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

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

AMENDMENT NO. 1 TO
FORM 10QSB

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

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

For the Quarterly period ended June 30, 2007

Commission file number 002-90519

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

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

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

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

Yes x Noo

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

Yes o No x

· The number of shares of Common Stock, $0.001 par value, outstanding on August 17, 2007, was approximately 160,499,549.

· Transitional Small Business Disclosure Format (check one):

Yes o No x

EXPLANATORY NOTE

This Amendment No. 1 to Form 10-QSB/A (this "Amendment") amends the Quarterly Report of Applied DNA Sciences, Inc. (the "Company") on Form 10-QSB for the quarter ended June 30, 2007, as filed with the Securities and Exchange Commission on August 20, 2007 (the "Original Filing"). This Amendment is being filed for the purpose of clarifying the description of the accounting errors and related disclosures to the accompanying financial statements which gave rise to the restatement of the financial statements for the three and nine months ended June 30, 2006 and from September 16, 2002 (date of inception) through June 30, 2006 as described in Note I to the financial statements. We have not updated the information contained herein for events occurring subsequent to August 20, 2007, the filing date of the Original Filing.

APPLIED DNA SCIENCES, INC

AMENDMENT NO. 1 TO QUARTERLY REPORT ON FORM 10-QSB/A FOR THE QUARTERLY PERIOD ENDING JUNE 30, 2007

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

APPLIED DNA SCIENCES, INC.
(A Development stage company)
CONDENSED CONSOLIDATED BALANCE SHEET
(unaudited)

		June 30, 2007
ASSETS		
Current assets:		
Cash	$	34,792
Prepaid expenses		138,875
Total current assets		173,667
Property, plant and equipment-net of accumulated depreciation of $67,497		120,865
Other assets:		
Deposits		13,822
Capitalized finance costs-net of accumulated amortization of $1,641,988		65,612
Intangible assets:		
Patients, net of accumulated amortization of $23,732 (Note B)		10,525
Intellectual property, net of accumulated amortization and write off of $7,611,943 (Note B)		1,818,957
Total Assets	$	2,203,448
LIABILITIES AND DEFICIENCY IN STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$	8,976,675
Convertible notes payable, net of unamortized discount (Note D)		1,745,855
Total current liabilities		10,722,530
Debt derivative and warrant liability		4,468,404
Commitments and contingencies (Note J)		
Deficiency in Stockholders' Equity- (Note F)		
Preferred stock, par value $0.001 per share; 10,000,000 shares authorized; 60,000 issued and outstanding		6
Common stock, par value $0.001 per share; 410,000,000 shares authorized; 160,499,549 issued and outstanding		160,499

Additional paid in capital		87,420,306
Accumulated deficit		(100,568,297)
Total deficiency in stockholders' equity		(12,987,486)
Total liabilities and Deficiency in Stockholders' Equity	$	2,203,448

See the accompanying notes to the consolidated financial statements

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

	For the three months Ended June 30,		For the nine months Ended June 30,		From September 16, 2002 (Date of Inception) Through June 30, 2007
	2007	2006 RESTATED	2007	2006 RESTATED	
Sales	$ -	$ 18,900	$ -	$ 18,900	$ 18,900
Cost of sales	-	(15,639)	-	(15,639)	15,639
Gross Profit	-	3,261	-	3,261	3,261
Operating expenses:					
Selling, general and administrative	1,968,642	1,580,967	6,012,028	4,391,305	86,077,987
Research and development	25,504	-	94,289	75,276	1,124,888
Impairment of intangible asset(s)	-	-	-	-	5,655,011
Depreciation and amortization	108,357	336,824	324,594	1,021,199	2,054,320
Total operating expenses	2,102,503	1,917,791	6,430,912	5,487,780	94,912,207
NET LOSS FROM OPERATIONS	(2,102,503)	(1,914,530)	(6,430,912)	(5,484,519)	(94,908,946)
Net gain (loss) in revaluation of debt derivative and warrant liabilities	4,431,421	3,493,961	142,131	14,250,621	33,687,958
Other income	(0)	8,483	977	17,976	111,807
Interest expense	(520,963)	(826,827)	(1,945,702)	(3,177,229)	(39,459,116)
Net income (loss) before provision for income taxes	1,807,954	761,087	(8,233,506)	5,606,849	(100,568,297)

Income taxes (benefit)	-	-	-	-	-
NET INCOME (LOSS)	$ 1,807,954	$ 761,087	$ (8,233,506)	$ 5,606,849	$ (100,568,297)
Net income (loss) per share-basic	$ 0.01	$ 0.01	$ (0.07)	$ 0.05	
Net loss per share-assuming fully diluted-Note A	$ (0.02)	$ (0.02)	$ (0.05)	$ (0.04)	
Weighted average shares outstanding-					
Basic	132,310,413	118,582,385	124,844,409	115,852,521	
Fully diluted	170,056,948	177,501,849	162,590,944	181,716,985	

See the accompanying notes to the consolidated financial statements

APPLIED DNA SCIENCES, INC
(A development stage company)
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2007
(unaudited)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital	Common Stock Subscribed	Stock Subscription Receivable	Deficit Accumulated During Development Stage	Total
Issuance of common stock to Founders in exchange for services on September 16, 2002 at $.01 per share	-	-	100,000	$ 10	$ 990	$ -	$ -	$ -	$ 1,000
Net Loss	-	-	-	-	-	-	-	(11,612)	(11,612)
Balance at September 30, 2002	-	$ -	100,000	$ 10	$ 990	$ -	$ -	$ (11,612)	$ (10,612)
Issuance of common stock in connection with merger with Prohealth Medical Technologies, Inc on October 1, 2002	-	-	10,178,352	1,015	-	-	-	-	1,015
Cancellation of common stock in connection with merger with Prohealth Medical Technologies, Inc on October 21, 2002	-	-	(100,000)	(10)	(1,000)	-	-	-	(1,010)
Issuance of common stock in									

exchange for services in October 2002 at $0.65 per share	-	-	602,000	60	39,070	-	-	-	39,130
Issuance of common stock in exchange for subscription in November and December 2002 at $0.065 per share	-	-	876,000	88	56,852	-	(56,940)	-	-
Cancellation of common stock in January 2003 previously issued in exchange for consulting services	-	-	(836,000)	(84)	(54,264)	-	54,340	-	(8)
Issuance of common stock in exchange for licensing services valued at $0.065 per share in January 2003	-	-	1,500,000	150	97,350	-	-	-	97,500
Issuance of common stock in exchange for consulting services valued at $0.13 per share in January 2003	-	-	586,250	58	76,155	-	-	-	76,213
Issuance of common stock in exchange for consulting services at $0.065 per share in February 2003	-	-	9,000	1	584	-	-	-	585

Issuance of common stock to Founders in exchange for services valued at $0.0001 per share in March 2003	-	-	10,140,000	1,014	-	-	-	-	1,014
Issuance of common stock in exchange for consulting services valued at $2.50 per share in March 2003	-	-	91,060	10	230,624	-	-	-	230,634

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FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2007
(unaudited)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	Stock Subscription Receivable	Deficit Accumulated During Development Stage	Total
Issuance of common stock in exchange for consulting services valued at $0.065 per share in March 2003	-	-	6,000	1	389	-	-	-	390
Common stock subscribed in exchange for cash at $1 per share in March 2003	-	-	-	-	18,000	-	-	-	18,000
Common stock issued in exchange for consulting services at $0.065 per share on April 1, 2003	-	-	860,000	86	55,814	-	-	-	55,900
Common stock issued in exchange for cash at $1.00 per share on April 9, 2003	-	-	18,000	2	-	-	-	-	2
Common stock issued in exchange for consulting services at $0.065 per share on April 9,									

2003	-	-	9,000	1	584	-	-	-	585
Common stock issued in exchange for consulting services at $2.50 per share on April 23, 2003	-	-	5,000	1	12,499	-	-	-	12,500
Common stock issued in exchange for consulting services at $2.50 per share, on June 12, 2003	-	-	10,000	1	24,999	-	-	-	25,000
Common stock issued in exchange for cash at $1.00 per share on June 17, 2003	-	-	50,000	5	49,995	-	-	-	50,000
Common stock subscribed in exchange for cash at $2.50 per share pursuant to a private placement on June 27, 2003	-	-	-	-	-	24,000	-	-	24,000
Common stock retired in exchange for note payable at $0.0118 per share, in June 30, 2003	-	-	(7,500,000)	(750)	750	-	-	-	-
Common stock issued in exchange for consulting services at $0.065 per share, on June 30, 2003	-	-	270,000	27	17,523	-	-	-	17,550
Common stock subscribed in									

exchange for cash at $1.00 per share pursuant to a private placement on June 30, 2003	-	-	-	-	-	10,000	-	-	10,000
Common stock subscribed in exchange for cash at $2.50 per share pursuant to a private placement on June 30, 2003	-	-	-	-	-	24,000	-	-	24,000

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	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	Stock Subscription Receivable	Deficit Accumulated During Development Stage	Total
Common stock issued in exchange for consulting services at approximately $2.01 per share, July 2003	-	-	213,060	21	428,798	-	-	-	428,819
Common stock canceled in July 2003, previously issued for services rendered at $2.50 per share	-	-	(24,000)	(2)	(59,998)	-	-	-	(60,000)
Common stock issued in exchange for options exercised at $1.00 per share in July 2003	-	-	20,000	2	19,998	-	-	-	20,000
Common stock issued in exchange for exercise of options previously subscribed at $1.00 per share in July 2003	-	-	10,000	1	9,999	(10,000)	-	-	-
Common stock issued in exchange for consulting services									

at approximately $2.38 per Share in August 2003	-	-	172,500	17	410,915	-	-	-	410,932
Common stock issued in exchange for options exercised at $1.00 per share in August 2003	-	-	29,000	3	28,997	-	-	-	29,000
Common stock issued in exchange for consulting services at approximately $2.42 per share in September 2003	-	-	395,260	40	952,957	-	-	-	952,997
Common stock issued in exchange for cash at $2.50 per share-subscription payable in September 2003	-	-	19,200	2	47,998	(48,000)	-	-	-
Common stock issued in exchange for cash at $2.50 per share pursuant to a private placement in September 2003	-	-	6,400	1	15,999	-	-	-	16,000
Common stock issued in exchange for options exercised at $1.00 per share in September 2003	-	-	95,000	10	94,991	-	-	-	95,001
Common stock subscription receivable reclassification adjustment	-	-	-	-	-	-	2,600	-	2,600

Common Stock subscribed to at $2.50 per share in September 2003	-	-	-	-	-	300,000	-	-	300,000
Net Loss for the year ended September 30, 2003	-	-	-	-	-	-	-	(3,445,164)	(3,445,164)
Balance at September 30, 2003	-	$ -	17,811,082	$ 1,781	$ 2,577,568	$ 300,000	$ -	$ (3,456,776)	$ (577,427)

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(unaudited)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	Stock Subscription Receivable	Deficit Accumulated During Development Stage	Total
Preferred shares issued in exchange for services at $25.00 per share in October 2003	15,000	15	-	-	-	-	-	-	15
Common stock issued in exchange for consulting services at approximately $2.85 per Share in October 2003	-	-	287,439	29	820,389	-	-	-	820,418
Common stock issued in exchange for cash at $2.50 per share-subscription payable in 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)	-	-	-	(250,000)
Common stock issued in exchange for consulting services									

at approximately $3 per share in November 2003	-	-	100,000	10	299,990	-	-	-	300,000
Common stock subscribed in exchange for cash at $2.50 per share pursuant to a private placement in November, 2003	-	-	100,000	10	249,990	-	-	-	250,000
Common stock subscribed in exchange for cash at $2.50 per share pursuant to a private placement in December, 2003	-	-	6,400	1	15,999	-	-	-	16,000
Common stock issued in exchange for consulting services at approximately $2.59 per share in December 2003	-	-	2,125,500	213	5,504,737	-	-	-	5,504,950
Common Stock subscribed to at $2.50 per share in December 2003	-	-	-	-	-	104,000	-	-	104,000
Beneficial conversion feature relating to notes payable	-	-	-	-	1,168,474	-	-	-	1,168,474
Beneficial conversion feature relating to warrants	-	-	-	-	206,526	-	-	-	206,526
Adjust common stock par value from $0.0001 to $0.50 per share, per amendment of articles dated									

in December 2004	-	-	-	10,223,166	(10,223,166)	-	-	-	-
Common Stock issued pursuant to subscription at $2.50 share in January 2004	-	-	41,600	20,800	83,200	(104,000)	-	-	-

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(unaudited)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	Stock Subscription Receivable	Deficit Accumulated During Development Stage	Total
Common stock issued in exchange for consulting services at $2.95 per share in January 2004	-	-	13,040	6,520	31,948	-	-	-	38,468
Common stock issued in exchange for consulting services at $2.60 per share in January 2004	-	-	123,000	61,500	258,300	-	-	-	319,800
Common stock issued in exchange for consulting services at $3.05 per share in January 2004	-	-	1,000	500	2,550	-	-	-	3,050
Common stock issued in exchange for employee services at $3.07 per share in February 2004	-	-	6,283	3,142	16,147	-	-	-	19,289
Common stock issued in exchange for consulting services at $3.04 per share in March 2004	-	-	44,740	22,370	113,640	-	-	-	136,010
Common Stock issued for									

options exercised at $1.00 per share in March 2004	-	-	55,000	27,500	27,500	-	-	-	55,000
Common stock issued in exchange for employee services at $3.00 per share in March 2004	-	-	5,443	2,722	13,623	-	-	-	16,345
Common stock issued in exchange for employee services at $3.15 per share in March 2004	-	-	5,769	2,885	15,292	-	-	-	18,177
Preferred shared converted to common shares for consulting services at $3.00 per share in March 2004	(5,000)	(5)	125,000	62,500	312,500	-	-	-	374,995
Common stock issued in exchange for employee services at $3.03 per share in March 2004	-	-	8,806	4,400	22,238	-	-	-	26,638
Common Stock issued pursuant to subscription at $2.50 per share in March 2004	-	-	22,500	11,250	(9,000)	-	-	-	2,250
Beneficial Conversion Feature relating to Notes Payable			-	-	122,362	-	-	-	122,362
Beneficial Conversion Feature relating to Warrants	-	-	-	-	177,638	-	-	-	177,638
Common stock issued in									

exchange for consulting services at $2.58 per share in April 2004	-	-	9,860	4,930	20,511	-	-	-	25,441
Common stock issued in exchange for consulting services at $2.35 per share in April 2004	-	-	11,712	5,856	21,667	-	-	-	27,523
Common stock issued in exchange for consulting services at $1.50 per share in April 2004	-	-	367,500	183,750	367,500	-	-	-	551,250

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	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	Stock Subscription Receivable	Deficit Accumulated During Development Stage	Total
Common stock returned to treasury at $0.065 per share in April 2004	-	-	(50,000)	(25,000)	21,750	-	-	-	(3,250)
Preferred stock converted to common stock for consulting services at $1.01 per share in May 2004	(4,000)	(4)	100,000	50,000	51,250	-	-	-	101,246
Common stock issued per subscription in May 2004	-	-	10,000	5,000	(4,000)	-	(1,000)	-	-
Common stock issued in exchange for consulting services at $0.86 per share in May 2004	-	-	137,000	68,500	50,730	-	-	-	119,230
Common stock issued in exchange for consulting services at $1.15 per share in May 2004	-	-	26,380	13,190	17,147	-	-	-	30,337
Common stock returned to treasury at $0.065 per									

share in June 2004	-	-	(5,000)	(2,500)	2,175	-	-	-	(325)
Common stock issued in exchange for consulting services at $0.67 per share in June 2004	-	-	270,500	135,250	45,310	-	-	-	180,560
Common stock issued in exchange for consulting services at $0.89 per share in June 2004	-	-	8,000	4,000	3,120	-	-	-	7,120
Common stock issued in exchange for consulting services at $0.65 per share in June 2004	-	-	50,000	25,000	7,250	-	-	-	32,250
Common stock issued pursuant to a private placement at $1.00 per share in June 2004	-	-	250,000	125,000	125,000	-	-	-	250,000
Common stock issued in exchange for consulting services at $0.54 per share in July 2004	-	-	100,000	50,000	4,000	-	-	-	54,000
Common stock issued in exchange for consulting services at $0.72 per share in July 2004	-	-	5,000	2,500	1,100	-	-	-	3,600
Common stock issued in exchange for consulting services at $0.47 per share in July 2004	-	-	100,000	50,000	(2,749)	-	-	-	47,251

Common stock issued in exchange for consulting services at $0.39 per share in August 2004	-	-	100,000	50,000	(11,000)	-	-	-	39,000

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	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	Stock Subscription Receivable	Deficit Accumulated During Development Stage	Total
Preferred stock converted to common stock for consulting services at $0.39 per share in August 2004	(2,000)	(2)	50,000	25,000	(5,500)	-	-	-	19,498
Common stock issued in exchange for consulting services at $0.50 per share in August 2004	-	-	100,000	50,000	250	-	-	-	50,250
Common stock issued in exchange for consulting services at $0.56 per share in August 2004	-	-	200,000	100,000	12,500	-	-	-	112,500
Common stock issued in exchange for consulting services at $0.41 per share in August 2004	-	-	92,500	46,250	(8,605)	-	-	-	37,645

Common stock issued in exchange for consulting services at $0.52 per share in September 2004	-	-	1,000,000	500,000	17,500	-	-	-	517,500
Common stock issued in exchange for consulting services at $0.46 per share in September 2004	-	-	5,000	2,500	(212)	-	-	-	2,288
Common stock issued pursuant to subscription at $0.50 per share in September 2004	-	-	40,000	20,000	-	-	-	-	20,000
Preferred shares converted to common stock for consulting services at $0.41 per share in September 2004	(4,000)	(4)	100,000	50,000	4,000	-	-	-	53,996
Preferred shares issued in exchange for service at $25 per share in September 2004	60,000	6	-	-	1,499,994	-	-	-	1,500,000
Fair value of 2,841,000 warrants issued to non-employees and consultants for services rendered									

at approximately $0.71 per warrant in September 2004	-	-	-	-	2,019,862	-	-	-	2,019,862
Net Loss	-	-	-	-	-	-	-	(19,358,258)	(19,358,258)
Balance at September 30, 2004	60,000	$ 6	23,981,054	$ 11,990,527	$ 6,118,993	$ -	$ (1,000)	$ (22,815,034)	$ (4,706,508)

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(unaudited)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	Stock Subscription Receivable	Deficit Accumulated During Development Stage	Total
Common stock issued in exchange for consulting services at $0.68 per share in October 2004	-	-	200,000	100,000	36,000	-	-	-	136,000
Common stock returned to treasury at $0.60 per share in October 2004	-	-	(1,069,600)	(534,800)	(107,297)	-	-	-	(642,097)
Common stock issued in exchange for consulting services at $0.60 per share in October 2004	-	-	82,500	41,250	8,250	-	-	-	49,500
Common Stock issued pursuant to subscription at $0.60 per share in October 2004	-	-	500,000	250,000	50,000	(300,000)	-	-	-
Common stock issued in exchange for consulting services at $0.50 per share in October 2004	-	-	532,500	266,250	-	-	-	-	266,250
Common Stock issued in exchange for debt at $0.50 per									

share in October 2004	-	-	500,000	250,000	-	-	-	-	250,000
Common Stock issued pursuant to subscription at $0.45 per share in October 2004	-	-	1,000,000	500,000	(50,000)	(450,000)	-	-	-
Common stock issued in exchange for consulting services at $0.45 per share in October 2004	-	-	315,000	157,500	(15,750)	-	-	-	141,750
Common Stock issued in exchange for consulting services at $0.47 per share in November 2004	-	-	100,000	50,000	(3,000)	-	-	-	47,000
Common Stock issued in exchange for consulting services at $0.8 0 per share in November 2004	-	-	300,000	150,000	90,000	-	-	-	240,000
Common Stock issued in exchange for consulting services at $1.44 per share in November 2004	-	-	115,000	57,500	108,100	-	-	-	165,600
Common Stock issued in exchange for employee services at $1.44 per share in November 2004	-	-	5,000	2,500	4,700	-	-	-	7,200
Warrants exercised at $0.60 per share in November 2004	-	-	60,000	30,000	6,000	(4,000)	-	-	32,000

Beneficial Conversion discount relating to Notes Payable	-	-	-	-	1,465,000	-	-	-	1,465,000
Common stock issued at $0.016 per share in exchange for note payable in December 2004	-	-	5,500,000	2,750,000	(2,661,500)	-	-	-	88,500
Common stock issued in settlement of debt at $0.50 per share in December 2004	-	-	2,930,000	1,465,000	-	(125,000)	-	-	1,340,000

APPLIED DNA SCIENCES, INC
(A development stage company)
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2007
(unaudited)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	Stock Subscription Receivable	Deficit Accumulated During Development Stage	Total
Fair value of 6,063,500 warrants issued to non employees and consultants for services rendered at $0.52 per warrant in October and December 2004	-	-	-	-	3,169,052	-	-	-	3,169,052
Warrants exercised at $0.10 per share in January 2005	-	-	25,000	12,500	(10,000)	-	-	-	2,500
Common Stock issued in settlement of debt at $0.33 per share in January 2005	-	-	1,628,789	814,395	(276,895)	-	-	-	537,500
Warrants exercised at $0.10 per share in January 2005	-	-	17,500	8,750	(7,000)	-	-	-	1,750
Common Stock issued in settlement of debt at $0.33 per share in January 2005	-	-	2,399,012	1,199,504	(407,830)	-	-	-	791,674
Common Stock issued in									

exchange for consulting services at $1.30 per share in January 2005	-	-	315,636	157,818	252,508	-	-	-	410,326
Fair value of warrant liability reclassed due to registration rights granted in February 2005	-	-	-	-	(3,108,851)	-	-	-	(3,108,851)
Common Stock issued in exchange for consulting services at $1.44 per share in February 2005	-	-	5,796,785	2,898,393	5,418,814	-	-	-	8,317,207
Fair value of 55,000 warrants issued to consultants for services at $1.31 per warrant in February 2005	-	-	-	-	72,017	-	-	-	72,017
Common Stock issued in settlement of debt at $0.33 per share in February 2005	-	-	75,757	37,879	(12,879)	-	-	-	25,000
Warrants exercised at $0.10 per share in February 2005	-	-	20,000	10,000	(8,000)	-	-	-	2,000
Common Stock issued in settlement of debt at $0.33 per share in February 2005	-	-	606,060	303,030	(103,030)	-	-	-	200,000
Warrants exercised at $0.10 per	-	-	45,000	22,500	(18,000)	-	-	-	4,500

share in February 2005									
Common Stock issued in exchange for related party debt at $1.31 per share in February 2005	-	-	1,500,000	750,000	1,215,000	-	-	-	1,965,000
Common Stock issued in settlement of debt at $0.33 per share in February 2005	-	-	278,433	139,217	(47,334)	-	-	-	91,883

APPLIED DNA SCIENCES, INC
(A development stage company)
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FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2007
(unaudited)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	Stock Subscription Receivable	Deficit Accumulated During Development Stage	Total
Common Stock issued in exchange for consulting services at $1.17 per share in February 2005	-	-	17,236	8,618	11,548	-	-	-	20,166
Common stock issued in exchange for debt at $0.50 per share in February 2005	-	-	300,000	150,000	-	-	-	-	150,000
Common Stock issued in exchange for consulting services at $0.95 per share in February 2005	-	-	716,500	358,250	322,425	-	-	-	680,675
Common Stock issued in exchange for consulting services at $0.95 per share in February 2005	-	-	10,500	5,250	4,725	-	-	-	9,975
Common stock issued in exchange for debt at $0.50 per share in March 2005	-	-	13,202,000	6,601,000	-	-	-	-	6,601,000

Common Stock issued in exchange for consulting services at $1.19 per share in March 2005	-	-	185,000	92,500	127,650	-	-	-	220,150
Options exercised at $0.60 per share in March 2005	-	-	100,000	50,000	10,000	-	-	-	60,000
Common Stock issued in exchange for consulting services at $0.98 per share in March 2005	-	-	1,675,272	837,636	804,131	-	-	-	1,641,767
Common Stock issued in exchange for consulting services at $0.92 per share in March 2005	-	-	24,333	12,167	10,219	-	-	-	22,386
Common Stock issued in exchange for consulting services at $0.99 per share in March 2005	-	-	15,000	7,500	7,350	-	-	-	14,850
Common stock issued in exchange for debt at $0.50 per share in March 2005	-	-	1,240,000	620,000	-	-	-	-	620,000
Common stock canceled for shares issued in exchange of debt in March 2005	-	-	(500,000)	(250,000)	-	-	-	-	(250,000)

Common stock subscribed canceled in March 2005	-	-	-	-	-	750,000	-	-	750,000
Common Stock issued in exchange for consulting services at $0.89 per share in March 2005	-	-	10,000	5,000	3,900	-	-	-	8,900

APPLIED DNA SCIENCES, INC
(A development stage company)
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2007
(unaudited)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	Stock Subscription Receivable	Deficit Accumulated During Development Stage	Total
Adjust common stock par value from $0.50 to $0.001 per share, per amendment of Articles of Incorporation in March-05	-	-	-	(32,312,879)	32,312,879	-	-	-	-
Beneficial Conversion discount relating to Notes Payable in March 2005	-	-	-	-	7,371,000	-	-	-	7,371,000
Stock options granted to employees in exchange for services rendered, at exercise price below fair value of common stock in March 2005	-	-	-	-	180,000	-	-	-	180,000
Common Stock issued in exchange for consulting services at $0.80 per share in April 2005	-	-	160,000	160	127,840	-	-	-	128,000
Common Stock issued in									

exchange for consulting services at $0.80 per share in April 2005	-	-	40,000	40	31,960	-	-	-	32,000
Common Stock issued in exchange for consulting services at $0.75 per share in April 2005	-	-	850,000	850	636,650	-	-	-	637,500
Common Stock issued in exchange for consulting services at $0.33 per share in April 2005	-	-	500,000	500	164,500	-	-	-	165,000
Common Stock canceled during April 2005, previously issued for services rendered at $3.42 per share	-	-	(10,000)	(10)	(34,190)	-	-	-	(34,200)
Common Stock issued in settlement of debt at $0.33 per share in April 2005	-	-	75,758	77	24,923	(25,000)	-	-	-
Common Stock issued in exchange for consulting services at $0.68 per share in April 2005	-	-	50,000	50	33,950	-	-	-	34,000
Proceeds received against subscription payable in June 2005	-	-	-	-	-	118,000	-	-	118,000
Common Stock canceled in June 2005, previously issued									

for services rendered at $0.50 per share	-	-	(10,000)	(10)	(4,990)	-	-	-	(5,000)
Cancellation of previously granted stock options granted to employees for services rendered, at exercise price below fair value of common stock	-	-	-	-	(180,000)	-	-	-	(180,000)

APPLIED DNA SCIENCES, INC
(A development stage company)
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2007
(unaudited)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	Stock Subscription Receivable	Deficit Accumulated During Development Stage	Total
Common Stock issued in exchange for consulting services at $0.60 per share in July 2005	-	-	157,000	157	94,043	-	-	-	94,200
Common Stock issued in exchange for intellectual property at $0.67 per share in July 2005	-	-	36,000,000	36,000	24,084,000	-	-	-	24,120,000
Common Stock issued in exchange for consulting services at $0.60 per share in July 2005	-	-	640,000	640	383,360	-	-	-	384,000
Common Stock issued in exchange for employee services	-	-	8,000,000	8,000	3,832,000	-	-	-	3,840,000

at $0.48 per share in July 2005									
Common Stock issued in exchange for consulting services at $0.94 per share in July 2005	-	-	121,985	121	168,217	-	-	-	168,338
Common Stock issued in exchange for consulting services at $0.48 per share in August 2005	-	-	250,000	250	119,750	-	-	-	120,000
Common Stock penalty shares issued pursuant to pending SB-2 registration at $0.62 per share in September 2005	-	-	814,158	814	501,858	-	-	-	502,672
Common Stock penalty shares issued pursuant to pending SB-2 registration at $0.70 per share in September 2005	-	-	391,224	391	273,466	-	-	-	273,857
Common Stock issued									

in exchange for consulting services at $0.94 per share in September 2005	-	-	185,000	185	173,715	-	-	-	173,900
Common Stock returned in September 2005, previously issued for services rendered at $0.40 per share	-	-	(740,000)	(740)	(453,232)	56,000	1,000	-	(396,972)
Net Loss	-	-	-	-	-	-	-	(67,109,519)	(67,109,519)
Balance as of September 30, 2005	60,000	$ 6	112,230,392	$ 112,230	$ 82,320,715	$ 20,000	$ -	$ (89,924,553)	$ (7,471,602)
Common stock issued in exchange for services at $0.50 per share in October 2005	-	-	400,000	400	199,600	-	-	-	200,000

APPLIED DNA SCIENCES, INC
(A development stage company)
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2007
(unaudited)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	Stock Subscription Receivable	Deficit Accumulated During Development Stage	Total
Common Stock issued in exchange for consulting services at $0.75 per share in October 2005	-	-	100,000	100	74,900	-	-	-	75,000
Common Stock returned in October 2005, previously issued for services rendered at $0.60 per share	-	-	(350,000)	(350)	(209,650)	-	-	-	(210,000)
Common stock issued pursuant to subscription at $0.50 per share in December 2005	-	-	40,000	40	19,960	(20,000)	-	-	-
Common Stock issued to investors pursuant to registration rights agreement at $0.51 per share in December 2005	-	-	505,854	506	257,480	-	-	-	257,986

Common Stock returned in January 2006, previously issued for services rendered at $0.60 per share	-	-	(250,000)	(250)	(149,750)	-	-	-	(150,000)
Common Stock issued to investors pursuant to registration rights agreement at $0.32 per share in January 2006	-	-	806,212	806	257,182	-	-	-	257,988
Common Stock issued to investors pursuant to registration rights agreement at $0.20 per share in January 2006	-	-	1,289,927	1,290	256,695	-	-	-	257,985
Fair value of 200,000 warrants issued to consultants for services at $0.22 per warrant in January 2006	-	-	-	-	43,098	-	-	-	43,098
Common Stock issued in exchange for consulting services at $0.17 per share in February 2006	-	-	160,000	160	27,040	-	-	-	27,200

Common Stock issued in exchange for consulting services at $0.16 per share in February 2006	-	-	3,800,000	3,800	604,200	-	-	-	608,000
Common Stock returned in March 2006, previously issued for services rendered at $0.80 per share	-	-	(150,000)	(150)	(119,850)	-	-	-	(120,000)
Previously issued warrants reclassed to warrant liability	-	-	-	-	(1,584,614)	-	-	-	(1,584,614)
Common Stock issued in exchange for consulting services at $0.20 per share in July 2006	-	-	2,400,000	2,400	477,600	-	-	-	480,000
Fair value of stock options granted to employees in exchange for services rendered in September 2006	-	-	-	-	153,000	-	-	-	153,000
Net loss	-	-	-	-	-	-	-	(2,410,237)	(2,410,237)
Balance as of September 30, 2006	60,000	$ 6	$ 120,982,385	$ 120,982	$ 82,627,606	$ -	$ -	$ (92,334,791)	$ (9,586,197)

APPLIED DNA SCIENCES, INC
(A development stage company)
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2007
(unaudited)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	Stock Subscription Receivable	Deficit Accumulated During Development Stage	Total
Common stock issued in Dec 2006 in settlement of related party debt at $2.28 per share	-	-	180,000	180	410,249	-	-	-	410,429
Common stock issued in May 2007 in settlement of convertible debenture at $0.11per share	-	-	9,645,752	9,646	1,090,354	-	-	-	1,100,000
Common stock issued in June 2007 in settlement of convertible debenture at $0.11per share	-	-	29,691,412	29,691	3,215,309	-	-	-	3,245,000
Beneficial conversion feature relating to convertible debenture	-	-	-	-	76,788	-	-	-	76,788
Net loss	-	-	-	-	-	-	-	(8,233,506)	(8,233,506)
Balance as of June 30, 2007	60,000	$ 6	160,499,549	$ 160,499	$ 87,420,306	$ -	$ -	$ (100,568,297)	$ (12,987,486)

See accompanying notes to
consolidated financial statements

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

	For the nine months ended June 30,		For the Period September 16, 2002 (Date of Inception) through
	2007	2006 RESTATED	June 30, 2007
Cash flows from operating activities:			
Net income (loss)	$ (8,233,506)	$ 5,606,849	$ (100,568,297)
Adjustments to reconcile net loss to net used in operating activities:			
Depreciation and amortization	324,594	1,021,199	2,054,320
Organization expenses	-	-	88,500
Impairment of intangible assets	-	-	5,655,011
Preferred shares issued in exchange for services	-	-	1,500,000
Options and warrants issued in exchange for services rendered	-	43,100	11,001,255
Income attributable to repricing of warrants and debt derivatives	(142,131)	(14,250,621)	(33,687,959)
Financing costs attributable to issuance of warrants	-	2,271,000	25,419,214
Amortization of beneficial conversion feature-convertible notes	10,093	-	10,471,093
Amortization of capitalized financing costs	1,005,975	247,238	1,641,988
Amortization of debt discount attributable to convertible debentures	1,580,519	276,090	2,312,009
Debt in exchange for common stock at fair market price	-	-	1,365,000
Common stock issued in exchange for services rendered	-	710,200	31,964,573
Common stock exchanged for intellectual property in connection with costs of acquiring intangible assets	-	-	14,689,100
Common stock issued in connection with penalties pursuant to registration	-	773,958	1,550,487
Common stock canceled-previously issued for services rendered	-	(480,000)	(1,343,845)
Change in assets and liabilities:			
Decrease (increase) in accounts receivable	9,631	(18,900)	-
Decrease (increase) in prepaid expenses and deposits	(32,208)	(145,849)	(153,137)
Decrease (increase) in other assets	8,419	5,940	(13,450)
Increase in due related parties	-	(52,662)	40,753
Increase (decrease) in accounts payable and accrued liabilities	3,811,641	1,685,792	8,737,251

Net cash used in operating activities	(1,656,973)	(2,306,666)	(17,276,134)
Cash flows from investing activities:			
Payments for patent filing	-	-	(25,698)
Acquisition (disposal) of property and equipment, net	(11,039)	(35,851)	(188,360)
Net cash provided by (used in) investing activities	(11,039)	(35,851)	(214,058)
Cash flows from financing activities:			
Proceeds from sale of common stock, net of cost	-	-	432,000
Proceeds from issuance of convertible notes, net of costs	477,500	4,242,500	13,924,000
Proceeds from sale of options	-	-	343,750
Repayment of debt	-	-	(24,854)
Proceeds from loans	-	-	2,750,000
Advances from shareholders	-	-	100,088
Net cash provided by financing activities	477,500	4,242,500	17,524,984
Net increase in cash and cash equivalents	(1,190,512)	1,899,983	34,792
Cash and cash equivalents at beginning of period	1,225,304	31,190	-
Cash and cash equivalents at end of period	$ 34,792	$ 1,931,173	$ 34,792

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

	For the nine months ended June 30,		For the Period September 16, 2002 (Date of Inception) through June 30, 2007
	2007	2006	
Supplemental Disclosures of Cash Flow Information:			
Cash paid during period for interest	-	-	-
Cash paid during period for taxes	-	-	-
Non-cash transactions:			
Common stock issued for services	-	710,200	31,964,573
Common stock issued in exchange for intellectual property	-	-	
Common stock issued in exchange for previously incurred debt	4,361,200	-	2,313,500
Common stock canceled-previously issued for services rendered	-	(480,000)	(1,343,845)
Common stock issued for ESOP shares	-	-	
Common stock penalty shares issued pursuant to Pending SB-2 registration	-	773,958	
Amortization of beneficial conversion feature	-	-	10,471,093
Preferred shares in exchange for service at $25 per share in September 2004	-	-	1,500,000
Fair value of options and warrants issued to consultants for services	-	43,100	11,001,255
Acquisition:			
Common stock retained	-	-	1,015
Assets acquired	-	-	(135)
Total consideration paid	-	-	880
Organizational expenses-note issued in exchange for shares retired			88,500
Common stock issued in exchange for note payable			88,500

See the accompanying notes to the consolidated financial statements

APPLIED DNA SCIENCES, INC
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
JUNE 30, 2007
(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 and nine month period ended June 30, 2007 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2007. The unaudited condensed consolidated financial statements should be read in conjunction with the consolidated September 30, 2006 financial statements and footnotes thereto included in the Company's SEC Form 10-KSB, as amended.

Business and Basis of Presentation

On September 16, 2002, Applied DNA Sciences, Inc. (the "Company") was incorporated under the laws of the State of Nevada. The Company is in the development stage, as defined by Statement of Financial Accounting Standards No. 7 ("SFAS No. 7") and its efforts have been principally devoted to developing DNA embedded biotechnology security solutions in the United States. To date, the Company has generated nominal sales revenues, has incurred expenses and has sustained losses. Consequently, its operations are subject to all the risks inherent in the establishment of a new business enterprise. For the period from inception through June 30, 2007, the Company has accumulated losses of $100,568,297.

In March 2007, the Company purchased all the outstanding shares of Applied DNA Sciences Europe Limited, an English limited company, as a wholly owned subsidiary, for a purchase price of $10,000. In conjunction with the acquisition, the Company acquired the rights to sell products and services in the United Kingdom. Included as part of the acquisition agreement, the Company is obligated to pay a 2% fee of any United Kingdom sales to the former shareholder of Applied DNA Sciences Europe Limited for one year commencing with the first product/services sales. The cost of acquisition was charged to current period operating expenses.

The consolidated financial statements include the accounts of the Company, and its wholly-owned subsidiaries Applied DNA Operations Management, Inc., APDN (B.V.I.), Inc. and Applied DNA Sciences Europe Limited. Significant inter-company transactions have been eliminated in consolidation.

Reclassification

Certain prior period amounts have been reclassified for comparative purposes.

Property and Equipment

Property and equipment are stated at cost and depreciated over their estimated useful lives of 3 to 5 years using the straight line method. At June 30, 2007 property and equipment consist of:

Computer equipment	$ 27,404
Lab equipment	54,974
Furniture	105,984
Accumulated depreciation	(67,497)
Net	$ 120,865

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

NOTE A - SUMMARY OF ACCOUNTING POLICIES (continued)

Stock Based Compensation

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure-an amendment of SFAS 123." This statement amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in APB Opinion No. 25 and related interpretations. Accordingly, compensation expense for stock options is measured as the excess, if any, of the fair market value of the Company's stock at the date of the grant over the exercise price of the related option. The Company has adopted the annual disclosure provisions of SFAS No. 148 in its financial reports for the year ended September 30, 2006 and for the subsequent periods. The Company did not issue employee options as stock-based compensation during the three or nine months ended June 30, 2007 and therefore has no unrecognized stock compensation related liabilities ended June 30, 2007.

On January 1, 2006, the Company adopted the fair value recognition provisions of Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 123, Accounting for Stock Based Compensation, to account for compensation costs under our stock option plans. We previously utilized the intrinsic value method under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (as amended) ("APB 25"). Under the intrinsic value method prescribed by APB 25, no compensation costs were recognized for our employee stock options because the option exercise price equaled the market price on the date of the grant. Prior to January 1, 2006 we only disclosed the pro forma effects on net income and earnings per share as if the fair value recognition provisions of SFAS 123(R) had been utilized.

In adopting SFAS No. 123(R), we elected to use the modified prospective method to account for the transition from the intrinsic value method to the fair value recognition method. Under modified prospective method, compensation cost is recognized from the adoption date forward for all new stock options granted and for any outstanding unvested awards as if the fair value method had been applied to those awards as of the date of the grant. In the nine months ended June 30, 2007, the Company did not grant any employee stock options.

Revenue Recognition

Revenues are recognized in the period that services are provided. For revenue from product sales, the Company recognizes revenue in accordance with Staff Accounting Bulletin No. 104, REVENUE RECOGNITION ("SAB104"), which superseded Staff Accounting Bulletin No. 101, REVENUE RECOGNITION IN FINANCIAL STATEMENTS ("SAB101"). SAB 101 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the selling price is fixed and determinable; and (4) collectibility is reasonably assured. Determination of criteria (3) and (4) are based on management's judgments regarding the fixed nature of the selling prices of the products delivered and the collectibility of those amounts. Provisions for discounts and rebates to customers, estimated returns and allowances, and other adjustments are provided for in the same period the related sales are recorded. The Company defers any revenue for which the product

has not been delivered or is subject to refund until such time that the Company and the customer jointly determine that the product has been delivered or no refund will be required. At June 30, 2007 the Company did not have any deferred revenue.

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

Concentrations of Credit Risk

Financial instruments and related items which potentially subject the Company to concentrations of credit risk consist primarily of cash, cash equivalents and trade receivables. The Company places its cash and temporary cash investments with credit quality institutions. At times, such investments may be in excess of the FDIC insurance limit. The Company periodically reviews its trade receivables in determining its allowance for doubtful accounts. At June 30, 2007, allowance for doubtful receivable was $0.

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NOTE A - SUMMARY OF ACCOUNTING POLICIES (continued)

Net income (loss) per share

The following reconciliation of net income and share amounts used in the computation of income (loss) per share for the three months ended June 30, 2007 and for the three and nine months ended June 30, 2006:

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Nine Months Ended June 30, 2006
Net income used in computing basic net income per share	$ 1,807,954	$ 761,087	$ 5,606,849
Impact of assumed assumptions:			
Fair value of warrants relating to convertible debt charged to interest expense	-	-	1,758,900
Impact of equity classified as liability:			
Gain on warrant liability marked to fair value	(4,431,421)	(3,493,961)	(14,250,621)
Net loss in computing diluted net loss per share:	$ (2,623,467)	$ (2,732,874)	$ (6,884,872)

The weighted average shares outstanding used in the basic net income per share computations for the three months ended June 30, 2007 and for the three and six months ended June 30, 2006 was 132,310,413, 118,582,385 and 115,852,521, respectively. In determining the number of shares used in computing diluted loss per share, the Company added approximately 37,746,535 for the three months ended June 30, 2007 and 47,282,079 and 65,864,464 potentially dilutive securities for the three and six months ended June 30, 2006, respectively. The potentially dilutive securities added were mostly attributable to the warrants, options and convertible debentures outstanding. As a result, the diluted loss per share for the three months ended June 30, 2007 and for the three and six months ended June 30, 2006 was $0.02, $0.02 and $0.04, respectively.

Derivative Financial Instruments

The Company's derivative financial instruments consist of embedded derivatives related to the 10% Secured Convertible Promissory Notes (the “Serial Notes") issued in 2006 (see Note C). These embedded derivatives include certain conversion features, variable interest features, call options and default provisions. The accounting treatment of derivative financial instruments requires that the Company recorded the derivatives and related warrants at their fair values as of the inception date of the Note Agreement (estimated at $2,419,719) and at fair value as of each subsequent balance sheet date. In addition, under the provisions of EITF Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock," as a result of entering into the Notes, the Company is required to classify all other non-employee stock options and warrants as derivative liabilities and mark them to market at each reporting date. Any change in fair value will be recorded as non-operating, non-cash income or expense at each reporting date. If the fair value of the derivatives is higher at the subsequent balance sheet date, the Company will record a non-operating, non-cash charge. If the fair value of the derivatives is lower at the subsequent balance sheet date, the Company will record non-operating, non-cash income. Conversion-related derivatives were valued using the Black Scholes Option Pricing Model with the following assumptions: dividend yield of 0%; annual volatility of 123.8%; and risk free interest rate of 4.82%. The derivatives are classified as long-term

liabilities (see Note F).

New Accounting Pronouncements

In February 2006, the FASB issued SFAS No. 155. “Accounting for certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140,” or SFAS No. 155. SFAS No. 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of Statement No. 133, establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and amends SFAS No. 140 to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS 155 is effective for all financial instruments acquired or issued after the beginning of an entity’s first fiscal year that begins after September 15, 2006. We do not expect the adoption of SFAS 155 to have a material impact on our consolidated financial position, results of operations or cash flows.

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NOTE A - SUMMARY OF ACCOUNTING POLICIES (continued)

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

In July 2006, the FASB issued Interpretation No. 48 (FIN 48). “Accounting for uncertainty in Income Taxes”. FIN 48 clarifies the accounting for Income Taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition and clearly scopes income taxes out of SFAS 5, “Accounting for Contingencies”. FIN 48 is effective for fiscal years beginning after December 15, 2006. We have not yet evaluated the impact of adopting FIN 48 on our consolidated financial position, results of operations and cash flows.

In September 2006 the Financial Account Standards Board (the “FASB”) issued its Statement of Financial Accounting Standards 157, Fair Value Measurements. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. However, for some entities, the application of this Statement will change current practice. FAS 157 effective date is for fiscal years beginning after November 15, 2007. The Company does not expect adoption of this standard will have a material impact on its financial position, operations or cash flows.

In September 2006 the FASB issued its Statement of Financial Accounting Standards 158 “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans”. This Statement improves financial reporting by requiring an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization. This Statement also improves financial reporting by requiring an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. The effective date for an employer with publicly traded equity securities is as of the end of the fiscal year ending after December 15, 2006. The Company does not expect adoption of this standard will have a material impact on its financial position, operations or cash flows.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities.” SFAS 159 permits entities to choose to measure many financial instruments, and certain other items, at fair value. SFAS 159 applies to reporting periods beginning after November 15, 2007. The adoption of SFAS 159 is not expected to have a material impact on the Company’s financial condition or results of operations.

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NOTE B - INTANGIBLE ASSETS AND AMORTIZATION

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

Biowell Technology, Inc.

On July 12, 2005, the Company acquired certain intellectual properties from Biowell Technology, Inc. ("Biowell") through an Asset Purchase Agreement ("Agreement") in exchange for 36 million shares of the Company's restricted common stock having an aggregate fair value at the date of issuance of $24,120,000. The intangible assets acquired consist of proprietary DNA anti-counterfeit trade secrets created by Biowell that are intended to protect intellectual property from counterfeiting, fraud, piracy, product diversion and unauthorized intrusion.

The purchase price has been allocated as follows:

Amortizable intangible assets acquired are comprised of:

Developed core technologies	$ 2,260,900
Developed product technologies	7,170,000
Total amortizable intangible assets	9,430,900
Transaction costs	14,689,100
Total purchase price	$ 24,120,000

In Process Research & Development

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

Transaction costs

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

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

Trade secrets and developed technologies (Weighted average life of 7 years)	$ 9,430,900

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

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NOTE B - INTANGIBLE ASSETS AND AMORTIZATION (continued)

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

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

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

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NOTE C - PRIVATE PLACEMENT OF CONVERTIBLE NOTES

Convertible notes payable as of June 30, 2007 are as follows:

10% Secured Convertible Notes Payable dated March 8, 2006, net of unamortized debt discount of $107,710 (see below)	$ 1,392,290
10% Secured Convertible Notes Payable, related party, dated April 23, 2007, net of unamortized debt discount of $44,081 (see below)	55,919
10% Secured Convertible Notes Payable dated June 27, 2007 (See below)	100,000
10% Secured Convertible Notes Payable dated June 27, 2007 (See below)	50,000
10% Secured Convertible Notes Payable, related party, dated June 30, 2007, net of unamortized debt discount of $102,354 (see below)	147,646
	1,745,855
Less: current portion	(1,745,855)
	$ -

10% Secured Convertible Promissory Notes dated March 8, 2006

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

The warrants are exercisable for five years from March 8, 2006 until March 7, 2011 at a price of $0.50 per share. The Company has the right, but not the obligation, to call these warrants for $1.25 per share at the earlier of (i) one year from issuance or (ii) the date that shares of common stock issuable upon conversion of the Serial Notes and exercise of the warrants are registered for resale and the Company's common stock trades at or above $1.25 per share for

twenty (20) consecutive trading days. The Notes include certain features that are considered embedded derivative financial instruments, such as a variety of conversion options, a variable interest rate feature, events of default and a variable liquidated damages clause.

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

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NOTE C - PRIVATE PLACEMENT OF CONVERTIBLE NOTES (continued)

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

The Company recorded the fair value of the derivatives ($346,500) and warrants ($ 512,100) to debt discount, aggregating $858,600, which will be amortized to interest expense over the term of the Notes. Amortization of $143,100 and $429,300 was recorded for the three and nine months ended June 30, 2007, respectively.

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

10% Secured Convertible Promissory Note dated April 23, 2007

On April 23, 2007, the Company issued a $100,000 related party convertible promissory note, due April 23, 2008 with interest at 10% per annum due upon maturity. The note is convertible at any time prior to maturity, at the holder’s option, at $0.50 per share. At maturity, the note, including any accrued and unpaid interest, is convertible at $0.15 per share. The Company has granted the noteholder a security interest in all the Company’s assets.

In conjunction with the issuance of the notes, the Company issued 200,000 warrants to purchase the Company’s common stock at $0.50 per share over a five year term.

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 embedded beneficial conversion feature present in the convertible 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 $13,333 of the proceeds, which is equal to the intrinsic value of the embedded beneficial conversion feature, to additional paid-in capital and a discount against the convertible note. The debt discount attributed to the beneficial conversion feature is amortized over the convertible note’s maturity period (one year) as interest expense.

In connection with the placement of the convertible notes the Company issued non-detachable warrants granting the holders the right to acquire 200,000 shares of the Company’s common stock at $0.50 per share. The warrants expire five years from the issuance. 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 $40,840 to warrant liabilities (See note A above) and a discount against the convertible note. 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 4.55%, a dividend yield of 0%, and volatility of 207.45%. The debt discount attributed to the value of the warrants issued is amortized over the convertible note’s maturity period (one year) as interest expense.

10% Secured Convertible Promissory Notes dated June 27, 2007

On June 27, 2007, the Company issued $150,000 convertible promissory notes, due June 27, 2007 with interest at 10% per annum due upon maturity. The note is convertible at any time prior to maturity, at the holder's option, at $0.50 per share. At maturity, the note, including any accrued and unpaid interest, is convertible at $0.15 per share. The Company has granted the noteholder a security interest in all the Company's assets.

In conjunction with the issuance of the notes, the Company issued 300,000 warrants to purchase the Company's common stock at $0.50 per share over a five year term. The Company valued the warrants using the Black-Scholes pricing model and the following assumptions: contractual terms of 5 years, an average risk free interest rate of 4.55%, a dividend yield of 0%, and volatility of 207.45% as a charge against current operations.

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NOTE C - PRIVATE PLACEMENT OF CONVERTIBLE NOTES (continued)

10% Secured Convertible Promissory Note dated June 30, 2007

On June 30, 2007, the Company issued a $250,000 related party convertible promissory note, due April 23, 2008 with interest at 10% per annum due upon maturity. The note is convertible at any time prior to maturity, at the holder's option, at $0.50 per share. At maturity, the note, including any accrued and unpaid interest, is convertible at approximately $0.0877 per share. The Company has granted the noteholder a security interest in all the Company's assets.

In conjunction with the issuance of the notes, the Company issued 500,000 warrants to purchase the Company's common stock at $0.50 per share over a five year term.

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 embedded beneficial conversion feature present in the convertible 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 $63,454 of the proceeds, which is equal to the intrinsic value of the embedded beneficial conversion feature, to additional paid-in capital and a discount against the convertible note. The debt discount attributed to the beneficial conversion feature is amortized over the convertible note's maturity period (one year) as interest expense.

In connection with the placement of the convertible notes the Company issued non-detachable warrants granting the holders the right to acquire 500,000 shares of the Company's common stock at $0.50 per share. The warrants expire five years from the issuance. 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 $38,900 to warrant liabilities (See note A above) and a discount against the convertible note. 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 4.55%, a dividend yield of 0%, and volatility of 207.45%. The debt discount attributed to the value of the warrants issued is amortized over the convertible note's maturity period (one year) as interest expense.

10% Secured Convertible Promissory Notes dated May 2, 2006

On May 2, 2006, in connection with a private placement, the Company issued 10% Secured Convertible Promissory Notes in the aggregate principal amount of $1,000,000 (the "Serial Notes") and warrants to purchase 2,000,000 shares of the Company's common stock to accredited investors. The Serial Notes bear interest at 10%, mature on August 2, 2007 and are convertible into the Company's common stock, at the holder's option, at fifty cents ($.50) per share during the period from the date of issuance (May 2, 2006) through May 2, 2007. Should the holder of the Serial Note elect not to convert to the Company's common stock on or before May 2, 2007, the outstanding principal, along with accrued and unpaid interest automatically converts to the Company's common stock at an amount equal to 80% of the average bid price of the Company's common stock on the Over-The-Counter Bulletin Board during the 12 months prior to such conversion. The full principal amount of the Serial Notes is due upon a default under the terms of the Note Agreement. In addition, the Company granted the Investors a security interest in all of its assets (see Note B).

The Company agreed to file a registration statement with the SEC to effect the registration of the shares of its common stock underlying the Serial Notes and the warrants within 30 days of the effective date of the Company's pending Registration Statement (SEC File 333 - 122848) being declared effective. The Company also agreed to use its reasonable best efforts to cause the registration statement to be declared effective no later than 180 days after its filing. In the event of a default on the Serial Notes, the Serial Notes will bear interest at twelve percent (12%) per annum until paid.

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

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NOTE C - PRIVATE PLACEMENT OF CONVERTIBLE NOTES (continued)

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

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

The Company recorded the fair value of the derivatives ($82,358) and warrants ($373,600) to debt discount, aggregating $455,958, which will be amortized to interest expense over the term of the Notes. Amortization of $37,997 and 303,958 was recorded for the three and nine months ended June 30, 2007, respectively.

In May 2007, the Company issued 9,645,752 shares of common stock in exchange for the Convertible Promissory Notes dated May 2, 2006.

10% Secured Convertible Promissory Notes dated June 15, 2006

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

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

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

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

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NOTE C - PRIVATE PLACEMENT OF CONVERTIBLE NOTES (continued)

The Company recorded the fair value of the derivatives ($175,321) and warrants ($929,840) to debt discount, aggregating $1,105,161, which will be amortized to interest expense over the term of the Notes. Amortization of $230,299 and $847,261 was recorded for the three and nine months ended June 30, 2007, respectively.

In June 2007, the Company issued 29,691,412 shares of common stock in exchange for the Convertible Promissory Notes dated June 15, 2006.

$1,675,000 Convertible Notes

The Company issued convertible notes payable ("Bridge Unit Offering") in quarterly installments of interest only at 10% per annum, secured by all assets of the Company and due on the earlier of the 9 month anniversary date of the initial closing of the offering or the completion of any equity financing of $3,000,000 or more; the Company, at its sole discretion may prepay principal at any time without penalty. The Bridge Unit Offering Notes unpaid principal along with accrued and unpaid interest was converted to an aggregate of 4,988,051 shares of the Company's common shares at a price equal to approximately $0.33 per share during the quarter ended March 31, 2005.

$1,465,000 Convertible Notes

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

The convertible notes' terms called for the debt to automatically convert at $0.50 per share upon the filing a of a registration statement with the Securities and Exchange Commission.

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

As additional consideration for the purchase of the convertible notes, the Company granted to the holders warrants entitling it to purchase 2,930,000 common shares of the Company's common stock at the price of $0.75 per share. These warrants were issued in February, 2005 and lapse if unexercised by February, 2010. A registration rights agreement was executed in December 2004 and consummated in February, 2005 requiring the Company to register the shares of its common stock underlying the convertible notes and warrants so as to permit the public resale thereof. The registration rights agreement provided for the payment of liquidated damages of 3.5% of the aggregate convertible note financing per month if the stipulated registration deadlines were not met. The liquidated damages, which approximate $51,275 per month, may be paid, at the Company's option, in cash or unregistered shares of the Company's common stock.

In accordance with Emerging Issues Task Force Issue 98-5, Accounting for Convertible Securities with a Beneficial Conversion Features of Contingently Adjustable Conversion Ratios ("EITF 98-5"), the Company recognized an embedded beneficial conversion feature present in the convertible notes. The Company allocated a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital. The Company recognized and measured an aggregate of $1,465,000 of the proceeds, which is equal to the intrinsic value of the embedded beneficial

conversion feature, to additional paid-in capital and a discount against the convertible notes. Since the convertible notes were converted to the Company's common stock in February 2005, the debt discount attributed to the beneficial conversion feature of $1,465,000 was charged to interest expense in its entirety during the nine months ended June 30, 2005.

In conjunction with raising capital through the issuance of convertible notes, the Company has issued a warrant in February, 2005 that has registration rights for the underlying shares. As the contract must be settled by the delivery of registered shares and the delivery of the registered shares is not controlled by the Company, pursuant to EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock", the net value of the warrants at the date of issuance was recorded as a warrant liability on the balance sheet at $3,845,039 and charged to operations as interest expense. Upon the registration statement being declared effective, the fair value of the warrant on that date will be reclassified to equity. The Company initially valued the warrants using the Black-Scholes pricing model with the following assumptions: (1) dividend yield of 0%; (2) expected volatility of 148.66%, (3) risk-free interest rate of 3.21%, and (4) expected life of 3 years.

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NOTE C - PRIVATE PLACEMENT OF CONVERTIBLE NOTES (continued)

In connection with the placement of the $1,465,000 of convertible notes as described above, the Company agreed to register shares of the Company's common stock underlying certain previously issued and outstanding warrants that were not subject to a registration rights agreement at the time the warrants were issued. These warrants consist of following:

- 105,464 warrants entitling the holder to purchase 105,464 shares of the Company's common stock at the price of $0.10 per share. These warrants were issued in July, 2004 and lapse if unexercised by July, 2009.

- 1,602,500 warrants entitling the holder to purchase 1,602,500 shares of the Company's common stock at the price of $0.60 per share. These warrants were issued in October, 2003 and lapse if unexercised by October, 2008.

As a result, the Company is required to classify the warrants as derivative liabilities and mark them to market at each reporting date. The fair value of the warrants that were subject to registration reclassified as liabilities from additional paid in capital at February 2005 totaled $3,108,851. Upon the registration statement being declared effective, the fair value of the warrants on that date will be reclassified to equity. The Company initially valued the warrants using the Black-Scholes pricing model with the following assumptions: (1) dividend yield of 0%; (2) expected volatility of 148.66%, (3) risk-free interest rate of 3.21%, and (4) expected life of 3 years.

$7,371,000 Convertible Notes

In January and February, 2005, the Company sold a 10% convertible debenture in the aggregate amount of $7,371,000 in a private placement and exempt offerings to sophisticated investors, net of costs and fees.

The convertible notes' terms called for the debt to automatically convert at $0.50 per share upon the filing of a registration statement with the Securities and Exchange Commission.

The Company filed the registration statement on February 15, 2005 and the convertible notes were converted to an aggregate of 14,742,000 shares of the Company's common stock.

As additional consideration for the purchase of the convertible notes, the Company granted to the holders warrants entitling it to purchase 14,742,000 common shares of the Company's common stock at the price of $0.75 per share. These warrants lapse if unexercised by February, 2010. A registration rights agreement was executed and consummated in January, 2005 requiring the Company to register the shares of its common stock underlying the convertible notes and warrants so as to permit the public resale thereof. The registration rights agreement provided for the payment of liquidated damages of 3.5% of the aggregate convertible note financing per month if the stipulated registration deadlines were not met. The liquidated damages, which approximate $257,985 per month, may be paid, at the Company's option, in cash or unregistered shares of the Company's common stock.

In accordance with Emerging Issues Task Force Issue 98-5, Accounting for Convertible Securities with a Beneficial Conversion Features or Contingently Adjustable Conversion Ratios ("EITF 98-5"), the Company recognized an embedded beneficial conversion feature present in the convertible notes. The Company allocated a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital. The Company recognized and

measured an aggregate of $7,731,000 of the proceeds, which is equal to the intrinsic value of the embedded beneficial conversion feature, to additional paid-in capital and a discount against the convertible notes. Since the convertible notes were converted to the Company’s common stock in February, 2005, the debt discount attributed to the beneficial conversion feature of $7,371,000 was charged to interest expense in its entirety during the nine months ended June 30, 2005.

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NOTE C - PRIVATE PLACEMENT OF CONVERTIBLE NOTES (continued)

In conjunction with raising capital through the issuance of convertible notes, the Company has issued warrants that have registration rights for the underlying shares. As the contract must be settled by the delivery of registered shares and the delivery of the registered shares is not controlled by the Company, pursuant to EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock", the net value of the warrants at the date of issuance was recorded as a warrant liability on the balance sheet $19,303,175 and charged to operations as interest expense. Upon the registration statement being declared effective, the fair value of the warrant on that date will be reclassified to equity. The Company initially valued the warrants using the Black-Scholes pricing model with the following assumptions: (1) dividend yield of 0%; (2) expected volatility of 152.59%, (3) risk-free interest rate of 3.67%, and (4) expected life of 5 years.

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NOTE D - CAPITAL STOCK

The Company is authorized to issue 410,000,000 shares of common stock, with a $0.001 par value per share as the result of a shareholder meeting conducted on May 16, 2007. Prior to the May 16, 2007 share increase, the Company was authorized to issue 250,000,000 shares of common stock with a $0.001 par value per share. In addition, the Company is authorized to issue 10,000,000 shares of preferred stock with a $0.001 par value per share.

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

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

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

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

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

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

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

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

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

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

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

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

During the fiscal year ended September 30, 2004, the Company issued 5,149,472 shares of common stock, net of cancellation of 155,000 shares, in exchange for consulting services. The Company valued the shares issued at $8,787,315, net of cancellation of $408,575, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

During the fiscal year ended September 30, 2004, the Company issued 340,500 shares of common stock for shares previously subscribed at approximately $2.04 per share.

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

During the fiscal year ended September 30, 2004, the Company converted 15,000 preferred shares into 375,000 shares of common stock at $1.47 per share in exchange for employee services valued at $549,750.

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

In September 2004, the Company issued 60,000 convertible preferred shares at $25, in exchange for consulting services valued at $1,500,000.

During the fiscal year ended September 30, 2005, the Company issued 11,040,647 shares of common stock, net of cancellation of 2,329,600 shares, in exchange for consulting and employee services. The Company valued the shares issued at $13,008,371, net of cancellation of $1,328,269, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

During the fiscal year ended September 30, 2005, the Company issued 1,500,000 shares of common stock for shares previously subscribed at approximately $0.54 per share.

In February 2005, the Company in exchange for a related party note in the outstanding principal amount of $600,000 and as settlement for certain claims related thereto issued 1,500,000 shares of common stock using a price of $1.31 per share (See note G).

In March, 2005, the Company granted an aggregate of 300,000 stock options to employees that vested immediately. The exercise prices of the stock options granted were below the fair value of the Company's common stock at the grant date. Compensation expense of $180,000 and $0 was charged to operations during the period ended March 31, 2005 and 2004, respectively.

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

In July 2005, the Company issued 36 million shares in exchange for intellectual property at approximately $0.67 per share for a total of $24,120,000. The value of the acquired intangible assets was established at $9,430,900, with the balance of the purchase price, or $14,689,100, charged to operations as a cost of the transaction (See Note B).

In 2005, the Company issued 8,550,000 shares of its common stock without restriction to employees in exchange for services rendered. The Company valued the shares issued at market value and charged to operations in the period the shares were issued. The Company investigated the circumstances surrounding the issuance of the shares and the possible subsequent resale of certain of the shares on the open market and the possibility of violations of securities

laws and reported its findings to the Securities and Exchange Commission (see Note H).

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NOTE D - CAPITAL STOCK (continued)

Until the Company successfully completes its pending registration statement on SEC Form SB-2, the Company is subject to liquidated damages (see Note D). In connection with the $1,465,000 and $7,371,000 million convertible debt financing, the Company was obligated to deliver registered shares underlying the convertible notes and warrants by July 2005. Since the registration was not effective by July 2005, the Company has been accruing and charging to operations the stipulated liquidated damages in shares of the Company's common stock accruing at a rate of 3.5% per month on the face value of the previously issued convertible notes. During the year ended September 30, 2005, the Company has paid and charged to operations penalties of $776,529 in the form of 605,382 unregistered shares of its common stock to the former note holders.

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

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

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

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

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

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

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

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

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

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

In December 2006, the Company issued 180,000 shares of common stock in settlement of a previously incurred related party debt of $410,429. The Company valued the shares issued at approximately $0.09 per share for a total of $16,200, which represents the fair value of the shares at the date of issuance. The Company recorded the balance of the debt, or $394,229 from the extinguishment of a related party debt as additional paid in capital.

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NOTE D - CAPITAL STOCK (continued)

In May 2007, the Company issued 9,645,752 shares of common stock in exchange for secured convertible promissory notes of $1,000,000.

In June 2007, the Company issued 29,691,412 shares of common stock in exchange for secured convertible promissory notes of $2,950,000.

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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	Exercisable Weighted Average Exercise Price
$0.09	18,900,000	4.17	$0.09	18,900,000	$0.09
$0.10	105,464	2.01	$0.10	105,464	$0.10
$0.20	5,000	1.64	$0.20	5,000	$0.20
$0.50	17,450,000	3.02	$0.50	16,450,000	$0.50
$0.55	9,000,000	1.72	$0.55	9,000,000	$0.55
$0.60	8,847,000	2.63	$0.60	8,847,000	$0.60
$0.70	950,000	0.84	$0.70	950,000	$0.70
$0.75	17,727,000	3.00	$0.75	17,727,000	$0.75
	72,984,464			71,984,464	

Transactions involving warrants are summarized as follows:

	Number of Shares	Weighted Average Price
Balance, September 30, 2004	4,870,253	$ 0.63
Granted	32,873,000	0.71
Exercised	(142,500)	.0.34
Canceled or expired	(731,289)	0.65
Balance, September 30, 2005	36,869,464	0.67
Granted	35,500,000	0.29
Exercised	-	-
Canceled or expired	-	-
Outstanding at September 30, 2006	72,369,464	0.48
Granted	1,000,000	0.50
Exercised	-	-
Canceled or expired	(385,000)	(0.71)
Balance, June 30, 2007	72,984,464	$ 0.48

Employee Stock Options

The following table summarizes the changes in options outstanding and the related prices for the shares of the Company's common stock issued to employees of the Company under a non-qualified employee stock option plan.

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NOTE E - STOCK OPTIONS AND WARRANTS (continued)

Options Outstanding				Options Exercisable	
Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 0.68	3,660,000	4.25	$ 0.68	3,660,000	$ 0.68
0.09	2,000,000	4.41	0.09	2,000,000	0.09
	5,660,000			5,660,000	0.47

Transactions involving stock options issued to employees are summarized as follows:

	Number of Shares	Weighted Average Exercise Price Per Share
Outstanding at October 1, 2005	3,660,000	$ 0.68
Granted	2,000,000	0.09
Exercised	-	-
Cancelled or expired	-	-
Outstanding at September 30, 2006	5,660,000	$ 0.47
Granted	-	-
Exercised	-	-
Canceled or expired	-	-
Outstanding at June 30, 2007	5,660,000	$ 0.47

The Company did not grant any employee options during the nine months ended June 30, 2007.

Effective January, 2006, the Company adopted SFAS 123R and recognized compensation expense in its financial statements in fiscal 2006. Prior to the adoption of SFAS 123R, the Company accounted for its stock option plans according to Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees.” Accordingly, no compensation costs were recognized upon issuance or exercise of stock options for fiscal 2005.

SFAS No. 123, “Accounting for Stock-Based Compensation,” required the disclosure of the estimated fair value of employee option grants and their impact on net income using option pricing models that are designed to estimate the value of options that, unlike employee stock options, can be traded at any time and are transferable. In addition to restrictions on trading, employee stock options may include other restrictions such as vesting periods. Further, such models require the input of highly subjective assumptions, including the expected volatility of the stock price.

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NOTE F - DEBT DERIVATIVE AND WARRANT LIABILITY

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

As of the date of this filing, the registration statement has not yet been declared effective by the SEC. The Company determined the fair value of the embedded derivatives and valued the warrants using the Black-Scholes option pricing model. Assumptions regarding the life were one to five years, expected dividend yield of 0%, a risk free rate of 4.28 to 4.92%, and a volatility of 123.8%. The determined value of both the warrants and the underlying embedded derivatives as of June 30, 2007 was $4,468,404. The net change in the fair value of the derivative and warrant liability values from September 30, 2006 has been recorded as a gain from change in debt derivative and warrant liabilities in the consolidated condensed statement of operations.

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NOTE G - RELATED PARTY TRANSACTIONS

On December 12, 2006, the Company issued 180,000 shares of its common stock as settlement of the outstanding related party note payable of $410,429 and related accrued interest of $8,884.

The Company's officers have advanced funds to the Company for travel related and working capital purposes. No formal repayment terms or arrangements exist. There were no advances due at June 30, 2007.

On July 15, 2005, the Company entered into a consulting agreement with Timpix International Limited ("Timpix") for the consulting services of three former Biowell employees, Drs. Jun-Jei Sheu, Ben Liang and Johnson Chen, which agreement was subsequently amended. Pursuant to the amended agreement, the Company is obligated to pay $120,000, $100,000 and $80,000 per year pro-rated for each week, or part thereof, of time spent within the United States providing full time services for Drs Jun-Jei Sheu, Ben Lang and Johnson Chen, respectively. The Company is obligated to provide a corporate house available for the consultants while working in the United States. On June 11, 2007, we gave notice to Timpix pursuant to the terms of the consulting agreement of our intention not to renew the term of the consulting agreement will therefore terminate on July 11, 2007.

In July 2005, the Company entered into a license agreement with Biowell, whereby the Company granted Biowell an exclusive license to sell, market, and sub-license the Company's products in selected Asian countries. The exclusive license for such selected territories is for an initial period of until December 31, 2010, and if Biowell meets its performance goals, the license agreement will extend for an additional five year term. The license agreement gives Biowell the initial rights to future anti-fraud biotechnologies developed by the Company and also new applications for the existing technology that may be developed for the marketplace as long as the license agreement remains in effect. In the event that Biowell shall sub-license the products within its territories, Biowell shall pay the Company 50% of all fees, payments or consideration or any kind received in connection with the grant of the sublicense. Biowell is required to pay a royalty of 10% on all net sales made and is required to meet certain minimum annual net sales in its various territories. Cumulative royalties earned from the period July 2005 through June 30, 2007 totaled $34,698. Net amounts owed to the Company by Biowell in connection with the royalty agreement as of June 30, 2007 were $-0-.

As described in Note C above, the Company issued secured convertible promissory notes totally $350,000 in exchange for funds to an officer and director.

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NOTE H - COMMITMENTS AND CONTINGENCIES

Operating Lease Commitments

The Company leases office space under operating lease in Stony Brook, New York for its corporate use from an entity controlled by significant former shareholder, expiring in November 2007. In November 2005, the Company vacated the Los Angeles facility to relocate to the new Stony Brook New York address. Total lease rental expenses for the nine months ended June 30, 2007 was $37,500.

Employment and Consulting Agreements

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

On July 15, 2005, the Company entered into a consulting agreement with Timpix for the consulting services of three former Biowell employees, Drs. Jun-Jei Sheu, Ben Liang and Johnson Chen, which agreement was subsequently amended. Pursuant to the amended agreement, the Company is obligated to pay $120,000, $100,000 and $80,000 per year pro-rated for each week, or part thereof, of time spent within the United States providing full time services for Drs Jun-Jei Sheu, Ben Lang and Johnson Chen, respectively. The Company is obligated to provide a corporate house available for the consultants while working in the United States. On June 11, 2007, we gave notice to Timpix pursuant to the terms of the consulting agreement of our intention not to renew the term of the consulting agreement will therefore terminate on July 11, 2007.

Litigation

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

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

On April 29, 2005, Crystal Research Associates, LLC obtained a default judgment against us for $13,000 in the Superior Court of New Jersey, Middlesex County. The Company settled this matter in May 2006.

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

In January 2006, a former employee of the Company filed a complaint alleging wrongful termination against the Company. The former employee is seeking $230,000 in damages. The Company believes that it has meritorious

defenses to the plaintiff's claims and intends to vigorously defend itself against the Plaintiff's claims. Management believes the ultimate outcome of this matter will not have a material adverse effect on the Company's consolidated financial position or results of operations.

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

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NOTE H - COMMITMENTS AND CONTINGENCIES (continued)

On or about April 17, 2006, former employees of the Company filed a complaint against the Company and certain of its current officers and Directors in Los Angeles County Superior Court. The Complaint alleges a breach of contract, violations of California Labor Code and wrongful termination and is seeking $950,000 in specified damages, plus fees and costs. The complaint alleges a breach of contract. The Company believes that it has meritorious defenses to the plaintiff's claims and intends to vigorously defend itself against the Plaintiff's claims. Subsequent to the date of the financial statements, the Company and the Plaintiff settled the dispute and the Company recorded a settlement amount of $605,000, a net reduction of $121,000 to the previous accrual of $795,982.

The Company is subject to other legal proceedings and claims, which arise in the ordinary course of its business.

Registration of Company's Shares of Common Stock

Until the Company successfully completes its pending registration statement on SEC Form SB-2, the Company is subject to liquidated damages (see Notes C and H). In connection with the $1,465,000 and $7,371,000 million convertible debt financing during the quarters ended December 31, 2004 and March 31, 2005, respectively, the Company was obligated to deliver registered shares underlying the convertible notes and warrants by July 2005 (see Note C). Since the registration was not effective by July 2005, the Company has been accruing and charging to operations the stipulated liquidated damages in shares of Company stock accruing at the rate of 3.5% per month on the face value of the previously issued convertible notes. During the year ended September 30, 2006, the Company has paid and charged to operations penalties of $773,958 in the form of unregistered shares of its common stock to the former note holders, and has accrued and charged to operations an additional $7,336,321 representing unpaid penalties through June 30, 2007.

Matters Voluntarily Reported to the SEC and Securities Act Violations

We previously disclosed that we investigated the circumstances surrounding certain issuances of 8,550,000 shares to employees and consultants in July 2005 (see Note G), and had engaged our then new outside counsel to conduct this investigation. We have voluntarily reported our current findings from the investigation to the SEC, and we have agreed to provide the SEC with further information arising from the investigation. We believe that the issuance of 8,000,000 shares to employees in July 2005 was effectuated by both our former President and our former Chief Financial Officer/Chief Operating Officer without approval of the Board of Directors. These former officers received a total of 3,000,000 of these shares. In addition, it appears that the 8,000,000 shares issued in July 2005, as well as an additional 550,000 shares issued to employees and consultants in March, May and August 2005, were improperly issued without a restrictive legend stating that the shares could not be resold legally except in compliance with the Securities Act of 1933, as amended. The members of our management who effectuated the stock issuances that are being examined in the investigation no longer work for us. In the event that any of the exemptions from registration with respect to the issuance of the Company's common stock under federal and applicable state securities laws were not available, the Company may be subject to claims by federal and state regulators for any such violations. In addition, if any purchaser of the Company's common stock were to prevail in a suit resulting from a violation of federal or applicable state securities laws, the Company could be liable to return the amount paid for such securities with interest thereon, less the amount of any income received thereon, upon tender of such securities, or for damages if the purchaser no longer owns the securities. As of the date of these financial statements, the Company is not aware

of any alleged specific violation or the likelihood of any claim. There can be no assurance that litigation asserting such claims will not be initiated, or that the Company would prevail in any such litigation.

The Company is unable to predict the extent of its ultimate liability with respect to any and all future securities matters. The costs and other effects of any future litigation, government investigations, legal and administrative cases and proceedings, settlements, judgments and investigations, claims and changes in this matter could have a material adverse effect on the Company's financial condition and operating results.

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(Unaudited)

NOTE I - RESTATEMENT OF FINANCIAL STATEMENTS

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

The effect of the adjustments in the restated financial statements is an increase in net loss of $136,401 from September 16, 2002 (date of inception) through June 30, 2006 and an increase in net income of $766,698 and $2,148,364 for the three and nine month periods ended June 30, 2006, respectively. There was no effect on total cash flows provided by (used in) operations, investing or financing activities.

The following tables summarize the effects of these adjustments on the Company's condensed consolidated balance sheet as of June 30, 2006, condensed consolidated statements of losses for the three and nine months ended June 30, 2006 and for the period from September 16, 2002 (date of inception) through June 30, 2006 and the condensed consolidated statements of cash flows for the nine months ended June 30, 2006 and for the period from September 16, 2002 (date of inception) through June 30, 2006:

Condensed Consolidated Balance Sheet
June 30, 2006

	As Previously Reported	Adjustment	Reference	As Restated
Cash	$ 1,931,173			$ 1,931,173
Accounts receivable, net	$ 18,900			$ 18,900
Advances and other receivables	$ 11,611			$ 11,611
Prepaid expenses	$ 146,667			$ 146,667
Total current assets	$ 2,108,351			$ 2,108,351
Property, plant and equipment, net	$ 38,286			$ 38,286
Deposits	$ 8,322			$ 8,322
Capitalized finance costs	$ 1,437,862			$ 1,437,862
Patents, net	$ 17,376			$ 17,376
Intellectual property, net	$ 8,083,629			$ 8,083,629

Total assets	$ 11,693,826	$ 11,693,826
Accounts payable and accrued liabilities	$ 4,680,849	$ 4,680,849
Notes payable, related party	$ 410,429	$ 410,429
Total current liabilities	$ 5,091,278	$ 5,091,278

APPLIED DNA SCIENCES, INC
(A DEVELOPMENT STAGE COMPANY)
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NOTE I - RESTATEMENT OF FINANCIAL STATEMENTS (continued)

	As Previously Reported	Adjustment	Reference	As Restated
Convertible notes payable, net	$ 3,306,371	$		$ 3,306,371
Debt derivative and warrant liability	$ 5,698,286	$		$ 5,698,286
Total liabilities	$ 14,095,935	$		$ 14,095,935
Preferred stock	$ 6	$		$ 6
Common stock	$ 118,582	$		$ 118,582
Common stock subscription	$ (200,000)	$		$ (200,000)
Additional paid in capital	$ 81,860,606	$ 136,400	a	$ 81,997,006
Accumulated deficit	$ (84,181,303)	$ (136,400)	a	$ (84,317,703)
Total deficiency in stockholders' equity	$ (2,402,109)			$ (2,402,109)
Total liabilities and Deficiency in Stockholders' equity	$ 11,693,826			$ 11,693,826

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

	As Previously Reported	Adjustment	Reference	As Restated
Sales	$ 18,900	$		18,900
Cost of sales	$ 15,639	$		15,639
Gross margin	$ 3,261	$		3,261
Selling, general & administrative	$ 1,190,967	$ 390,000	b	$ 1,580,967
Research and development	$ -	$		$ -
Depreciation and amortization	$ 336,824	$		336,824
Total operating expenses	$ 1,527,791	$ 390,000	b	$ 1,917,791
Net loss from operations	$ (1,524,530)	$ (390,000)	b	$ (1,914,530)
Net gain (loss) in fair value of debt derivative and warrant liability	$ 2,337,263	$ 1,156,698	c	$ 3,493,961
Other income (expense)	$ 8,483	$		8,483

Interest income (expense)	$ (826,827)	$			(826,827)
Net income (loss)	$ (5,611)	$	766,698	b,c	$ 761,087
Net income (loss) per share-basic	$ (0.00)	$	0.01		$ 0.01
Net income (loss) per share-fully diluted	NA	$	0.01		$ 0.01

APPLIED DNA SCIENCES, INC
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NOTE I - RESTATEMENT OF FINANCIAL STATEMENTS (continued)

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

	As Previously Reported	Adjustment	Reference	As Restated
Sales	$ 18,900	$		$ 18,900
Cost of sales	$ 15,639	$		$ 15,639
Gross margin	$ 3,261	$		$ 3,261
Selling, general & administrative	$ 4,955,055	$ (563,750)	d	$ 4,391,305
Research and development	$ 75,276	$		75,276
Depreciation and amortization	$ 1,021,199	$		$ 1,021,199
Total operating expenses	$ 6,051,530	$ (563,750)	d	$ 5,487,780
Net loss from operations	$ (6,048,269)	$ 563,750)	d	$ (5,484,519)
Net gain (loss) in fair value of debt derivative and warrant liability	$ 18,606,563	$ (4,355,942)	e	$ 14,250,621
Other income (expense)	$ 17,976	$		$ 17,976
		(136,400)	a	
		(563,750)	d	
		6,640,706	e	
Interest income (expense)	$ (9,117,785)	$ 5,940,556		$ (3,177,229)
Net income (loss)	$ 3,458,485	$ 2,148,364		$ 5,606,849
Net income (loss) per share-basic	$ 0.03	0.02		$ 0.05
Net income (loss) per share-fully diluted	0.02	0.01		$ 0.03

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

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

Net gain (loss) in fair value of debt derivative and warrant liability				
Other income (expense)	$ 49,318	$		$ 49,318
Interest income (expense)	$ (47,119,730)	$ 10,058,055	f	$ (37,061,675)
Net income (loss)	$ (84,181,303)	$ (136,401)		$ (84,317,703)

APPLIED DNA SCIENCES, INC
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NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
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NOTE I - RESTATEMENT OF FINANCIAL STATEMENTS (continued)

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

	As Previously Reported	Adjustment	Reference	As Restated
Cash flows from operating activities:				
Net income (loss)	$ 3,458,485	$ 2,148,364		$ 5,606,849
Adjustments to reconcile to net used in operating activities				
Depreciation and amortization	$ 1,021,199	$		$ 1,021,199
Organization expenses	$	$		
Preferred shares issued in exchange for services	$ -	$		$ -
Warrants issued to consultants	$ 606,850	$ (563,750)	d	$ 43,100
Income attributable to repricing of warrants and debt derivatives	$ (10,118,917)	$ (4,131,704)	g	$ (14,250,621)
Financing costs attributable to issuance of warrants	$	$ 2,271,000	h	$ 2,271,000
Amortization of beneficial conversion feature –convertible notes	$ -	$		$ -
Amortization of capitalized finance costs	$ 247,238	$		$ 247,238
Amortization of debt discount attributable to convertible debenture	$ -	$ 276,090	i	$ 276,090
Fair value of common stock issued to related party in excess of debt	$ -	$		$ -
Common stock issued in exchange for services	$ 710,200	$		$ 710,200
Common stock issued in exchange for intellectual property	$ -	$		$ -
Common stock issued as penalty in connection with financing	$ 773,958	$		$ 773,958
Common stock canceled-previously issued for services rendered	$ (480,000)	$		$ (480,000)
Change in assets and liabilities:				
Increase in accounts receivable	$ (18,900)	$		$ (18,900)

APPLIED DNA SCIENCES, INC
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NOTE I - RESTATEMENT OF FINANCIAL STATEMENTS (continued)

	As Previously Reported	Adjustment	Reference	As Restated
Increase in prepaid expenses and deposits	$ (145,849)	$		$ (145,849)
Decrease in other assets	$ 5,940	$		$ 5,940
Decrease in due related parties	$ (52,662)	$		$ (52,662)
Increase (decrease) in accounts payable and accrued liabilities	$ 1,685,792	$		$ 1,685,792
Net cash used in operating activities	$ (2,306,666)	$		$ (2,306,666)
Cash flows from investing activities:				
Payments for patent filing	$ -			
Capital expenditures	$ (35,851)	$		$ (35,851)
Net cash used in investing activities	$ (35,851)	$		$ (35,851)
Cash flows from financing activities				
Proceeds from sales of common stock, net	$ -	$		$
Proceeds from issuance of convertible notes	$ 4,242,500	$		$ 4,242,500
Proceeds from exercise of options and warrants	$ -	$		$ -
Payment of debt	$ -	$		$ -
Proceeds from loans	$ -	$		$ -
Advances from shareholders	$ -	$		$ -
Net cash provided by financing activities	$ 4,242,500	$		$ 4,242,500
Net increase in cash and cash equivalents	$ 1,899,983	$		$ 1,899,983
Cash and cash equivalents at beginning of period	$ 31,190	$		$ 31,190
Cash and cash equivalents at end of period	$ 1,931,173	$		$ 1,931,173

APPLIED DNA SCIENCES, INC
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NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
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NOTE I - RESTATEMENT OF FINANCIAL STATEMENTS (continued)

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

	As Previously Reported	Adjustment	Reference	As Restated
Cash flows from operating activities:				
Net income (loss)	$ (84,181,303)	$ (136,400)	a	$ (84,317,703)
Adjustments to reconcile to net used in operating activities				
Depreciation and amortization	$ 1,374,467	$ (5,756)	j	$ 1,368,711
Organization expenses	$ 88,500	$		88,500
Preferred shares issued in exchange for services	$ 1,500,000	$		$ 1,500,000
Warrants issued to consultants	$ 3,583,016	$ 5,838,514	f	$ 9,421,530
Income attributable to repricing of warrants and debt derivatives	$ (26,819,908)	$ (4,131,703)	g	$ (30,951,611)
Financing costs attributable to issuance of warrants	$ 27,265,174	$ (1,846,500)	k	$ 25,418,674
Amortization of beneficial conversion feature –convertible notes	$ 10,461,000	$		$ 10,461,000
Amortization of capitalized finance costs	$ 247,238	$		$ 247,238
Amortization of debt discount attributable to convertible debenture	$ -	$ 276,090	i	$ 276,090
Fair value of common stock issued to related party in excess of debt	$ 1,365,000	$		$ 1,365,000
Common stock issued in exchange for services	$ 31,284,573	$		$ 31,284,573
Common stock issued in exchange for intellectual property	$ 14,689,100	$		$ 14,689,100
Common stock issued as penalty in connection with financing	$ 1,550,487	$		$ 1,550,487
Common stock canceled-previously issued for services rendered	$ (1,343,845)	$		$ (1,343,845)
Change in assets and liabilities:				
Increase in accounts receivable	$ (18,900)	$		$ (18,900)

APPLIED DNA SCIENCES, INC
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NOTE I - RESTATEMENT OF FINANCIAL STATEMENTS (continued)

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

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NOTE I - RESTATEMENT OF FINANCIAL STATEMENTS (continued)

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

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

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

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

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NOTE I - RESTATEMENT OF FINANCIAL STATEMENTS (continued)

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

	Original amount	Revised Amount	Increase/(decrease)
Warrants issued in December 2004	$ 394,698	$ 3,169,052	$ 2,774,354
Warrants issued in February 2005	-	72,017	72,017
Warrants issued in June 2005 (Company determined warrants were not properly authorized and issued)	849,047	-	(849,047)
Warrants previously cancelled, later determined issued	(287,440)	-	287,440
	$ 956,305	$ 3,241,069	$ 2,284,764

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

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

	Selling, general and administrative	Gain/Loss in fair value of warrant liability and debt derivative	Interest expense
Originally reported:	$ 70,072,368	$ 35,307,553	$ 47,119,730

Reclassification on fair value of warrants issued for services rendered (above)	5,838,514	-	(5,838,514)
Adjustment to fair value of warrants issued in previous year (see e above)		(4,355,942)	(4,355,942)
Fair value of unrecorded warrants issued in conjunction with financing (see a above)			136,401
Amended reported	$ 75,910,882	$ 30,951,611	$ 37,061,675

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NOTE I - RESTATEMENT OF FINANCIAL STATEMENTS (continued)

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

Reclassification of initial warrant valuations relating to financing from interest to separate line item in cash flow statement as described in (h) below:	$ 2,271,000
Change in non warrant valuations as described in (e) above:	2,284,764
Reclassification on non financing warrants to selling, general and administrative as described in (d) above	(563,750)
Reclassification of warrants as described in (a) above	(136,400)
Reclassification of amortization of debt discount to separate cash flow line item as described in (i) below	276,090
Total:	$ 4,131,704

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

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

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

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

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

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

· discuss our future expectations;

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

· state other "forward-looking" information.

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

Introduction

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

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

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

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

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

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

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

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

- expanding our customer base both domestically and abroad by targeting high volume markets; and

- augmenting our competitive position through strategic acquisitions and alliances.

Plan of Operations

General

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

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

Recent Agreements

Printcolor Screen Ltd. Agreement

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

IIMAK Agreement

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

Supima Cotton Agreement

On June 27, 2007, we entered into a Feasibility Study Agreement with Supima, a non-profit organization for the promotion of U.S. pima cotton growers. In connection with the agreement we will undertake a study of the feasibility of establishing a method or methods to authenticate and identify U.S. produced pima cotton fibers. Under the terms of the agreement, we will receive payments from Supima upon signing of the agreement and in five monthly installments

beginning on July 6, 2007. Upon successful completion of the feasibility study, we may offer authentication services to member companies of Supima (as well as non−member companies) to confirm the Supima cotton content of textile items such as apparel and home fashion products. We are obligated to pay Supima a percentage of any fees that we receive from such companies for authentication services we provide them. We are also obligated to pay Supima fifty percent of the aggregate amount of payments that we received from Supima for the feasibility study out of any fees we receive from providing authentication services. In addition, until the earlier of either (i) five years or (ii) the repayment to Supima of fifty percent of the aggregate amount of payments that we received from Supima for the feasibility study, we are obligated to pay Supima a fee for each authentication service that we provide. The agreement may be terminated by us or Supima after sixty (60) days upon fourteen (14) days prior written notice.

Product Research and Development

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

Acquisition of Plant and Equipment and Other Assets

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

Number of Employees

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

Critical Accounting Policies

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

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

The accounting policies identified as critical are as follows:

· Equity issued with registration rights

· Warrant liability

· Fair value of intangible assets

Equity Issued with Registration Rights

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

Warrant Liability

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

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

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

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

Fair Value of Intangible Assets

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

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

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

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

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

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

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

Use of Estimates

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

Restatement of Consolidated Financial Statements

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

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

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

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

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

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

Revenues

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

Costs and Expenses

Selling, General and Administrative

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

Research and Development

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

Depreciation and Amortization

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

Total Operating Expenses

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

Other Income/Loss

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

Interest Expenses

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

Net Income (loss)

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

Liquidity and Capital Resources

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

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

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

Hayward Bridge Notes and Warrants

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

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

The April Note and accrued but unpaid interest thereon are convertible into shares of common stock of the Company at a price of $0.50 per share by the holder at any time from April 23, 2007, through April 22, 2008, and shall

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

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

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

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

June Offering

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

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

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

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

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

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

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

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

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

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

August, 2005 to January, 2006 to persons who invested in the January and February, 2005 private placements. The issuance of shares upon any payment by us of further liquidated damages will have the effect of further diluting the proportionate equity interest and voting power of holders of our common stock, including investors in this offering.

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

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

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Inflation

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

Going Concern

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

RISK FACTORS

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

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

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

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

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

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

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

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

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

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

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

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

accrued expenses.

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

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

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

· availability, quality and price relative to competitive solutions;

· customers' opinions of the solutions' utility;

· ease of use;

· consistency with prior practices;

· scientists' opinions of the solutions' usefulness;

· citation of the solutions in published research; and

· general trends in anti-counterfeit and security solutions' research.

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

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

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

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

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

The principal markets for our SigNature Program are intensely competitive. We compete with many existing suppliers and new competitors continue to enter the market. Many of our competitors, both in the United States and elsewhere, are major pharmaceutical, chemical and biotechnology companies, or have strategic alliances with such companies,

and many of them have substantially greater capital resources, marketing experience, research and development staff, and facilities than we do. Any of these companies could succeed in developing products that are more effective than the products that we have or may develop and may be more successful than us in producing and marketing their existing products. Some of our competitors that operate in the anti-counterfeiting and fraud prevention markets include: Applied Optical Technologies, Authentix, Biowell, ChemTAG, Collectors Universe Inc., Collotype, Data Dot Technology, Digimarc Corp., DNA Technologies, Inc., Informium AG, Inksure Technologies, L-1 Identity Solutions, Manakoa, SmartWater Technology, SureTrace, Tracetag and Warnex.

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

· product performance, features and liability;

· price;

· timing of product introductions;

· ability to develop, maintain and protect proprietary products and technologies;

· sales and distribution capabilities;

· technical support and service;

· brand loyalty;

· applications support; and

· breadth of product line.

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

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

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

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

To generate broad product lines, it is advantageous to sometimes license technologies from third parties rather than depend exclusively on the development efforts of our own employees. As a result, we believe our ability to license new technologies from third parties is and will continue to be important to our ability to offer new products. In addition, from time to time we are notified or become aware of patents held by third parties that are related to technologies we are selling or may sell in the future. After a review of these patents, we may decide to seek a license for these technologies from these third parties. There can be no assurance that we will be able to successfully identify new technologies developed by others. Even if we are able to identify new technologies of interest, we may not be able to negotiate a license on favorable terms, or at all. If we lose the rights to patented technology, we may need to discontinue selling certain products or redesign our products, and we may lose a competitive advantage. Potential competitors could license technologies that we fail to license and potentially erode our market share for certain

products. Intellectual property licenses would typically subject us to various commercialization, sublicensing, minimum payment, and other obligations. If we fail to comply with these requirements, we could lose important rights under a license. In addition, certain rights granted under the license could be lost for reasons beyond our control, and we may not receive significant indemnification from a licensor against third party claims of intellectual property infringement.

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

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

· operations and financial systems;

· procedures and controls; and

· training and management of our employees.

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

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

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

· different or conflicting regulatory or legal requirements;

· foreign currency fluctuations; and

· diversion of significant time and attention of our management.

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

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

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

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

Intellectual Property Litigation Could Harm Our Business.

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

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

Because some patent applications in the United States may be maintained in secrecy until the patents are issued, because patent applications in the United States and many foreign jurisdictions are typically not published until eighteen months after filing, and because publications in the scientific literature often lag behind actual discoveries, we cannot be certain that others have not filed patent applications for technology covered by our or our licensor's issued patents or pending applications or that we or our licensors were the first to invent the technology. Our competitors may have filed, and may in the future file, patent applications covering technology similar to ours. Any such patent application may have priority over our or our licensors' patent applications and could further require us to

obtain rights to issued patents covering such technologies. If another party has filed a United States patent application on inventions similar to ours, we may have to participate in an interference proceeding declared by the United States Patent and Trademark Office to determine priority of invention in the United States. The costs of these proceedings could be substantial, and it is possible that such efforts would be unsuccessful, resulting in a loss of our United States patent position with respect to such inventions.

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

Accidents Related to Hazardous Materials Could Adversely Affect Our Business.

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

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

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

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

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

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

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

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

Matter Voluntarily Reported to the Securities and Exchange Commission

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ITEM 3. CONTROLS AND PROCEDURES

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

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

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

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

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

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

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

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

Changes in Internal Controls

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

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

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

PART II--OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

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

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

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

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

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

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

Settlement of Litigation

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

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

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

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

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

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

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

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

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

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

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

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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

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

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

April 24, 2007 and incorporated herein by reference.

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

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

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

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

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

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

SIGNATURES

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

APPLIED DNA SCIENCES, INC.

Date: February 29, 2008

By: /s/ JAMES A. HAYWARD
James A. Hayward
Chief Executive Officer (Principal Executive Officer)