - CAPITAL STOCK (continued)

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

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

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

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

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

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

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

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

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

In September 2004, the Company converted 4,000 preferred shares into 100,000 shares of common stock at \$0.41 in exchange for consulting services valued at \$54,000.

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

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

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

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

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

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

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

25

APPLIED DNA SCIENCES, INC.
(A Development Stage Company)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
DECEMBER 31, 2004
(UNAUDITED)

NOTE D - CAPITAL STOCK (continued)

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

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

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

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

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

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

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

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

issued.

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

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

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

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

26

APPLIED DNA SCIENCES, INC.
 (A Development Stage Company)
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
 DECEMBER 31, 2004
 (UNAUDITED)

NOTE D - CAPITAL STOCK (Continued)

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

NOTE E - STOCK OPTIONS AND WARRANTS

Warrants

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

| Exercise Prices | Number Outstanding | Warrants Outstanding Remaining Contractual Life (Years) | Weighted Average Exercise Price | Weighted Average Exercisable | Exe W A Exer |
|-----------------|-----------------------|--|---------------------------------------|------------------------------------|-----------------------|
| ----- | ----- | | ----- | ----- | ----- |
| \$0.10 | 335,000 | 4.54 | \$0.10 | 335,000 | |

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

| | | | | |
|--------|------------|------|--------|------------|
| \$0.50 | 50,000 | 4.77 | \$0.50 | 50,000 |
| \$0.60 | 6,322,750 | 4.30 | \$0.60 | 6,322,750 |
| \$0.70 | 750,000 | 2.58 | \$0.70 | 750,000 |
| \$0.75 | 2,830,000 | 2.98 | \$0.75 | 2,830,000 |
| \$1.00 | 386,000 | 0.79 | \$1.00 | 386,000 |
| \$3.00 | 62,503 | 1.00 | \$3.00 | 62,503 |
| | ----- | | | ----- |
| | 10,736,253 | | | 10,736,253 |
| | ===== | | | ===== |

Transactions involving warrants are summarized as follows:

| | Number of Shares | Weighted Average Price Per Share |
|-----------------------------------|------------------|-------------------------------------|
| Outstanding at September 30, 2004 | 4,870,253 | \$ 0.63 |
| Granted | 5,866,000 | 0.68 |
| Exercised | - | - |
| Canceled or expired | - | - |
| | ----- | ----- |
| Outstanding at December 31, 2004 | 10,736,253 | \$ 0.66 |
| | ===== | ===== |

The estimated value of the compensatory warrants granted to non-employees in exchange for services and financing expenses was determined using the Black-Scholes pricing model and the following assumptions: contractual term of 2 to 5 years, a risk free interest rate of 4.25%, a dividend yield of 0% and volatility of 22.9%. The amount of the expense charged to operations for compensatory warrants granted in exchange for services was \$ 394,698 for the three months ended December 31, 2004.

27

APPLIED DNA SCIENCES, INC.
(A Development Stage Company)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
DECEMBER 31, 2004
(UNAUDITED)

NOTE F - CONVERTIBLE PROMISSORY NOTES PAYABLE

A summary of convertible promissory notes payable at December 31, 2004 (Unaudited) is as follows:

| | |
|--|----------------------------------|
| | December 31, 2004 (Unaudited) |
| A) Convertible notes payable ("Bridge Unit Offering"), in quarterly installments of interest only at 10% per annum, secured by all assets of the Company and due on the earlier of the 9-month anniversary date of the initial closing of the Offering, or the completion of any equity financing of \$3M or more; The Company, in its sole discretion, may prepay principal at any time without penalty. The Notes are convertible into shares of common stock of the Company at a price of \$2.50 per share. | 1,675,000 |
| Debt Discount - beneficial conversion feature, net of accumulated amortization of \$1,290,837 as of December 31, 2004 | - |
| Debt Discount - value attributable to warrants attached to notes, net of accumulated amortization of \$384,163 as of December 31, 2004 | - |

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

| | |
|--|--------------|
| B) Convertible notes payable totaling \$1,465,000 ("December Promissory Notes"), at the earlier of Definitive Information Statement that increases the authorized Common Stock and reduces par value or the completion of any equity financing of \$1M or more bearing interest at 6% per annum. The Notes are convertible into shares of common stock of the Company at a price of \$0.50 per share. At December 31, 2004, convertible notes are converted into common shares of the Company as per the terms | - |
| Debt Discount - beneficial conversion feature, net of accumulated amortization of \$936,541 as of December 31, 2004. | - |
| Debt Discount - value attributable to warrants attached to notes, net of accumulated amortization of \$528,459 as of December 31, 2004. | - |
| | ----- |
| | \$ 1,675,000 |
| | ===== |

Convertible Debentures

During 2004, the Company sold 33.5 units (the "Units") to accredited investors at a price of \$50,000 per Unit (the "Bridge Offering") for a total of \$1,675,000. Each Unit consists of (i) a \$50,000 Principal Amount 10% Secured Convertible Promissory Note ("Note" or "Notes"), (ii) warrants to purchase 50,000 shares of our common stock, exercisable for a period of five years at a price of \$0.60 per share ("\$0.60 Warrant") and (iii) warrants to purchase 10,000 shares of our common stock, exercisable for a period of five years at a price of \$0.10 per share ("\$0.10 Warrant" and together with the \$0.60 Warrant, the "Warrants"). The Notes are convertible into shares of our common stock at a price of \$0.33 per share.

28

APPLIED DNA SCIENCES, INC.
(A Development Stage Company)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
DECEMBER 31, 2004
(UNAUDITED)

NOTE F - CONVERTIBLE PROMISSORY NOTES PAYABLE (continued)

In accordance with EMERGING ISSUES TASK FORCE ISSUE 98-5, ACCOUNTING FOR CONVERTIBLE SECURITIES WITH A BENEFICIAL CONVERSION FEATURES OR CONTINGENTLY ADJUSTABLE CONVERSION RATIOS ("EITF 98-5"), the Company recognized an imbedded beneficial conversion feature present in the Bridge Offering note. The Company allocated a portion of the proceeds equal to the intrinsic value of that feature to additional paid in capital. The Company recognized and measured an aggregate of \$1,290,837 of the proceeds, which is equal to the intrinsic value of the imbedded beneficial conversion feature, to additional paid in capital and a discount against the Bridge Offering. The debt discount attributed to the beneficial conversion feature is amortized over the Bridge Offering's earliest maturity period of 9 months from the date of issue as interest expense.

In connection with the placement of the Bridge Offering notes, the Company offered 100% warrant coverage for each dollar of promissory note, exercisable for a period of three years at a price of \$0.75 per share ("\$0.75 Warrant"). In accordance with EMERGING ISSUES TASK FORCE ISSUE 00-27, APPLICATION OF ISSUE NO.

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

98-5 TO CERTAIN CONVERTIBLE INSTRUMENTS ("EITF - 0027"), the Company recognized the value attributable to the warrants in the amount of \$384,163 to additional paid in capital and a discount against the Bridge Offering. The Company valued the warrants in accordance with EITF 00-27 using the Black-Scholes pricing model and the following assumptions: contractual terms of 5 years, an average risk free interest rate of 4.25%, a dividend yield of 0.00%, and volatility of 42%. The debt discount attributed to the value of the warrants issued is amortized over the Bridge Offering's earliest maturity period of 9 months from the date of issue as interest expense.

In December 2004, the Company sold convertible promissory notes to accredited investors in the aggregate of \$1,465,000. Each \$1.00 is convertible into common stock at \$0.50 and includes 100% warrant coverage to purchase our common stock, exercisable for a period of three years at a price of \$0.75 per share ("\$.75 Warrant") and callable at \$1.25 after the underlying stock is registered if said stock trades at above \$1.25 per share for 10 days - See Note A, Restricted Cash.

In accordance with EMERGING ISSUES TASK FORCE ISSUE 98-5, ACCOUNTING FOR CONVERTIBLE SECURITIES WITH A BENEFICIAL CONVERSION FEATURES OR CONTINGENTLY ADJUSTABLE CONVERSION RATIOS ("EITF 98-5"), the Company recognized an imbedded beneficial conversion feature present in the Bridge Offering note. The Company allocated a portion of the proceeds equal to the intrinsic value of that feature to additional paid in capital. The Company recognized and measured an aggregate of \$936,541 of the proceeds, which is equal to the intrinsic value of the imbedded beneficial conversion feature, to additional paid in capital and a discount against the Bridge Offering. The debt discount attributed to the beneficial conversion feature was fully amortized over the fiscal first quarter period as interest expense.

In connection with the placement of the Bridge Offering notes, the Company offered 100% warrant coverage for each dollar of promissory note, exercisable for a period of three years at a price of \$0.75 per share (\$.75 Warrant). In accordance with EMERGING ISSUES TASK FORCE ISSUE 00-27, APPLICATION OF ISSUE NO. 98-5 TO CERTAIN CONVERTIBLE INSTRUMENTS ("EITF - 0027"), the Company recognized the value attributable to the warrants in the amount of \$528,459 to additional paid in capital and a discount against the Bridge Offering. The Company valued the warrants in accordance with EITF 00-27 using the Black-Scholes pricing model and the following assumptions: contractual terms of 3 years, an average risk free interest rate of 4.25%, a dividend yield of 0.00%, and volatility of 26.72%. The debt discount attributed to the value of the warrants issued was fully amortized over the fiscal first quarter period as interest expense.

29

APPLIED DNA SCIENCES, INC.
(A Development Stage Company)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
DECEMBER 31, 2004
(UNAUDITED)

NOTE G- INCOME TAXES

The Company has adopted Financial Accounting Standard No. 109 which requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statement or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between financial statements and tax bases of assets and

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Temporary differences between taxable income reported for financial reporting purposes and income tax purposes are insignificant.

At December 31, 2004, the Company has available for federal income tax purposes a net operating loss carryforward of approximately \$35,000,000, expiring in the year 2023, that may be used to offset future taxable income. The Company has provided a valuation reserve against the full amount of the net operating loss benefit, since in the opinion of management based upon the earnings history of the Company, it is more likely than not that the benefits will not be realized. Due to significant changes in the Company's ownership, the future use of its existing net operating losses may be limited.

Components of deferred tax assets as of December 31, 2004 are as follows:

| | |
|---------------------------------|--------------|
| Non current: | |
| Net operating loss carryforward | \$12,000,000 |
| Valuation allowance | (12,000,000) |
| | ----- |
| Net deferred tax asse | \$ - |
| | ===== |

NOTE H-LOSSES PER SHARE

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

30

APPLIED DNA SCIENCES, INC.
(A Development Stage Company)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
DECEMBER 31, 2004
(UNAUDITED)

NOTE H-LOSSES PER SHARE

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

| | For the Three Months Ended December 31, 2004 | For the Three Months Ended December 31, 2003 |
|--|---|---|
| | ----- | ----- |
| Loss available for common shareholders | \$ (12,365,136) | \$ (7,542,590) |
| | ===== | ===== |
| Basic and fully diluted loss per share | \$ (0.45) | \$ (0.41) |
| | ===== | ===== |
| Weighted average common shares outstanding | 27,402,160 | 18,503,162 |

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

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

NOTE I- COMMITMENTS AND CONTINGENCIES

Licensing Agreement

In October 2002, the Company entered into an exclusive Licensing Agreement ("License") with Biowell Technology, Inc., a company formed under the laws of Taiwan, Republic of Taiwan. The initial term of the License expires in 2007 with renewal options under certain terms and conditions. The License grants the Company the exclusive use of certain patented DNA technology, along with the rights to future technology, in exchange for an initial payment of 1,500,000 shares of the Company's restricted common stock (see Note D). The Company is obligated to order minimum purchase orders or make future certain minimum annual royalty payments as follows:

| Year ending October 8, | Minimum purchase orders | Alternative Minimum Royalty Payable |
|---------------------------|-------------------------|--|
| 2005 | 360,000 | - |
| 2006 | 432,000 | - |
| 2007 | 518,400 | - |

Consulting Agreement

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

31

APPLIED DNA SCIENCES, INC.
(A Development Stage Company)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
DECEMBER 31, 2004
(UNAUDITED)

NOTE I- COMMITMENTS AND CONTINGENCIES

Consulting Agreements (continued)

As compensation for GP's performance, the Company will pay GP an aggregate advisory fee of Two Million Dollars (\$2,000,000) payable in increments over the term and renewal term. Two payments of \$500,000 each were made by the Company in September 2004 and January 2005. Thereafter, eight payments of \$125,000 are due monthly over the period February through September 2005. Additionally, the Company will issue a net-exercisable warrant to purchase shares of Common Stock of the Company at a later date. Fees were placed in escrow during GP's completion of its due diligence review.

All promotional materials of the Company, on a going forward basis, will be submitted to GP for its review, including all advertising, written sales promotion, press releases, news clippings and other publicity matters relating to GP's engagement and the strategic relationship created.

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

Franchising and Distribution Agreements

The Company has entered into a Distribution and Franchising Agreement ("Franchise Agreement") in July 2003. Under the terms of the Franchise Agreement, the franchisee is obligated to pay the Company \$3,000,000 payable \$25,000 upon execution of the Franchise Agreement and the balance of \$2,975,000 payable over five (5) years with interest accruing at 8% per annum. Payments under the Franchise Agreement are subject to franchisee's net profits, as defined, under the Franchise Agreement.

Note Payable Settlement

In October 2004, the Company defaulted on a note held by a former company officer and director in the amount of \$88,500 (See Note C), and in accordance with the default, the noteholder had the right to demand that his outstanding note be converted back into 7,500,000 shares. The Company subsequently settled the matter for 5,500,000 shares with the noteholder. Included within the 5,500,000 shares are 3,500,000 shares retained in escrow for negotiated on behalf of another party for future deferred compensation.

Litigation

Ex-officer was named as a defendant in a lawsuit brought by an outside party in the United States District Court for the Central District of California, and in that action, Applied DNA was named as a "nominal defendant." The plaintiff is alleging that the ex-officer violated the short swing rule. The Company believes it has meritorious defenses and will prevail in this matter.

32

APPLIED DNA SCIENCES, INC.
(A Development Stage Company)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
DECEMBER 31, 2004
(UNAUDITED)

NOTE I- COMMITMENTS AND CONTINGENCIES (continued)

Operating Lease Commitments

The Company leases office space under operating lease in Los Angeles, California for its corporate use from an entity controlled by significant former shareholder, expiring in November 2006. Total lease rental expenses for the three months ended on December 31, 2004 was \$47,194.

Commitments for minimum rentals under non-cancelable lease at September 30, 2004 were as follows:

| | |
|--------------------------|------------|
| Year ended September 30, | |
| 2005 | \$ 139,308 |
| 2006 | 143,977 |
| 2007 | 12,031 |
| | ----- |
| | \$ 295,316 |

Employment and Consulting Agreements

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

The Company has employment agreements with the Company's officers and certain employees. These employment agreements provide for salaries and benefits, including stock options and extend up to seven years. In addition to salary and benefit provisions, the agreements include defined commitments should the employer terminate the employee with or without cause.

The Company has a consulting agreement with an entity controlled by a former significant shareholder of the Company. The consulting agreement provides for compensation and certain benefits, including stock options and extends up to seven years. In addition to compensation and benefit provisions, the agreements include defined commitments should the employer terminate the consultant with or without cause.

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

NOTE J- SUBSEQUENT EVENTS

In January 2005, the Company arranged a \$5.970 million private placement of 11.940 million shares at \$0.50 per share along with 11.940 million attached warrants with an exercise price of \$0.75 that expires in 5 years.

In January 2005, holders of 1,675,000 of convertible notes payable elected to convert their notes to common stock at \$0.33 per share (See Note F).

On January 2005, the Company entered into a stock purchase agreement with Biowell Technology Inc., a Taiwan corporation ("Biowell"), whereby a to-be-formed wholly-owned subsidiary of the Company would acquire a company to be formed which would own all of the intellectual property of Biowell in exchange for 36,000,000 shares of the Company's common stock to be issued to the shareholders of Biowell. The Acquisition Shares represent 50% of the total shares issued and outstanding on a fully diluted basis on the date of execution of the Agreement. In February 2005, the Company in a private placement, sold an aggregate of \$1,391,000 in secured convertible promissory notes and 2,782,000 warrants. The notes bear interest at 10% per annum, mature one year from the date of issuance, and are convertible: into shares of common stock of the Company at a price of \$0.50 per share (i) at the holder's option; or (ii) automatically upon the Company's filing of a registration statement registering the shares underlying the notes and Warrants.

33

ITEM 2. MANagements DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS FOR THE THREE MONTHS ENDED DECEMBER 31, 2004

The following discussion should be read in conjunction with the Company's Consolidated Financial Statements and Notes thereto, included elsewhere within this report. The quarterly report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements using terminology such as "can", "may", "believe", "designated to", "will", "expect", "plan", "anticipate", "estimate", "potential" or "continue", or the negative thereof or other comparable terminology regarding beliefs, plans, expectations or intentions regarding the future. Forward looking statements involve risks and uncertainties and actual results could differ materially from those discussed in forward-looking statements. All forward looking statements and risk factors included in this document are made as of the date hereof, based on information available to the Company as of the date thereof, and the Company assumes no

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

obligations to update any forward-looking statement or risk factor, unless the Company is required to do so by law.

Plan of Operation

Liquidity and Capital Resources

As of December 31, 2004, we had a deficiency in working capital of \$5,942,000. For the three months ended December 31, 2004, we generated a net cash flow deficit from operating activities of (\$1,587,000), consisting primarily of year to date losses of (\$12,365,000), \$8,724,000 in net stock issued for consulting services, \$1,515,000 for beneficial conversion of convertible notes payable and warrants, \$395,000 for warrants issued to consultants as well as a net increase in current liabilities and other of \$144,000.

Cash used in investing activities totaled \$28,000, which was utilized for patent filings and, facility lease deposits. Cash provided by financing activities totaled \$1,676,000 consisting of \$1,390,000 in proceeds from loans, and \$250,000 and \$36,000 in common stock and exercised options proceeds, respectively.

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

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

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

During the three months ended December 31, 2004 and 2003 and from September 16, 2002 (inception) through December 31 2003, the Company's priorities were to recruit and build its team, organize its new infrastructure and to develop a successful strategy how best to exploit its exclusive Biowell license agreement. No revenues were generated. Although the management of the Company is of the opinion that continuing to develop and finance the Company's present business of providing DNA anti-counterfeit technology may ultimately be successful, management nevertheless expects that the Company will need substantial additional capital before the Company's operations can be fully implemented.

From our inception through December 31, 2004, we have incurred losses of \$35,180,171. These expenses were associated principally with equity-based compensation to employees and consultants, product development costs and professional services.

While we have raised capital to meet our working capital and financing needs in the past, additional financing is required in order to meet our current and

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

projected cash flow deficits from operations and development. We are seeking financing in the form of equity through a Private Placement Memorandum in order to provide the necessary working capital. We currently have no commitments for financing. There is no guarantee that we will be successful in raising the funds required.

34

The effect of inflation on the Company's operating results was not significant. The Company's operations are located in North America and there are no seasonal aspects that would have a material effect on the Company's financial condition or results of operations.

The Company's independent certified public accountant has stated in their report included in the Company's September 30, 2004 Form 10-KSB, that the Company has incurred operating losses from its inception, and that the Company is dependent upon management's ability to develop profitable operations. These factors among others may raise substantial doubt about the Company's ability to continue as a going concern.

Bridge Unit Offering

From November through December 2003, we sold 33.5 units (the "Units") to accredited investors at a price of \$50,000 per Unit (the "Offering") for a total of \$1,675,000. Each Unit consists of (i) a \$50,000 Principal Amount 10% Secured Convertible Promissory Note ("Note" or "Notes"), (ii) warrants to purchase 50,000 shares of our common stock, exercisable for a period of five years at a price of \$3.20 per share ("\$3.20 Warrant") and (iii) warrants to purchase 10,000 shares of our common stock, exercisable for a period of five years at a price of \$0.10 per share ("\$0.10 Warrant" and together with the \$3.20 Warrant, the "Warrants"). The Notes are convertible into shares of our common stock at a price of \$2.50 per share.

December Promissory Notes Payable

In December 2004, the Company received \$1,065,318 in proceeds subject to the terms of the December Promissory Notes Payable agreement. The Company held the proceeds in escrow and classified the amount as Restricted Cash - See Note A, Restricted Cash.

The aggregate principal amount of Notes sold was \$1,375,000. The Notes are secured and bear interest at 10% per annum, computed on the basis of a 365-day year, accruing from the date an investor's subscription was closed upon by the Company. Principal and all accrued interest will be payable in full on the earlier of (i) the 9-month anniversary date of the initial closing of the Offering, or (ii) the completion of any equity financing of \$3,000,000 or more. The Company, in its sole discretion, may prepay principal at any time without penalty. The Notes are convertible into shares of common stock of the Company at a price of \$2.50 per share.

The Notes are secured by a security agreement giving the Holder a security interest in all the patents, licenses, equipment, fixtures, inventory and accounts receivable of the Company, and/or any of its subsidiaries.

The following events constitute events of default under the Notes:

(i) Default in the payment of the principal or accrued interest on any Note or upon any other indebtedness of the Company that is greater than \$100,000, as and when the same shall become due, whether by default or otherwise, which Default shall have continued for a period of five (5) business days; or

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

(ii) Any representation or warranty made by the Company or any officer of the Company in the Notes, or in any agreement, report, certificate or other document delivered to the Holder pursuant to the Notes shall have been incorrect in any material respect when made which shall not have been remedied ten (10) days after written notice thereof shall have been given by the Holder; or

(iii) The Company shall fail to perform or observe any affirmative covenant contained in Section 4 of the Notes and such Default, if capable of being remedied, shall not have been remedied ten (10) days after written notice thereof shall have been given by the Holder; or

(iv) The Company or any subsidiary (A) shall institute any proceeding or voluntary case seeking to adjudicate it bankrupt or insolvent, or seeking dissolution, liquidation, winding up, reorganization, arrangement, adjustment, protection, relief or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of any order for relief or the appointment of a receiver, trustee, custodian or other similar official for such Company or any subsidiary or for any substantial part of its property, or shall consent to the commencement against it of such a proceeding or case, or shall file an answer in any such case or proceeding commenced against it consenting to or acquiescing in the commencement of such case or proceeding, or shall consent to or acquiesce in the appointment of such a receiver, trustee, custodian or similar official; (B) shall be unable to pay its debts as such debts become due, or shall admit in writing its inability to apply its debts generally; (C) shall make a general assignment for the benefit of creditors; or (D) shall take any action to authorize or effect any of the actions set forth above ; or

35

(v) Any proceeding shall be instituted against the Company seeking to adjudicate it bankrupt or insolvent, or seeking dissolution, liquidation, winding up, reorganization, arrangement, adjustment, protection, relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee, custodian or other similar official for the Company or for any substantial part of its property, and either such proceeding shall not have been dismissed or shall not have been stayed for a period of sixty (60) days or any of the actions sought in such proceeding (including, without limitation, the entry of any order for relief against it or the appointment of a receiver, trustee, custodian or other similar official for it or for any substantial part of its property) shall occur; or

(vi) One or more final judgments, arbitration awards or orders for the payment of money in excess of \$100,000 in the aggregate shall be rendered against the Company, which judgment remains unsatisfied for thirty (30) days after the date of such entry; or

(vii) Delisting of the Common Stock from the principal market or exchange on which the Common Stock is listed for trading; Company's failure to comply with the conditions for listing; or notification that the Company is not in compliance with the conditions for such continued listing; or

(viii) The issuance of an SEC stop trade order or an order suspending trading of the Common Stock from the principal market or exchange on which the Common Stock is listed for trading for longer than five (5) trading days; or

(ix) The failure by the Company to issue shares of Common Stock to the Holder upon exercise by the Holder of the conversion rights of the Holder in accordance with the terms of the Notes, or the failure to transfer or cause its transfer agent to transfer (electronically or in certificated form) any certificate for shares of Common Stock issued to the Holder upon conversion of or otherwise pursuant to the Notes as and when required by the Notes, or the failure to

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

remove any restrictive legend (or to withdraw any stop transfer instructions in respect thereof) on any certificate for any shares of Common Stock issued to the Holder upon conversion of or otherwise pursuant to the Notes as and when required by the Notes, and any such failure shall continue uncured for ten (10) days after the Company shall have been notified thereof in writing by the Holder; or

(x) The failure by the Company to file the Registration Statement within forty-five (45) days following the Closing Date (as defined in the Subscription Agreement) or obtain effectiveness with the Securities and Exchange Commission of the Registration Statement within one hundred thirty five (135) days following the Closing Date (as defined in the Subscription Agreement) or such Registration Statement lapses in effect (or sales cannot otherwise be made thereunder effective, whether by reason of the Company's failure to amend or supplement the prospectus included therein) for more than twenty (20) consecutive days or forty (40) days in any twelve month period after the Registration Statement becomes effective; or

(xi) The Company shall encumber or hypothecate the collateral subject to the Security Agreement to any party; or

(xii) A default by the Company of a material term, covenant, warranty or undertaking of any other agreement to which the Company and Holder are parties, or the occurrence of an event of default under any such other agreement.

Holders shall, at any time prior to the Maturity Date, have the right to convert the Note into Shares of the Company at \$2.50 per such Share, which right shall be exercised in the Holder's sole and absolute discretion. Holders shall, with respect to any Shares acquired thereby, be granted the same demand and piggy-back registration rights as if such Shares were purchased as part of the Units.

In the event of and immediately upon the occurrence of an "Event of Default," the Notes shall become immediately due and payable without any action by the Holder and the Notes shall bear interest until paid at the rate of 12% per annum or such amount as shall be allowed by law.

In the event that the sum due under the Note is not repaid on the Maturity Date, the Holder will have the option to either have the Note accrue interest at 12% or such amount as legally allowed until paid, or to convert the entirety of the debt then outstanding under the Note into the number of shares derived by dividing the sum of such debt by the dollar value equal to 80% of the closing ask price of the shares on the last trading day immediately preceding the Maturity Date as reported on the market upon which the shares shall then be trading, provided, however, that the conversion price shall never be less than \$1.00 per share. Any shares acquired thereby shall carry with them the demand and piggy back registration rights granted to the Holder under the terms of the Note.

Bridge Offering Warrants

Each Unit, or \$50,000 principal amount of the Note, entitles the holder to 50,000 warrants exercisable on a one for one basis into shares of Common Stock at an exercise price of \$3.20 during a five-year period commencing on the initial closing of the Offering (which was December 15, 2003, 2003). per share. In addition, each Unit also entitles the holder to 10,000 warrants exercisable on a one for one basis into shares of Common Stock at an exercise price of \$0.10 per share during a five-year period commencing on the initial closing of the Offering (which was December 15, 2003) In the event a holder of Warrants fails

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

to exercise the Warrants prior to their expiration, the Warrants will expire, and the holder thereof will have no further rights with respect to the Warrants.

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

Product Research and Development

Without substantial financial resources we do not anticipate incurring material research and development costs during the next twelve 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. Without substantial financial resources we do not anticipate the acquisition of any material property, plant or equipment during the next 12 months.

Number of Employees

From our inception through the period ended December 31, 2004, we have relied on the services of outside consultants for services and have no employees. In order for us to attract and retain quality personnel, we anticipate we will have to offer competitive salaries to future employees. We anticipate that it may become desirable to add additional full and or part time employees to discharge certain critical functions during the next 12 months. This projected increase in personnel is dependent upon our ability to generate revenues and obtain sources of financing. There is no guarantee that we will be successful in raising the funds required or generating revenues sufficient to fund the projected increase in the number of employees. As we continue to expand, we will incur additional cost for personnel.

37

Trends, Risks and Uncertainties

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

Risks

Applied DNA Sciences, Inc. is a small company entering a technical and specialized scientific industry. The Company's growth will depend upon the working capital and financial support, which we are in the process of seeking. The Company will need substantial additional capital to expand and to exploit its potential. While the management team has strong contacts in the geographic and product territories, the Company is small with limited assets and a limited operating history and may, as a result, have difficulties securing large enough and increasing financial commitments from potential investors. Thus the Company may be subject to the high risks associated with start-up companies and small business.

The Company relies on a small number of key individuals to implement plans and operations. Although the Company may obtain key person life insurance coverage on the Company's key individuals once substantial financial resources are obtained, the Company has not done so at this time. Should for some reason their

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

services become unavailable, the Company will be required to retain other qualified personnel.

Reductions or delays in research and development budgets and in government funding may negatively impact the Company's sales. Future clients may include researchers at pharmaceutical and biotechnology companies as well as other industrial sectors, academic institutions and government and private laboratories. Fluctuations in the research and development budgets of these researchers and their organizations could have a significant effect on demand for the Company's products. Research and development budgets fluctuate due to numerous factors that are outside the Company's control and are difficult to predict, including changes in available resources, spending priorities and institutional budgetary policies. The Company's business could be seriously damaged by any decrease in life science research and development expenditures by pharmaceutical, biotechnological and other industrial sector companies, academic institutions or government and private laboratories. Although the level of research funding has increased during the past several years, we cannot assure that this trend will continue. Government funding of research and development is subject to the political process, which is inherently fluid and unpredictable. Also government proposals to reduce or eliminate budgetary deficits have sometimes included reduced allocations to government agencies that fund research and development activities. Also, our potential customers receive funds from approved grants at particular times of the year, as determined by the federal government. Grants have, in the past, been frozen for extended periods or have otherwise become unavailable to various institutions without advance notice. The timing of receipt of grant funds affects the timing of purchase decisions by our customers and, as a result, can cause fluctuations in our sales and operating results.

The Company regards trademarks, trade secrets and other intellectual property as a component of its success. The Company relies on trademark law and trade secret protection and confidentiality and /or license agreements with consultants, customers, partners and others to protect our intellectual property. Effective trademark and trade secret protection may not be available in every country in which the Company's products are available. The Company cannot be certain that the Company has taken adequate steps to protect its intellectual property, especially in countries where the laws may not protect the Company's rights as fully as in the United States. In addition, the Company's third party non-disclosure and confidentiality agreements can be breached and, if they are, there may not be adequate remedy available to the Company. If the Company's trade secrets become known, the Company may lose its competitive edge.

The Company may be unable to protect its trademarks, trade secrets and other intellectual property rights that are important to its business. The Company regards its trademarks, trade secrets and other intellectual property as a component of its success. The Company relies on trademark law and trade secret protection and confidentiality and/or license agreements with consultants, employees, customers, partners and others to protect our intellectual property.

38

Litigation as regards the Company intellectual property or other subject matters could harm the Company's business. Litigation regarding patents and other intellectual property rights is extensive in the biotechnology industry. The Company is aware that patents have been applied for, and in some cases issued to others, claiming technologies that are closely related to Applied DNA Sciences, Inc. As a result, and in part due to the ambiguities and evolving nature of intellectual property law, the Company periodically receives notices of potential infringements of patents held by others. Although to date the Company has successfully resolved these types of claims, the Company may not be able to do so in the future. In the event of an intellectual property dispute, the Company may be forced to litigate. This litigation could involve proceedings

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

declared 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 the Company not prevail, could seriously harm the Company's business. If a third party claimed an intellectual property right to technology the Company uses, the Company might need to discontinue an important product or product line, alter its products and processes, pay license fees or cease its affected business activities. Although the Company might under these circumstances attempt to obtain a license to this intellectual property, it may not be able to do so on favorable terms, or at all.

In addition to intellectual property rights litigation, other substantial, complex or extended litigation could result in large expenditures for the Company and distraction of its management. For example, law suits by employees, shareholders, collaborators, distributors or re-sellers could be very costly and substantially disrupt the Company's business. Disputes from time to time with companies or individuals are not uncommon in the industry and the Company cannot assure that it will always be able to resolve them out of court.

The Company's growth depends upon the ability to undertake sales in current markets and to expand sales nationally to additional market segments and to Europe, South America, Australia and parts of the Middle East. There can be no certainty that the Company's efforts to increase and expand sales can be accomplished on a profitable basis. The expansion to other delivery methods and to other venues will depend on a number of factors, most notably the timely and successful promotion and sale of the Company's products and related services directly or via re-sellers agreements.. The Company's inability to expand sales, in a timely manner, would have a material adverse effect on its business, operating results and its financial condition.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

39

Item 3. Controls and Procedures

Evaluation of Disclosure Controls and Procedures: As of December 31, 2004, the Company's management carried out an evaluation, under the supervision of the Company's Chief Executive Officer and the Chief Financial Officer of the effectiveness of the design and operation of the Company's system of disclosure controls and procedures pursuant to the Securities and Exchange Act, Rule 13a-15(e) and 15d-15(e) under the Exchange Act). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective, as of the date of their evaluation, for the purposes of recording, processing, summarizing and timely reporting material information required to be disclosed in reports filed by the Company under the Securities Exchange Act of 1934.

Changes in internal controls: There were no changes in internal controls over financial reporting, known to the Chief Executive Officer or Chief Financial Officer that occurred during the period covered by this report that has materially affected, or is likely to materially effect, the Company's internal control over financial reporting.

40

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

ITEM 1. LEGAL PROCEEDINGS

NONE

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

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

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

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

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

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

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

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

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

To obtain funding for our ongoing operations, we sold \$1,465,000 in convertible promissory notes to 13 investors in December 2004. Each promissory note was automatically convertible into shares of our common stock, at a price of \$0.50 per share, upon the closing of a private placement for \$1 million or more. In connection with the sale of the convertible promissory notes, we issued 2,930,000 warrants to purchase shares of common stock. The warrants are exercisable until three years from the date of issuance at a purchase price of \$0.75 per share. This issuance is considered exempt under Regulation D of the Securities Act of 1933 and Rule 506 promulgated thereunder.

Subsequent Sale of Equity Securities

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

Also on January 10, 2005, we issued additional shares to our investors in accordance with an adjustment provision in our private placement and placement agent agreement. We issued a total of 3,249,750 shares of Common Stock to 24 investors. This issuance is considered exempt under Regulation D of the Securities Act of 1933 and Rule 506 promulgated thereunder.

On January 13, 2005, we issued additional shares to two consultants in accordance with an adjustment provision in their consulting agreements. A total of 662,000 shares were issued. This issuance is considered exempt under Regulation D of the Securities Act of 1933 and Rule 506 promulgated thereunder.

To obtain funding for our ongoing operations, we conducted a private placement offering in January and February 2005, in which we sold \$7,311,000 of 10% Secured Convertible Promissory Notes to 61 investors. The 10% Secured

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

Convertible Promissory Notes automatically convert into shares of our common stock, at a price of \$0.50 per share, upon the filing of this registration statement. In connection with the private placement offering, we have issued 15,222,000 warrants. The warrants are exercisable until five years from the date of issuance at a purchase price of \$0.75 per share. This issuance is considered exempt under Regulation D of the Securities Act of 1933 and Rule 506 promulgated thereunder.

On January 28, 2005, we closed upon a private placement transaction in excess of \$1 million, and on February 2, 2005, the promissory notes issued in December 2004 were converted into an aggregate of 2,930,000 shares of common stock. This issuance is considered exempt under Regulation D of the Securities Act of 1933 and Rule 506 promulgated thereunder.

(c) The following table provides information about purchases by us and our affiliated purchasers during the quarter ended December 31, 2004 of equity securities that are registered by us pursuant to Section 12 of the Securities Exchange Act of 1934:

| Period | ISSUER PURCHASES OF EQUITY SECURITIES | | | |
|-----------------------|---|---|--|-------------------------------|
| | (a) Total Number of Shares (or Units) Purchased) | (b) Average Price Paid per Share (or Unit) | (c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (1) | Maximum N of Sh Purchas |
| 10/01/04- 10/31/04 | 0 | \$0 | 0 | |
| 11/01/04- 11/30/04 | 0 | \$0 | 0 | |
| 12/01/04- 12/31/04 | 0 | \$0 | 0 | |

(1) We have not entered into any plans or programs under which we may repurchase its common stock.

Securities Act of 1933.

On December 17, 2003, we issued a total of 1,850,000 shares to ten consultants in connection with our agreement with the company's investment bankers, Vertical Capital Partners, Inc.. These issuances are considered exempt from registration by reason of the Section 4(2) of the Securities Act of 1933.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

NONE

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

NONE

ITEM 5. OTHER INFORMATION

NONE

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB/A

ITEM 6. EXHIBITS

(a) Exhibits

- 31.1 Principal Executive Officer certification pursuant to Rule 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herein.
- 31.2 Principal Financial Officer certification pursuant to Rule 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herein.
- 32.1 Chief Executive Officer certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Filed herein.
- 32.2 Chief Financial Officer certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Filed herein.

42

SIGNATURES

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

Date: February 15, 2004

Applied DNA Sciences, Inc.

/s/ Rob Hutchison

Rob Hutchison
Chief Executive Officer

/s/Rob Hutchison

Rob Hutchison
Interim Chief Financial Officer

43