APPLIED DNA SCIENCES INC
Form 10QSB
February 21, 2006

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

FORM 10QSB

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

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

For the Quarterly period ended December 31, 2005

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	11790
(Address of Principal Executive Offices)	(Zip Code)

(631) 444-6862
(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___ No _____

The number of shares of Common Stock, $0.001 par value, outstanding on February 14 2006, was 114,772,385 shares, held by approximately 1,380 shareholders.

Transitional Small Business Disclosure Format (check one):

Yes ______ No ___X___

APPLIED DNA SCIENCES, INC

Quarterly Report on Form 10-QSB for the
Quarterly Period Ending December 31, 2005

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

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

ASSETS

Dece

Current assets:	
Cash and cash equivalents	$
Current other receivables, related party (Note F)	

Total current assets	
Property, plant and equipment - Net of accumulated depreciation of $3,084	
Other Assets:	
Deposits and prepaid expenses	
Intangible assets:	
Patents (net of accumulated amortization of $13,490) (Note B)	
Intellectual Property (net of accumulated amortization of $673,636) (Note B)	

Total Other Assets	

Total Assets	$
	====
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable and accrued liabilities	$
Accrued liabilities due related parties (Note F)	
Note payable (Note C)	

Total current liabilities	
Commitments and contingencies(Note G)	
Stockholders' equity:	
Preferred stock, par value $.001 per share; 10,000,000 shares authorized; 60,000 issued and outstanding	
Common stock, par value $.001 per share; 250,000,000 shares authorized; 112,926,246 shares issued and outstanding	
Common stock subscription (Note D)	
Additional said-in-capital	
Deficit accumulated during development stage	

Total stockholders' equity	

Total liabilities and stockholders' equity	$
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See accompanying notes to unaudited condensed consolidated financial statements

3

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

	For The Three Months Ended December 31	September 16, 2002, (Date of Inception)

	2005	2004	through December 31, 2005
Operating expenses:			
Selling, general and administrative	$ 2,078,727	$ 10,754,248	$ 65,562,416
Research and development	16,270	38,673	893,678
Depreciation and amortization	342,699	4,721	702,126
Total operating expenses	2,437,696	10,797,642	67,158,220
Operating loss	(2,437,696)	(10,797,642)	(67,158,220)
Other income (expense)	13,013	315	44,355
Interest (expense)	(19,806)	(1,567,809)	(10,756,038)
Income (taxes) benefit	-	-	-
Net loss	$ (2,444,489)	$ (12,365,136)	$ (77,869,903)
Loss per common share (basic and assuming dilution)	$ (0.02)	$ (0.45)	$ (1.94)
Weighted average shares outstanding	112,535,514	27,402,160	40,068,155

See accompanying notes to unaudited condensed 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
DECEMBER 31, 2005 (Unaudited)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed
Issuance of common stock to Founders in exchange for services on September 16, 2002 at $.01 per share	-	$ -	100,000	$ 10	$ 990	-
Net Loss	-	-	-	-	-	-
Balance at September 30, 2002	-	-	100,000	10	990	-
Issuance of common stock in connection with merger with Prohealth Medical Technologies , Inc on						

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

See accompanying notes to unaudited condensed consolidated financial statements

5

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
DECEMBER 31, 2005 (Unaudited)
(Continued)

Additional

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

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

See accompanying notes to unaudited condensed consolidated financial statements

6

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
DECEMBER 31, 2005 (Unaudited)
(Continued)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed
Common stock canceled in July 2003, previously issued for services rendered at $2.50 per share	-	-	(24,000)	(2)	(59,998)	-
Common stock issued in exchange for options exercised at $1.00 in July 2003	-	-	20,000	2	19,998	-
Common stock issued in exchange for exercised of options previously subscribed at $1.00 in July 2003	-	-	10,000	1	9,999	(10,000)
Common stock issued in exchange for consulting services at approximately $2.38 per share, August 2003	-	-	172,500	17	410,915	-
Common stock issued in exchange for options exercised at $1.00 in August 2003	-	-	29,000	3	28,997	-
Common stock issued in exchange for consulting services at approximately $2.42 per share, September 2003	-	-	395,260	40	952,957	-
Common stock issued in exchange for						

cash at $2.50 per share-subscription payable-September 2003	-	-	19,200	2	47,998	(48,000)
Common stock issued in exchange for cash at $2.50 per share pursuant to private placement September 2003	-	-	6,400	1	15,999	-
Common stock issued in exchange for options exercised at $1.00 in September 2003	-	-	95,000	10	94,991	-
Common stock subscription receivable reclassification adjustment	-	-	-	-	-	-
2,600 Common Stock subscribed to at $2.50 per share in September 2003	-	-	-	-	-	300,000
Net Loss for the year ended September 30, 2003	-	-	-	-	-	-
Balance at September 30, 2003	-	$ -	17,811,082	$ 1,781	$2,577,568	$ 300,000

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FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH
DECEMBER 31, 2005 (Unaudited)
(Continued)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed
Preferred shares issues in exchange for services at $25.00 per share, October 2003	15,000	15	-	-	-	-
Common stock issued in exchange for consulting services at approximately $2.85 per share, October 2003			287,439	29	820,389	-
Common stock issued in exchange for cash at $2.50 per share-subscription payable-October 2003			120,000	12	299,988	(300,000)

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

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FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH
DECEMBER 31, 2005 (Unaudited)
(Continued)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed
Common stock issued in exchange for consulting services at $3.05 per share, Jan 2004			1,000	500	2,550	-
Common stock issued in exchange for employee services at $3.07 per share, Feb 2004			6,283	3,142	16,147	-
Common stock issued in exchange for consulting services at $3.04 per share, Mar 2004			44,740	22,370	113,640	-
Common Stock issued for options exercised at $1.00 per share in Mar 2004			55,000	27,500	27,500	-
Common stock issued in exchange for employee services at $3.00 per share, Mar 2004			5,443	2,722	13,623	-
Common stock issued in exchange for employee services at $3.15 per share, Mar 2004			5,769	2,885	15,292	-
Preferred shared converted to common shares for consulting services at $3.00 per share, Mar 2004	(5,000)	(5)	125,000	62,500	312,500	-
Common stock issued in exchange for employee services at $3.03 per share, Mar 2004			8,806	4,400	22,238	-
Common Stock issued pursuant to subscription at $2.50 per share in Mar. 2004			22,500	11,250	(9,000)	-
Beneficial Conversion Feature relating to Notes Payable			-	-	122,362	-
Beneficial Conversion Feature relating to Warrants			-	-	177,638	-
Common stock issued in exchange for consulting services at $2.58 per share, Apr 2004			9,860	4,930	20,511	-
Common stock issued in exchange for consulting services at $2.35 per share, Apr 2004			11,712	5,856	21,667	-
Common stock issued in exchange for consulting						

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed
services at $1.50 per share, Apr 2004			367,500	183,750	367,500	-
Common stock returned to treasury at $0.065 per share, Apr 2004			(50,000)	(25,000)	21,750	-
Preferred stock converted to common stock for consulting services at $1.01 per share in May 2004	(4,000)	(4)	100,000	50,000	51,250	-
Common stock issued per subscription May 2004			10,000	5,000	(4,000)	-

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9

APPLIED DNA SCIENCES, INC
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FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH
DECEMBER 31, 2005 (Unaudited)
(Continued)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed
Common stock issued in exchange for consulting services at $0.86 per share in May 2004			137,000	68,500	50,730	-
Common stock issued in exchange for consulting services at $1.15 per share in May 2004			26,380	13,190	17,147	-
Common stock returned to treasury at $0.065 per share, Jun 2004			(5,000)	(2,500)	2,175	-
Common stock issued in exchange for consulting services at $0.67 per share in June 2004			270,500	135,250	45,310	-
Common stock issued in exchange for consulting services at $0.89 per share in June 2004			8,000	4,000	3,120	-
Common stock issued in exchange for consulting services at $0.65 per share in June 2004			50,000	25,000	7,250	-
Common stock issued pursuant to private placement at $1.00 per share in June 2004			250,000	125,000	125,000	-
Common stock issued in exchange for consulting						

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed
services at $0.54 per share in July 2004			100,000	50,000	4,000	-
Common stock issued in exchange for consulting services at $0.72 per share in July 2004			5,000	2,500	1,100	-
Common stock issued in exchange for consulting services at $0.47 per share in July 2004			100,000	50,000	(2,749)	-
Common stock issued in exchange for consulting services at $0.39 per share in August 2004			100,000	50,000	(11,000)	-
Preferred stock converted to common stock for consulting services at $0.39 per share in August 2004	(2,000)	(2)	50,000	25,000	(5,500)	-
Common stock issued in exchange for consulting services at $0.50 per share in August 2004			100,000	50,000	250	
Common stock issued in exchange for consulting services at $0.56 per share in August 2004			200,000	100,000	12,500	-
Common stock issued in exchange for consulting services at $0.41 per share in August 2004			92,500	46,250	(8,605)	-
Common stock issued in exchange for consulting services at $0.52 per share in September 2004			1,000,000	500,000	17,500	-

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10

APPLIED DNA SCIENCES, INC
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CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH
DECEMBER 31, 2005 (Unaudited)
(Continued)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed
Common stock issued in exchange for consulting services at $0.46 per share in September 2004			5,000	2,500	(212)	-
Common stock issued pursuant to subscription at $0.50 per share in						

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

See accompanying notes to unaudited condensed consolidated financial statements

11

APPLIED DNA SCIENCES, INC
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CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH
DECEMBER 31, 2005 (Unaudited)
(Continued)

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

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

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FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH
DECEMBER 31, 2005 (Unaudited)
(Continued)

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

Common Stock issued in exchange for employee services at $0.60 share in November 2004	-	-	60,000	30,000	6,000	(4,000)
Beneficial Conversion discount relating to Notes Payable	-	-	-	-	936,541	-
Beneficial Conversion Feature relating to Warrants	-	-	-	-	528,459	-
Common stock issued at $0.016 in exchange for note payable in December 2004			5,500,000	2,750,000	(2,661,500)	
Common Stock issued in exchange for consulting services at $1.44 share in December 2004	-	-	5,796,785	2,898,393	5,418,814	-
Common stock issued pursuant to subscription at $0.50 per share in December 2004	-	-	2,930,000	1,465,000	-	(125,000)
Warrants issued to consultants in December 2004	-	-			394,698	
Warrants exercised at $0.10 per share in January 2005	-	-	25,000	12,500	(10,000)	-
Common Stock issued in settlement of debt at $0.33 per share in January 2005	-	-	1,628,789	814,395	(276,895)	-
Warrants exercised at $0.10 per share in January 2005	-	-	17,500	8,750	(7,000)	-
Common Stock issued in settlement of debt at $0.33 per share in January 2005	-	-	2,399,012	1,199,503	(407,830)	-
Common Stock issued in exchange for consulting services at $1.30 per share in January 2005	-	-	315,636	157,818	252,509	-
Common Stock issued in settlement of debt at $0.33 per share in February 2005	-	-	75,757	37,879	(12,879)	-

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13

APPLIED DNA SCIENCES, INC
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CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH
DECEMBER 31, 2005 (Unaudited)
(Continued)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed
Warrants exercised at $0.10 per share in February 2005	-	-	20,000	10,000	(8,000)	-
Common Stock issued in settlement of debt at $0.33 per share in February 2005	-	-	606,060	303,030	(103,030)	-
Warrants exercised at $0.10 per share in February 2005	-	-	45,000	22,500	(18,000)	-
Common Stock issued in settlement of debt at $0.40 per share in February 2005	-	-	1,500,000	750,000	(150,000)	-
Common Stock issued in settlement of debt at $0.33 per share in February 2005	-	-	278,433	139,217	(47,334)	-
Common Stock issued in exchange for consulting services at $1.17 per share in February 2005	-	-	17,236	8,618	11,548	-
Common stock issued pursuant to subscription at $0.50 per share in February 2005	-	-	300,000	150,000	-	-
Common Stock issued in exchange for consulting services at $0.95 per share in February 2005	-	-	716,500	358,250	322,425	-
Common Stock issued in exchange for consulting						

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

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(Continued)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed
Common Stock issued in exchange for consulting services at $0.92 per share in March 2005	-	-	24,333	12,167	10,219	-
Common Stock issued in exchange for consulting services at $0.99 per share in March 2005	-	-	15,000	7,500	7,350	-
Common stock issued pursuant to subscription at $0.50 per share in March 2005	-	-	1,240,000	620,000	-	-
Common stock canceled For shares issued in exchange of debt						

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

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15

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
DECEMBER 31, 2005 (Unaudited)
(Continued)

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

Common Stock issued in exchange for consulting services at $0.75 per share in April 2005	-	-	850,000	850	636,650	-
Common Stock issued in exchange for consulting services at $0.33 per share in April 2005	-	-	500,000	500	164,500	-
Common Stock canceled during April 2005, previously issued for services rendered at $3.42 per share	-	-	(10,000)	(10)	(34,190)	-
Common Stock issued in settlement of debt at $0.33 per share in April 2005	-	-	75,758	77	24,923	(25,000)
Common Stock issued in exchange for consulting services at $0.68 per share in April 2005	-	-	50,000	50	33,950	-
Proceeds received against subscription Payable in June 2005	-	-	-	-	-	118,000
Common Stock canceled in June 2005, previously issued for services rendered at $0.50 per share	-	-	(10,000)	(10)	(4,990)	-
Cancellation of previously granted stock options granted to employees for services rendered, at exercise price below fair value of common stock	-	-	-	-	(180,000)	-
Warrants issued to consultants and Employees during the quarter ended June 30, 2005	-	-	-	-	849,046	-
Common Stock issued in exchange for consulting services at $0.60 per share in July 2005	-	-	157,000	157	94,043	-
Common Stock issued in exchange for intellectual property at $0.67 per share in July 2005	-	-	36,000,000	36,000	24,084,000	-
Common Stock issued in exchange for consulting services at $0.60 per share in July 2005	-	-	640,000	640	383,360	-
Common Stock issued in						

exchange for employee services at$0.48 per share in July 2005	-	-	8,000,000	8,000	3,832,000	-

See accompanying notes to unaudited condensed consolidated financial statements

16

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
DECEMBER 31, 2005 (Unaudited)
(Continued)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed
Common Stock issued in exchange for consulting services at $0.94 per share in September 2005	-	-	121,985	122	168,217	-
Common Stock issued in exchange for consulting services at$0.48 per share in August 2005	-	-	250,000	250	119,750	-
Common Stock penalty shares issued pursuant to pending SB-2 registration at $0.62 per share in September 2005	-	-	814,158	814	501,858	-
Common Stock penalty shares issued pursuant to pending SB-2 registration at $0.70 per share in September 2005	-	-	391,224	391	273,466	-
Common Stock issued in exchange for consulting services at $0.94 per share in September 2005	-	-	185,000	185	173,715	-
Common Stock returned in September 2005, previously issued for services rendered at $0.40 per share	-	-	(740,000)	(740)	(353,232)	56,000
Adjustment to warrants previously issued and canceled during the year ended Sept 30, 2005	-	-	-	-	(287,440)	-

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed
Net Loss	-	-	-	-	-	-
Balance as of September 30, 2005	60,000	$ 6	112,230,392	$ 112,230	$81,879,801	$ 20,000

See accompanying notes to unaudited condensed 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
DECEMBER 31, 2005 (Unaudited)
(Continued)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed
Common stock issued pursuant to subscription at $0.50 per share in October 2005	-	-	400,000	400	199,600	(200,000)
Common Stock issued in exchange for consulting services at $0.75 per share in October 2005	-	-	100,000	100	74,900	-
Common Stock returned in October 2005, previously issued for services rendered at $0.60 per share	-	-	(350,000)	(350)	(209,650)	-
Common stock issued pursuant to subscription at $0.50 per share in December 2005	-	-	40,000	40	19,960	(20,000)
Common Stock penalty shares issued pursuant to pending SB-2 registration at $0.51 per share in December 2005	-	-	505,854	506	257,481	-
Fair value related to warrants issued in November 2005	-	-	-	-	563,750	-
Net Loss	-	-	-	-	-	-
Balance as of December						

31, 2005	60,000	$ 6	112,926,246	$ 112,926	$82,785,842	$(200,000)
	=========	==========	============	===========	===========	==========

See accompanying notes to unaudited condensed consolidated financial statements

18

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

	For The Three M December 2005
Cash flows from operating activities:	
Net loss from operating activities	$ (2,444,489)
Adjustments to reconcile net loss to net cash used in Operating activities:	
Depreciation	336,942
Organizational Expenses	
Preferred Shares issued in exchange for service	--
Warrants issued to consultants and note holders............................	563,750
Amortization of beneficial conversion feature-convertible notes............	--
Common stock issued:	
in exchange for consultant services rendered	75,000
in connection with costs of acquiring intangible assets	--
in connection with issuance of penalty shares pursuant to pending SB-2 registration...	257,986
Common stock canceled-previously issued for services rendered	(210,000)
Changes in Assets and Liabilities:	
Other current receivables...	(4,975)
Other assets..	--
Increase (decrease) in:	
Restricted cash related to stock subscription escrow......................	--
Increase in due related parties	53,805
Accounts payable and accrued liabilities	958,611

Net cash used in operating activities	(413,370)
Cash flows from investing activities:	
Security deposits	(9,397)
Capital expenditures	6,103
Payments for patent filing	--

Net cash used in investing activities	(3,294)
Cash flows from financing activities:	
Proceeds from sale of common stock, net of cost	--

Proceeds from subscription of common stock	--
Proceeds from sale of options	--
Proceeds from loans	550,000
Repayment of note payable...	--
Advances from shareholders	

Net cash provided by financing activities	550,000
Net increase in cash and cash equivalents	133,336
Cash and cash equivalents at beginning of period	31,190
Cash and cash equivalents at end of period	$ 164,526
	============
Supplemental Disclosures of Cash Flow Information:	
Cash paid during period for interest	--
Cash paid during period for taxes	--
Non-cash transaction	
Common stock issued for services	75,000
Common stock issued in exchange for intellectual property	--
Common stock issued in exchange for previously incurred debt	--
Common stock penalty shares issued pursuant to pending SB-2 registration	257,986

Common stock canceled-previously issued for services rendered	(210,000)
Common stock retired	--
Amortization of beneficial conversion feature.............................	--
Preferred Shares in exchange for services.................................	--
Warrants issued to consultants	563,750
Acquisition:	
Common stock retained	
Assets acquired	
Total consideration paid	
Organization expenses - note issued in exchange of shares retired	
Common stock issued in exchange for note payable	--

See accompanying notes to unaudited condensed consolidated financial statements

APPLIED DNA SCIENCES, INC
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
DECEMBER 31, 2005
(UNAUDITED)

NOTE A - SUMMARY OF ACCOUNTING POLICIES

General

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

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month period ended December 31, 2005 is not necessarily indicative of the results that may be expected for the year ended September 30, 2006. The unaudited condensed consolidated financial statements should be read in conjunction with September 30, 2005 financial statements.

Business and Basis of Presentation

On September 16, 2002, Applied DNA Sciences, Inc. (the "Company") was incorporated under the laws of the State of Nevada. The Company is in the development stage, as defined by Statement of Financial Accounting Standards No. 7 ("SFAS No. 7") and its efforts have been principally devoted to developing DNA embedded biotechnology security solutions in the United States. To date, the Company has generated nominal sales revenues, has incurred expenses and has sustained losses. Consequently, its operations are subject to all the risks inherent in the establishment of a new business enterprise. For the period from inception through December 31, 2005, the Company has accumulated losses of $77,869,903.

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

Reclassification

Certain prior period amounts have been reclassified for comparative purposes.

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, 2003 and for the subsequent periods.

NOTE A - SUMMARY OF ACCOUNTING POLICIES (continued)

The Company did not grant any stock options to employees during the period ended December 31, 2005. Had compensation costs for the Company's stock options been determined based on the fair value at the grant dates for the awards, the Company's net loss and losses per share would have been as follows :

	For The Three Months ended December 31, 2005	For The Three Months ended December 31, 2004	For the Period September, 16 2002 (Date of Inception through December 31, 2005
Net loss - as reported	$ (2,444,489)	$ (12,365,136)	$ (77,869,903)
Add: Total stock based employee compensation expense as reported under intrinsic value method (APB No. 25)	-	-	-
Deduct: Total stock based employee compensation expense as reported under fair value method (APB No. 123)	-	-	(1,836,222)
Net loss - Pro Forma	$ (2,444,489)	$ (12,365,136)	$ (79,706,125)
Net loss attributable to common stockholders - Pro Forma	$ (2,444,489)	$ (12,365,136)	$ (79,706,125)
Basic (and assuming dilution) loss per share - as reported	$ (0.02)	$ (0.45)	$ (1.94)
Basic (and assuming dilution) loss per share - Pro Forma	$ (0.02)	$ (0.45)	$ (1.99)

NOTE A - SUMMARY OF ACCOUNTING POLICIES (continued)

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123R (revised 2004), "Share-Based Payment" which is a revision of FASB Statement No. 123, "Accounting for Stock-Based Compensation". Statement 123R supersedes APB opinion No. 25, "Accounting for Stock Issued to Employees", and amends FASB Statement No. 95, "Statement of Cash Flows". Generally, the approach in Statement 123R is similar to the approach described in Statement 123. However, Statement 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro-forma disclosure is no longer an alternative. On April 14, 2005, the SEC amended the effective date of the provisions of this statement. The effect of this amendment by the SEC is that the Company will have to comply with Statement 123R and use the Fair Value based method of accounting no later than the first quarter of 2006. Management has not determined the impact that this statement will have on Company's consolidated financial statements.

New Accounting Pronouncements

In March 2005, the FASB issued FASB Interpretation (FIN) No. 47, "Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143," which requires an entity to recognize a liability for the fair value of a conditional asset retirement obligation when incurred if the liability's fair value can be reasonably estimated. The Company is required to adopt the provisions of FIN 47 no later than the first quarter of fiscal 2006. The Company does not expect the adoption of this Interpretation to have a material impact on its consolidated financial position, results of operations or cash flows.

SFAS 123R. On March 31, 2004 the Financial Accounting Standards Board ("FASB") issued its exposure draft, "Share-Based Payments", which is a proposed amendment to SFAS 123. The exposure draft would require all share-based payments to employees, including grants of employee stock options and purchases under employee stock purchase plans, to be recognized in the statement of operations based on their fair value. The FASB issued the final standard in December 2004 that is effective for small business issuers for annual periods beginning after December 15, 2005. The Company has not yet assessed the impact of adopting this new standard.

SFAS 151. In November 2004, the Financial Accounting Standards Board (FASB) issued SFAS 151, Inventory Costs-- an amendment of ARB No. 43, Chapter 4. This Statement amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Paragraph 5 of ARB 43, Chapter 4, previously stated that ". . . under some circumstances, items such as idle facility expense, excessive spoilage, double freight, and rehandling costs may be so abnormal as to require treatment as current period charges. . . ." This Statement requires that those items be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal." In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. This Statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company does not anticipate that

NOTE A - SUMMARY OF ACCOUNTING POLICIES (continued)

the implementation of this standard will have a material impact on its financial position, results of operations or cash flows.

SFAS 152. In December 2004, the FASB issued SFAS No.152, "Accounting for Real Estate Time-Sharing Transactions--an amendment of FASB Statements No. 66 and 67" ("SFAS 152) The amendments made by Statement 152 This Statement amends FASB Statement No. 66, Accounting for Sales of Real Estate, to reference the financial accounting and reporting guidance for real estate time-sharing transactions that is provided in AICPA Statement of Position (SOP) 04-2, Accounting for Real Estate Time-Sharing Transactions. This Statement also amends

FASB Statement No. 67, Accounting for Costs and Initial Rental Operations of Real Estate Projects, to state that the guidance for (a) incidental operations and (b) costs incurred to sell real estate projects does not apply to real estate time-sharing transactions. The accounting for those operations and costs is subject to the guidance in SOP 04-2. This Statement is effective for financial statements for fiscal years beginning after June 15, 2005. with earlier application encouraged. The Company does not anticipate that the implementation of this standard will have a material impact on its financial position, results of operations or cash flows.

SFAS 153. On December 16, 2004, FASB issued Statement of Financial Accounting Standards No. 153, Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions (" SFAS 153"). This statement amends APB Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. Under SFAS 153, if a nonmonetary exchange of similar productive assets meets a commercial-substance criterion and fair value is determinable, the transaction must be accounted for at fair value resulting in recognition of any gain or loss. SFAS 153 is effective for nonmonetary transactions in fiscal periods that begin after June 15, 2005. The Company does not anticipate that the implementation of this standard will have a material impact on its financial position, results of operations or cash flows.

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

NOTE A - SUMMARY OF ACCOUNTING POLICIES (continued)

effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Early adoption is permitted for accounting changes and corrections of errors made in fiscal years beginning after the date this Statement is issued. The Company does not expect the adoption of this SFAS to have a material impact on its consolidated financial position, results of operations or cash flows.

NOTE B - INTANGIBLE ASSET AMORTIZATION

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

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

The identifiable intangible assets acquired and their carrying value at December 31, 2005 are:

	Gross Carrying Amount	Accumulated Amortization	Net	Residual Value	Weighted Average Amortization Period (Years)
Amortizable Intangible Assets:					
Trade secrets and developed technologies	$9,430,900	$673,636	$8,757,264	-	7
Patents	34,257	13,490	20,767	-	5
Total Amortized Identifiable Intangible Assets	$9,465,157	$687,126	$8,778,031	-	6.99

Total amortization expense charged to operations for the three months ended December 31, 2005 and 2004 were $ 338,545 and $4,370 respectively.

Estimated amortization expense as of September 30, 2005 is as follows:

2006	$ 1,357,279
2007	1,357,279
2008	1,349,748
2009	1,349,271
2010 and after	3,704,998
Total	$ 9,116,575

NOTE C - NOTES PAYABLE

At December 31, 2005, notes payable are as follows:

Note payable, unsecured, currently in default, payable from August 1, 2005, right to convert to 180,000 shares of restricted stock in lieu of cash, rate of interest
4%.

Note payable, secured by all Company assets , payable from November 3, 2005, repayment due upon the earlier of $750,000 in new financing or by April 1, 2006, rate of interest 16% per annum (see Note E)%.

Less: current portion

Note Payable - long-term

NOTE D - CAPITAL STOCK

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

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

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

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

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

NOTE D - CAPITAL STOCK (continued)

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

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

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

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

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

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

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

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

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

(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
DECEMBER 31, 2005
(UNAUDITED)

NOTE D - CAPITAL STOCK (continued)

reached. The Company valued the shares issued at approximately $0.065 per share, which presents the fair value of the services received which did not differ materially from the value of the stock issued.

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

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

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

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

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

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

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

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

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

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

NOTE D - CAPITAL STOCK (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

In October 2003, the Company issued 120,000 shares of common stock for shares previously subscribed at $2.50 per share in September 2003. In October 2003, the Company canceled 100,000 shares of common stock previously issued in exchange for services at $2.50 per share.

NOTE D - CAPITAL STOCK (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE D - CAPITAL STOCK (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

31

APPLIED DNA SCIENCES, INC
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
DECEMBER 31, 2005
(UNAUDITED)

NOTE D - CAPITAL STOCK (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

32

APPLIED DNA SCIENCES, INC

(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
DECEMBER 31, 2005
(UNAUDITED)

NOTE D - CAPITAL STOCK (continued)

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

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

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

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

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

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

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

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

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

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

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

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

APPLIED DNA SCIENCES, INC
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
DECEMBER 31, 2005
(UNAUDITED)

NOTE D - CAPITAL STOCK (continued)

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

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

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

During the three months ended March 31, 2005, we issued 107,500 shares of common stock for warrants exercised at $0.10 share. This issuance is considered exempt under Regulation D of the Securities Act of 1933 and Rule 506 promulgated thereunder.

In January 2005, we issued 25,000 shares of common stock for warrants exercised at $0.10 share. This issuance is considered exempt under Regulation D of the Securities Act of 1933 and Rule 506 promulgated thereunder.

In January 2005, we retired $537,500 of convertible notes payable for 1,628,789 shares of common stock. The Notes are convertible into shares of our common stock at a price of $0.33 per share.

In January 2005, we issued 17,500 shares of common stock for warrants exercised at $0.10 share. This issuance is considered exempt under Regulation D of the Securities Act of 1933 and Rule 506 promulgated thereunder.

In January 2005, we retired $791,673 of convertible notes payable for 2,399,012 shares of common stock. The Notes are convertible into shares of our common stock at a price of $0.33 per share.

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

In February 2005, we retired $25,000 of convertible notes payable for 75,757 shares of common stock. The Notes are convertible into shares of our common stock at a price of $0.33 per share.

In February 2005, we issued 20,000 shares of common stock for warrants exercised at $0.10 share. This issuance is considered exempt under Regulation D of the

Securities Act of 1933 and Rule 506 promulgated thereunder.

In February 2005, we retired $200,000 of convertible notes payable for 606,060 shares of common stock. The Notes are convertible into shares of our common stock at a price of $0.33 per share.

In February 2005, we issued 45,000 shares of common stock for warrants exercised at $0.10 share. This issuance is considered exempt under Regulation D of the Securities Act of 1933 and Rule 506 promulgated thereunder.

NOTE D - CAPITAL STOCK (continued)

In February 2005, we retired $600,000 of convertible notes payable for 1,500,000 shares of common stock. The Notes are convertible into shares of our common stock at a price of $0.40 per share.

In February 2005, we retired $91,883 of convertible notes payable for 278,433 shares of common stock. The Notes are convertible into shares of our common stock at a price of $0.33 per share.

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

In February, 2005, the Company issued 300,000 shares of common stock subscribed for cash at $0.50 per share for a total of $150,000 pursuant to the exercise terms of a promissory note payable. This issuance is considered exempt under Regulation D of the Securities Act of 1933 and Rule 506 promulgated thereunder.

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

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

In March, 2005, the Company issued 13,202,000 shares of common stock subscribed for cash at $0.50 per share for a total of $6,601,000 pursuant to the exercise terms of a promissory note payable. This issuance is considered exempt under Regulation D of the Securities Act of 1933 and Rule 506 promulgated thereunder.

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

In March 2005, we issued 100,000 shares of common stock for options exercised at $0.60 share. This issuance is considered exempt under Regulation D of the Securities Act of 1933 and Rule 506 promulgated thereunder.

In March, 2005, the Company issued 1,675,272 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately $0.98 per share for a total of $1,641,767, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

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

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

35

APPLIED DNA SCIENCES, INC
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
DECEMBER 31, 2005
(UNAUDITED)

NOTE D - CAPITAL STOCK (continued)

In March, 2005, the Company issued 1,240,000 shares of common stock subscribed for cash at $0.50 per share for a total of $620,000 pursuant to the exercise terms of a promissory note payable. This issuance is considered exempt under Regulation D of the Securities Act of 1933 and Rule 506 promulgated thereunder.

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

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

The Company recognized an imbedded beneficial conversion feature present in the January/February Offering note ("January/February PPM"). The Company allocated a portion of the proceeds equal to the intrinsic value of that feature to additional paid in capital. The Company recognized and measured an aggregate of 4,179,554 of the proceeds, which is equal to the intrinsic value of the imbedded beneficial conversion feature, to additional paid in capital and a discount against the Bridge Offering. The debt discount attributed to the beneficial conversion feature was fully amortized over the fiscal first quarter period as interest expense.

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

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

In April, 2005, the Company issued 40,000 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately $0.80 per share for a total of $32,000, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

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

In April 2005, we retired $165,000 of convertible notes payable for 500,000 shares of common stock. The Notes are convertible into shares of our common stock at a price of $0.33 per share.

In April, 2005, a shareholder returned 10,000 shares previously issued for services valued at $34,200 in exchange for a cash settlement.

NOTE D - CAPITAL STOCK (continued)

In April 2005, we retired convertible notes payable for 75,758 shares of common stock. The Notes are convertible into shares of our common stock at a price of $0.33 per share.

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

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

In June 2005, the Company cancelled 300,000 stock options previously granted valued at $180,000. In 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 157,000 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately $0.60

per share for a total of $94,200, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

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

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

In July 2005, the Company issued 8,000,000 shares of its common stock without restriction to employees in exchange for services rendered. . The Company valued the shares issued at approximately $0.48 per share for a total of $3,840,000, which represents the fair value of the services received which did not differ materially from the value of the stock issued. Since the Company issued the shares without restriction , the Company may have violated federal and state securities laws in connection with the issuance of those shares (see Note G).

In July 2005, the Company issued 121,985 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately $0.94 per share for a total of $168,339, 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 250,000 shares of its common stock without restriction to consultants in exchange for services rendered. The Company valued the shares issued at approximately $0.48 per share for a total of $120,000, which represents the fair value of the services received which did not differ materially from the value of the stock issued. Since the Company issued the shares without restriction , the Company may have violated federal and state securities laws in connection with the issuance of those shares (see Note G).

In September 2005, the Company issued 814,158 penalty shares pursuant to the pending SB-2 registration terms. In connection with the 7,371,000 million convertible debt financing in the quarter ended March 30, 2005, the Company was obligated to complete a stock registration by July 2005. Since the registration was not effective by July 2005, the Company paid the required $257,985 of liquidated damages in shares of Company stock accruing

37

APPLIED DNA SCIENCES, INC
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
DECEMBER 31, 2005
(UNAUDITED)

NOTE D - CAPITAL STOCK (continued)

at the rate of 3.5% per month on the face value of the Notes for the month of July and August 2005. The Company valued the shares issued at approximately $0.62 per share for a total of $502,672.

In September 2005, the Company issued 391,224 penalty shares pursuant to the pending SB-2 registration terms. In connection with the 7,371,000 million convertible debt financing in the quarter ended March 30, 2005, the Company was obligated to complete a stock registration by July 2005. Since the registration 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 September 2005. The Company valued the shares issued at approximately $0.70 per share for a total of $273,857.

In September 2005, the Company issued 185,000 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately $0.94 per share for a total of $173,900, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

In September, 2005, the Company cancelled 740,000 shares previously issued for services valued at $296,972.

In September, 2005, the Company cancelled warrants previously issued valued at $287,440.

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.

In December 2005, the Company issued 505,854 penalty shares pursuant to the pending SB-2 registration terms. 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 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 September 2005. The Company valued the shares issued at approximately $0.51 per share for a total of $257,985. Upon the one year anniversary of the investor proceeds receipt date, all penalty shares will terminate. No additional penalty shares shall accrue subsequent to February 15, 2006.

In December 2005, the Company recognized the value attributable to the warrants in the amount of $563,750 to additional paid in capital related to the November 2005 Note Payable (see Note C).

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 shareholders 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 and placement of convertible debentures..

Warrants Outstanding					
Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)		Weighted Average Exercise Price	Exer
$0.10	105,464	3.54	$	0.10	
$0.20	5,000	2.88	$	0.20	
$0.50	5,550,000	4.85	$	0.50	5,
$0.60	9,132,000	3.38	$	0.60	9,
$0.70	750,000	1.58	$	0.70	
$0.75	17,727,000	3.75	$	0.75	17,
$1.00	100,000	0.79	$	1.00	

	33,369,464				33,369,46

NOTE E - STOCK OPTIONS AND WARRANTS (continued)

Transactions involving warrants are summarized as follows:

	Number of Shares		Weighted Per Share
Balance, September 30, 2003	383,500	$	1.38
	------------		----
Granted	4,574,753		0.58
Exercised	(88,000)		1.00
Canceled or expired	-		-
	------------		-
Balance, September 30, 2004	4,870,253	$	0.63
	------------		----
Granted	24,453,000		0.71
Exercised	(207,500)		0.34
Canceled or expired	(1,033,786)		0.65
	------------		----
Balance, September 30, 2005	28,081,967	$	0.70

Granted	5,500,000		0.50

Exercised	-		
Canceled or expired	(212,503)		1.31
Balance, December 31, 2005	33,369,464	$	0.67

In the quarter ended December 31, 2005, the Company issued 5,500,000 warrants to the holders of the Company's $550,000 notes payable (see Note C) with a $0.50 exercise price and a five year life. For the first 36 months, the warrants include anti dilution protection assuming no adjustment in the exercise price per share of Common Stock upon any reverse split of the Company's common stock. The estimated value of the warrants granted to Note holders was determined using the Black-Scholes pricing model and the following assumptions: contractual term of 5 years, a risk free interest rate of 4.55%, a dividend yield of 0% and volatility of 42.8%. The amount of the expense charged to operations for warrants was $563,750 and $394,698, respectively, for the three months ended December 31, 2005 and 2004.

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.

	Options Outstanding			Options E
Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable
$ .68	3,660,000	3.75	$ .68	3,660,000

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

	Number of Shares	Weigh Pric
Outstanding at October 1, 2003	-	
Granted	3,660,000	
Exercised	-	
Cancelled or expired	-	
Outstanding at September 30, 2005	3,660,000	
Granted	-	
Exercised	-	
Cancelled or expired	-	
Outstanding at September 30, 2005	3,660,000	

APPLIED DNA SCIENCES, INC
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
DECEMBER 31, 2005
(UNAUDITED)

NOTE F- RELATED PARTY TRANSACTIONS

As part of the Biowell acquisition, the Company entered into a consulting agreement with Timpix International Limited for the consulting services of three former Biowell employees, Jun-Jei Sheu, Ben Liang and Johnson Chen. The consulting agreement is for the shorter of two years, or until all of the consultants have obtained a visa to work in the United States and execute employment agreements with the Company. Such consulting agreement shall automatically renew for one year periods until terminated. Pursuant to the consulting agreement, the Company shall pay $47,000 per month, which is apportioned at $20,000 per month for Mr. Sheu, $15,000 per month for Mr. Liang and $12,000 per month for Mr. Chen. In October 2005, Biowell waived all accrued and future consulting charges and receive only travel reimbursements from the company. Messrs. Sheu, Liang or Chen anticipate becoming employees at a later date in 2006. Travel costs totaled $39,000 for the three months ended December 31, 2005.

The Company owes Biowell Technology, Inc., $15,000 for unpaid previous research and development costs.

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 December 31, 2005 totaled $17,404 with $14,274 occurring in the three months ended December 31, 2005.

NOTE G- COMMITMENTS AND CONTINGENCIES

EMPLOYMENT AND CONSULTING AGREEMENTS

The Company has employment agreements with some of the Company's officers and certain employees. These employment agreements provide for salaries and benefits, including stock options. In June of 2005, an Addendum was made to several employment agreements providing defined commitments should the Company terminate the employee with or without cause. It is the Company's position that the form of Addendum was not approved by the Board of Directors, and is therefore null and void, ab initio, as of the date that each one was executed by an officer of the Company.

The Company has consulting agreements with two outside contractors to provide marketing and financial advisory services. The Agreements are generally for a term of 12 months from inception and renewable

NOTE G- COMMITMENTS AND CONTINGENCIES (continued)

automatically from year to year unless either the Company or consultant terminates such engagement by written notice.

Litigation

Stern & Co. v. Applied DNA Sciences, Inc., Case No.: 05 CV 00202

Plaintiff Stern & Co. commenced this action against us in the United States District Court for the Southern District of New York on or about January 10, 2005. In this action, Stern & Co. alleges that it entered into a contract with us to perform media and investor relations for a monthly fee of $5,000 and stock options. Stern & Co. claims that we failed to make certain payments pursuant to the contract and seeks damages in the amount of $96,042. We answered the complaint on May 12, 2005, denying Stern & Co.'s allegations and we asserted a number of defenses. In January 2006, the Company settled the action by issuing 100,000 options with a three year life and with a $0.70 exercise price.

Oceanic Consulting, S.A. v. Applied DNA Sciences, Inc., Index No.: 603974/04

Plaintiff Oceanic Consulting, S.A. commenced this action on or about November 24, 2004 against us in the Supreme Court of the State of New York, County of New York. Oceanic Consulting, S.A. asserts a cause of action for breach of contract based upon the allegation that we failed to make payments pursuant to a consulting agreement. Oceanic Consulting, S.A. also asserts a causes of action in which it seeks reimbursement of its expenses and attorneys' fees. Oceanic Consulting, S.A. seeks damages in the amount of $137,500. Oceanic Consulting, S.A. moved for a default judgment, which we have opposed based upon Oceanic Consulting, S.A.'s failure to properly serve the complaint as well as our meritorious defenses. Thereafter, Oceanic Consulting, S.A. agreed to withdraw its motion for a default judgment and accepted service of our answer on May 23, 2005. We dispute the allegations of the complaint. This action is in the early stages of discovery and we intend to vigorously defend this matter. 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.

Crystal Research Associates, LLC v. Applied DNA Sciences, Inc., Docket No.: L-7947-04

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. We intend to move to vacate the default judgment on various grounds. We dispute the allegations of the complaint and we intend to vigorously defend this matter.

Franchising and Distribution Agreements

On July 15, 2005, Applied DNA Sciences, Inc. (the "Company") closed upon the stock purchase agreement (the "Agreement") with Biowell Technology Inc., a

Taiwan corporation ("Biowell") that was executed on January 28, 2005. Pursuant to the Agreement, the Company, through its wholly-owned subsidiary, APDN (B.V.I.) Inc., a British Virgin Islands company, acquired all of the issued and outstanding shares of Rixflex Holdings Limited, a British Virgin Islands company ("Rixflex"). Pursuant to an asset purchase agreement, Biowell transferred all of its intellectual property (the "Biowell Technology") to Rixflex prior to the Company's acquisition of Rixflex. In exchange for all of the issued and outstanding shares of Rixflex, we issued to the shareholders of Rixflex 36 million shares of our common stock.

In connection with the closing of , the Company terminated the October 2002 license agreement with Biowell, replacing it with a new Biowell license agreement granting an exclusive license in selected Asian countries for an initial period through December 31, 2010. If Biowell meets its performance goals, the license agreement extends for an additional five year term. Sub-license payments due to the Company are 50% for all fees, payments and consideration received. 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.

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

Operating Lease Commitment

The Company leases office space under operating lease in Los Angeles, California for its corporate use from an entity controlled by significant former shareholder, expiring in November 2006. In November 2005, the Company closed its Los Angeles facility and relocated to Stony Brook, New York.

Registration of Company's Shares of Common Stock

Until the Company successfully completes its pending SB-2 registration, the Company is subject to liquidated damages (see note D). In connection with the 7,371,000 million convertible debt financing in the quarter ended March 30, 2005, the Company was obligated to complete a stock registration by July 2005. Since the registration was not effective by July 2005, the Company anticipates paying required 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 period ended January 15, 2006 and February 15, 2006, the Company anticipates accruing approximately $257,985 and $228,725, respectively, in penalty share damages (see Note H). Upon the one year anniversary of the investor proceeds receipt date, all penalty shares will terminate. No additional penalty shares shall accrue subsequent to February 15, 2006.

NOTE H- SUBSEQUENT EVENTS

In January 2006, an ex-employee filed a $230,000 employment agreement claim against the Company. This action is in the early stages of discovery and we intend to vigorously defend this matter. 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.

Until the Company successfully completes its pending SB-2 registration, the Company is subject to liquidated damages (see note D). In connection with the 7,371,000 million convertible debt financing in the quarter ended March 30, 2005, the Company was obligated to complete a stock registration by July 2005.

Since the registration was not effective by July 2005, the Company anticipates paying required 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 period ended January 15, 2006 and February 15, 2006, the Company anticipates accruing approximately $257,985 and $228,725, respectively, in penalty share damages (see Note G). Upon the one year anniversary of the investor proceeds receipt date, all penalty shares will terminate. No additional penalty shares shall accrue subsequent to February 15, 2006.

42

Item 2. Management's Discussion and Analysis

FORWARD-LOOKING STATEMENTS

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

PLAN OF OPERATIONS

Sales and Marketing

Our revenues will come from three sources:

1) direct sales to manufacturer,
2) sales through our OEM relationships, and,
3) authentication (laboratory) services.

We employ a multi-tier sales and marketing strategy involving our marketing and sales staff working together with high-level contacts in target industries and our OEM base. We are attempting to develop strategic alliances and marketing partners by setting up alliances with Biowell's technology partners, granting licenses to existing anti-counterfeit suppliers and partner with industry leaders for intellectual property development.

We are cognizant that no technology exists today to enable someone in the street to ascertain, at the point of purchase, whether an expensive product, or a child's foodstuff, or pharmaceutical product is genuine, worth the money being paid and safe to use or ingest. No brand owner is able to rapidly determine whether a product is real of fake. Many multi-billion dollar brands have no technology to protect against counterfeiting, to detect its occurrence and to interdict or prosecute the counterfeiter. No company has the capability to determine with forensic certainty that it is subject to attack. Such companies remain seriously exposed to product liability, loss of consumer confidence and loss of revenues. Governments have no rapid detection system to determine at the point of entry, inspection or seizure whether products are real or fake. A major thrust of our marketing efforts is to work with consumer groups, media, corporate officers, government departments, Customs, insurers and others to bring home the message that, in a world of criminality and terrorism, no-one is safe.

Business Strategy and Approach

We have established integrated business operations addressing and servicing the needs of the global security marketplace on the part of corporations and governments for; anti-counterfeiting, fraud prevention, product authentication, brand protection, supply chain management and protection.

Intellectual Property Development, Product Operations & Partnerships

We have proprietary DNA security technology, and develop security solutions that protect corporate and intellectual property from counterfeiting, fraud, piracy and product diversion using botanical DNA as an encrypted/code molecule that can be embedded in inks, paper, substrates, liquids, textiles, thread, plastics, holograms and microchips.

We produce security solutions customized to our customer's needs. We market and sell DNA anti-counterfeit and fraud prevention solutions that integrate into, and layer with, existing security solutions. These DNA security features are integrated at the original equipment manufacturer level with ink, paper, liquids, thread and hologram producers, who in turn sell/supply finished security products such as primary and secondary product packaging for pharmaceuticals, beauty products, textiles, currency, passports, ID cards, etc. We have strict protocols for specifying, integrating, testing, shipping and confirming the presence of DNA in any given product.

We plan to develop new product lines that will address specific new challenges in the security marketplace, and bring these advances to target industries, customers and countries.

Additionally, we will identify strategic partnerships and co-marketing ventures, and licensees to work with us to develop, market and sell our biotechnological security products. This will include sub-licensing the technology to key partners in specific sectors with an established base of customers. These partners will be able to enhance their product lines and client services by adding our technology to the existing security matrix in their products, providing an enhanced solution to deter fraud and counterfeiting.

Management Strategy

We anticipate a period of rapid change as we begin commercialization of the products now available subsequent to: a) the signing of our licenses with Biowell, b) the establishment of our prototyping labs at Stony Brook, and c) the availability of products that have recently been commercialized in Asia by Biowell.

We have organized our resources to manage our commercialization effectively, optimizing the delivery of new prototypes for customers, and managing outsourcing especially through our OEMs. Our Chief Executive Officer is responsible for the strategic direction, coordinating with our overseas technology partner Biowell and scientific development as well as corporate governance and operations. Our President is responsible for business development, including relations with US and foreign government agencies, developing business relationships with target corporations and OEM's, and securing revenues. Our Chief Financial Officer covers overall financial management, financial reporting, corporate administration, investors relations. Our marketing department develops strategic awareness of our technologies across target industry sectors, their associated media and lobbying companies and liaises with regulatory bodies (EPA, FDA, etc) and industry Associations (CTFA, PHARMA, etc). Our sales department covers specific industries, such as the pharmaceutical, packaging, ink, cosmetic and comestible sectors and acts as our media spokesperson, clarifying for the pharmaceutical and nutraceutical industries, allied health professionals and consumers the advantages of our anti-counterfeit, diversion and piracy applications and products. Our Chairman oversees the Biowell and Stony Brook DNA production Laboratories and the development of core DNA sciences for current and future applications. Our Strategic Technology Development Officer is principally engaged in the productization of DNA markers for specific industry applications, and for liaison with corresponding scientists from our principal OEM partners, e.g., petroleum markers, chemical markers, markers for precious stones, DNA-encrypted inks, DNA markers for the pharmaceutical industry, etc.

44

Consultant & Enforcement Operations

As nations are threatened by terrorism and corporations try to prevent corporate fraud, counterfeiting, product diversion and industrial espionage, the need for secure anti-counterfeiting and identification systems increases. Our technology can provide important and cost-effective support for local, state, and federal governments as well as corporations doing business with highly sensitive information or products susceptible to counterfeit. Our anti-counterfeiting technology can be used for the following types of identification and important government documents:

- Passports
- Green cards
- Visas
- Driver's licenses
- Social Security cards
- Student visas
- Military ID's
- Other important Identity cards and official documents

We intend to work in collaboration with Biowell and other security organizations in order to continue to research and develop new product lines derived from, but not limited to, DNA technology. Research and development of new product lines is an ongoing commitment and is currently underway in the Biowell labs and will continue in the U.S. at our new facilities being established at the Long Island High Technology Incubator (LIHTI) at Stony Brook University in New York. Research and development objectives include the development of a new line of detection technologies that will provide faster and more convenient ways to authenticate DNA, continuous effort to incorporate our DNA markers with various products for new applications, and establishment of a leading DNA authentication service lab. We believe that we will obtain commercial revenues for these efforts within 12-24 months, although no assurances can be given that we will ever generate revenues. Our prototyping laboratory will customize "off-the-shelf" products for new customers on a case-by-case basis. These new products are typically newly configured labels, inks or packing elements. We have identified several options for remote detection and faster detection methodologies.

We will consult with our clients on a total security service offering; how to protect their brands, intellectual property, products and physical security access and how to reduce risk exposure, product liability exposure and product recall liabilities. We plan to offer worldwide DNA analysis services supporting the authentication of products and the detection, interdiction, deterrence and prosecution of counterfeiters and related crimes, through our subcontractors, sub-licensees and security industry collaborative partners.

International Sub-License Operations

Developing Technology - We have an in-depth understanding of DNA microchip design and applications. We will jointly develop DNA-holograms and DNA-Hologram-RFID devices, DNA-inks, DNA-dyes and DNA-security labels with leading original equipment manufacturers in these specialist fields.

We will utilize our existing relationships and develop new ones to introduce our anti-counterfeiting technology to generate business. Each industry has unique requirements and needs for their anti-counterfeit solutions, and we believe our DNA technology will provide maximum security technologies. For example, our smart packaging solutions with DNA security markers in ink, paper and holograms has widespread application in packaging for pharmaceuticals, cosmetics, automotive markets, passports, ID's and currency. Our proprietary technology offers immediate and affordable detection and security for their brands and products.

Strong Technology Alliances - Our technology can also provide advanced security dimensions to:

- Electronics security: access and physical/plant security (biometric security cards enhanced with DNA)
- Security Holograms (DNA enhanced)
- Radio Frequency Identification systems (DNA + RFID)
- Security papers and printing
- Holograms (DNA holograms)
- Other security-related products and systems

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

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

Critical Accounting Policies

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and judgments that affect our reported assets, liabilities, revenues, and expenses, and the disclosure of contingent assets and liabilities. We base our estimates and judgments on historical experience and on various other assumptions we believe to be reasonable under the circumstances. Future events, however, may differ markedly from our current expectations and assumptions. While there are a number of significant accounting policies affecting our consolidated financial statements; we believe the following critical accounting policies involve the most complex, difficult and subjective estimates and judgments:

- stock-based compensation
- fair value of intangible assets

Stock-Based Compensation

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

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

From its inception, the Company has incurred significant costs in connection with the issuance of equity- based compensation, which is comprised primarily of our common stock and warrants to acquire our common stock, to non-employees. The Company anticipates continuing to incur such costs in order to conserve its limited financial resources. The determination of the volatility, expected term and other assumptions used to determine the fair value of equity based compensation issued to non-employees under SFAS 123 involves subjective judgment and the consideration of a variety of factors, including our historical stock price, option exercise activity to date and the review of assumptions used by comparable enterprises.

We account for equity based compensation, issued to non-employees in exchange for goods or services , in accordance with the provisions of SFAS No. 123 and EITF No. 96-18, "Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services".

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 $24,120,000. The value of the acquired intangible assets was $9,430,900, with the balance of the purchase price, or $14,689,100, charged to operations as a cost of the transaction.

Revenues

From our inception on September 16, 2002, we have not generated revenues from operations. We believe we will begin generating revenues from operations in the fiscal year as we transition from a development stage enterprise to that of an active growth stage company, although no assurances can be given that we will generate any revenues from operations.

Costs and Expenses

Selling, general and administrative expenses for the three months ended December 31, 2005 compared to December 31, 2004 decreased $8.676 million or 86% to $2.078 million from $10.754 million in the prior period. Included within the $8.676 million decrease compared to the three months ended December 31, 2005 was $9.807 million in lower expenses consisting of $9.292 million in fund raising and consultant costs, $465,000 in royalties and $50,000 in lower travel costs. Offsetting the decreases was $1.131 million in higher costs consisting of $774,000 in accrued penalty shares pursuant to the pending SB-2 registration and $357,000 in relocation, restructuring charges and other items.

Research and development expenses decreased $22,000 for the three months ended December 31, 2005 compared to the same period in 2004 from $38,000 to $16,000 primarily due to lower development and testing costs.

In the three months ended December 31, 2005, depreciation and amortization increased $338,000 for the period compared to the same period in 2004 from $5,000 to $343,000. In the year ended September 30, 2005, the Company capitalized $9.431 million related to an intellectual property asset acquisition. As a result, the Company recorded amortization expense totaling $336,000 for the quarter ended December 31, 2005 compared to no intangible asset amortization in the three months ended December 31, 2004. The Company estimates a seven year useful life that commenced during the fourth fiscal quarter of 2005.

47

Total operating expenses decreased to $2.438 million from $10.798 million, or a decrease of $8.360 million as a result of the combination of factors listed above.

Interest expense, for the three months ended December 31, 2005 decreased to $20,000 from $1.568 million in the same period of 2004, a decrease of $1.548 million. In the three months ended December 2004, the Company expensed $1.515 million in beneficial conversion feature related to the sale of convertible debt and attached warrants in the year ended December 31, 2005.

Net loss for the three months ended December 31, 2005 decreased to a loss of $2.444 million from a loss of $12.365 million in the prior period as a result of the combination of factors described above.

Liquidity and Capital Resources

Our liquidity needs will come from 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. As of December 31, 2005, we had $960,429 in outstanding notes payables. Please see Note C in our Form 10-QSB for the quarter ended December 31, 2005 for the agreement terms.

For the three months ended December 31, 2005, we obtained $550,000 in bridge financing and we used the proceeds 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.

As of December 31, 2005, we had a working capital deficit of $3,976,382. For the year ended December 31, 2005, we generated a net cash flow deficit from operating activities of $413,000 consisting primarily of year to date losses of

$2,444,000. Non cash equity adjustments totaling a net $687,000 included $564,000 in expensed warrants issued in connection with the November 2005 financing, $75,000 in net stock issued for consulting services, $258,000 in penalty stock issued pursuant to the pending SB-2 registration and ($210,000) in cancelled shares for services previously rendered. Finally, non cash depreciation and amortization totaled $337,000 while net liabilities and other increased by $1.008 million. Cash used in investing activities totaled $3,000 primarily for increased security deposits. Cash provided by financing activities for the year ended December 31, 2005 resulted from the $550,000 bridge financing.

We expect capital expenditures to be less than $500,000 fiscal 2006. Our primary investments will be in laboratory equipment to support prototyping and our authentication services.

Exploitation of potential revenue sources will be financed primarily through the sale of securities and convertible debt, exercise of outstanding warrants, issuance of notes payable and other debt or a combination thereof, depending upon the transaction size, market conditions and other factors.

While we have raised capital to meet our working capital and financing needs in the past, additional financing is required within the next 12 months in order to meet our current and projected cash flow deficits from operations and development. We have sufficient funds to conduct our operations for several months, but not for 12 months or more. There can be no assurance that financing will be available in amounts or on terms acceptable to us, if at all.

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

Our registered independent certified public accountants have stated in their report dated October 21, 2005, 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.

We will still need additional investments in order to continue operations to cash flow break even. Additional investments are being sought, but we cannot guarantee that we will be able to obtain such investments. 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 and the downturn in the U.S. stock and debt markets could make it more difficult to obtain financing through the issuance of equity or debt securities. Even if we are able to raise the funds required, it is possible that we could incur unexpected costs and expenses, fail to collect significant amounts owed to us, or experience unexpected cash requirements that would force us to seek alternative financing. Further, if we issue additional equity or 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, we will have to curtail our operations.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Product Research and Development

As a result of the recent financings, the Company anticipates expending $500,000 of available cash towards research and development activities 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 do not anticipate the acquisition of any material property, plant or equipment during the next 12 months.

Number of Employees

From our inception through the period ended December 31, 2005, we have mainly relied on the services of outside consultants for services. We currently have eight employees. In order for us to attract and retain quality personnel, we anticipate we will have to offer competitive salaries to future employees. We anticipate that it may become desirable to add additional full and or part time employees to discharge certain critical functions during the next 12 months. This projected increase in personnel is dependent upon our ability to generate revenues and obtain sources of financing. There is no guarantee that we will be successful in raising the funds required or generating revenues sufficient to fund the projected increase in the number of employees. As we continue to expand, we will incur additional cost for personnel.

Going Concern

The financial statements included in this filing have been prepared in conformity with generally accepted accounting principles that contemplate the continuance of the Company as a going concern. The Company's cash position may be inadequate to pay all of the costs associated with testing, production and marketing of products. Management intends to use borrowings and security sales

49

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 the Company be unable to continue existence.

Trends, Risks and Uncertainties

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

RISK FACTORS

Much of the information included in this quarterly report includes or is based upon estimates, projections or other "forward-looking statements". Such forward-looking statements include any projections or estimates made by us and our management in connection with our business operations. While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect our current judgment regarding the direction of our business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions or other future performance suggested herein.

Such estimates, projections or other "forward-looking statements" involve various risks and uncertainties as outlined below. We caution the reader that important factors in some cases have affected and, in the future, could materially affect actual results and cause actual results to differ materially from the results expressed in any such estimates, projections or other "forward-looking statements".

Our common shares are considered speculative. Prospective investors should consider carefully the risk factors set out below.

We Have a History Of Losses Which May Continue, Which May Negatively Impact Our Ability to Achieve Our Business Objectives.

We incurred net losses of $52,610,380 for the year ended September 30, 2005. For the three months ended December 31, 2005, we incurred a net loss of $2,444,489. We cannot assure you that we can achieve or sustain profitability on a quarterly or annual basis in the future. Our operations are subject to the risks and competition inherent in the establishment of a business enterprise. There can be no assurance that future operations will be profitable. Revenues and profits, if any, will depend upon various factors, including whether we will be able to generate revenue. As a result of continuing losses, we may exhaust all of our resources prior to completing the development of our products. Additionally, as we continue to incur losses, our accumulated deficit will continue to increase, which might make it harder for us to obtain financing in the future. We may not achieve our business objectives and the failure to achieve such goals would have an adverse impact on us, which could result in reducing or terminating our operations.

If We Are Unable to Obtain Additional Funding Our Business Operations Will be Harmed and If We Do Obtain Additional Financing Our Then Existing Shareholders May Suffer Substantial Dilution.

We will require additional funds to sustain and expand our research and development activities. We anticipate that we will require up to approximately $500,000 to fund our anticipated research and development operations for the next twelve months, depending on revenue from operations. Additional capital

will be required to effectively support the operations and to otherwise implement our overall business strategy. Even if we do receive additional financing, it may not be sufficient to sustain or expand our research and development operations or continue our business operations.

There can be no assurance that financing will be available in amounts or on terms acceptable to us, if at all. The inability to obtain additional capital will restrict our ability to grow and may reduce our ability to continue to conduct business operations. If we are unable to obtain additional financing, we will likely be required to curtail our research and development plans. Any additional equity financing may involve substantial dilution to our then existing shareholders.

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 October 21, 2005, our independent auditors stated that our financial statements for the year ended September 30, 2005 were prepared assuming that we would continue as a going concern. Our ability to continue as a going concern is an issue raised due to our incurring net losses of $75,425,414 during the period September 16, 2002 (date of inception) through September 30, 2005. 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 obtaining additional funding from the sale of our securities, generating sales or obtaining loans and grants from various financial institutions where possible. Our continued net operating losses increases the difficulty in meeting such goals and there can be no assurances that such methods will prove successful.

51

Our Research and Development Efforts for New Products May be Unsuccessful.

We will incur significant research and development expenses to develop new products and technologies. There can be no assurance that any of these products or technologies will be successfully developed or that if developed they will be commercially successful. In the event that we are unable to develop commercialized products from our research and development efforts or we are unable or unwilling to allocate amounts beyond our currently anticipated research and development investment, we could lose our entire investment in these new products and this may materially and adversely affect our business operations, which would result in loss of revenues and greater operating expenses.

Our Acquired Technology Has Yet to be Independently Validated

In July 2005, we acquired certain intellectual property. Such intellectual property relating to the botanical DNA, encapsulation methods, integrity of the technology and all other stated claims by the seller need to be independently validated by a third party. Satisfactory completion of this independent validation will be required prior to their being available for commercial sale. In the event that some or all of the technology cannot be independently validated, we will be unable to commercially develop products utilizing such technology, which could have a materially adverse effect on our business and results of operations.

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

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

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

We Currently Have no or Limited Manufacturing, Sales, Marketing or Distribution Capabilities.

We currently have no in-house manufacturing capability. We rely on third-party vendors for this service. 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. We currently have a limited sales and marketing team. If we are not able to develop greater sales, marketing or distribution capacity, we may not be able to generate revenue or sufficient revenue to support our operations.

If We Fail to Introduce New Products, or Our existing Products are not Accepted by Potential Customers, We May Not Gain or May Lose Market Share.

Rapid technological changes and frequent new product introductions are typical for the markets we serve. Our future success will depend in part on continuous, timely development and introduction of new products that address evolving market requirements. We believe successful new product introductions provide a significant competitive advantage because customers invest their time

in selecting and learning to use new products, and are often reluctant to switch products. To the extent we fail to introduce new and innovative products, we may lose market share to our competitors, which will be difficult or impossible to regain. Any inability, for technological or other reasons, to successfully develop and introduce new products could reduce our growth rate or damage our business.

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

- Availability, quality and price relative to competitive products;
- The timing of introduction of the product relative to competitive products;
- Customers' opinions of the products' utility;
- Ease of use;
- Consistency with prior practices;
- Scientists' opinions of the products' usefulness;
- Citation of the product in published research; and
- General trends in life sciences research.

We have not experienced any difficulties with the preceding factors, however, there can be no assurance that we will not experience difficulties in the future. The expenses or losses associated with unsuccessful product development or lack of market acceptance of our new products could materially adversely affect our business, operating results and financial condition.

A Manufacturer's Inability to Produce Our Goods on Time and to Our Specifications Could Result in Lost Revenue and Net Losses

We do not own or operate any manufacturing facilities and therefore depend upon independent third parties for the manufacture of all of our products. Our products are manufactured to our specifications. The inability of a manufacturer to ship orders of our products in a timely manner or to meet our quality standards could cause us to miss the delivery date requirements of our customers for those items, which could result in cancellation of orders, refusal to accept deliveries or a reduction in purchase prices, any of which could have a material adverse effect as our revenues would decrease and we would incur net losses as a result of sales of the product, if any sales could be made. Because of our business, the dates on which customers need and require shipments of our security products from us are critical.

If We Need to Replace Manufacturers, Our Expenses Could Increase Resulting in Smaller Profit Margins

We compete with other companies for the production capacity of our manufacturers and import quota capacity. Some of these competitors have greater financial and other resources than we have, and thus may have an advantage in the competition for production and import quota capacity. If we experience a significant increase in demand, or if an existing manufacturer of ours must be replaced, we may have to expand our third-party manufacturing capacity. We cannot assure you that this additional capacity will be available when required on terms that are acceptable to us or similar to existing terms which we have with our manufacturers, either from a production standpoint or a financial standpoint. We do not have long-term contracts with any manufacturer. None of the manufacturers we use produces our products exclusively.

52

Should we be forced to replace one or more of our manufacturers, we may experience an adverse financial impact, or an adverse operational impact, such as being forced to pay increased costs for such replacement manufacturing or delays upon distribution and delivery of our products to our customers, which could cause us to lose customers or lose revenues because of late shipments.

If a Manufacturer of Ours Fails to Use Acceptable Labor Practices, We Might Have Delays in Shipments or Face Joint Liability for Violations, Resulting in Decreased Revenue and Increased Expenses

While we require our independent manufacturers to operate in compliance with applicable laws and regulations, we have no control over the ultimate actions of our independent manufacturers. While our internal and vendor operating guidelines promote ethical business practices and our staff and buying agents periodically visit and monitor the operations of our independent manufacturers, we do not control these manufacturers or their labor practices. The violation of labor or other laws by an independent manufacturer of ours, or by one of our licensing partners, or the divergence of an independent manufacturer's or licensing partner's labor practices from those generally accepted as ethical in the United States, could interrupt, or otherwise disrupt the shipment of finished products to us or damage our reputation. Any of these, in turn, could have a material adverse effect on our financial condition and results of operations, such as the loss of potential revenue and incurring additional expenses.

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

The expected growth of our operations (as to which no representation can be made) will place a significant strain on our current management resources. To manage this expected growth, we will need to improve our:

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

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

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 will 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.

If We Are Unable to Retain the Services of Messrs. Sheu, Hayward or Liang, or If We Are Unable to Successfully Recruit Qualified Managerial and Sales Personnel Having Experience in Business, We May Not Be Able to Continue Our Operations.

53

Our success depends to a significant extent upon the continued service of Mr. Jun-Jei Sheu, our Chairman of the Board of Directors, Dr. James Hayward, our Chief Executive, Dr. Benjamin Liang, our Secretary and Strategic Technology Development Officer. We do not have employment agreements with Drs. Sheu, Hayward or Liang Loss of the services of Drs. Sheu, Hayward or Liang could have a material adverse effect on our growth, revenues, and prospective business. We do not maintain key-man insurance on the life of Drs. Sheu, Hayward or Liang We are not aware of any other named executive officer or director who has plans to leave us or retire. In addition, in order to successfully implement and manage our business plan, we will be dependent upon, among other things, successfully recruiting qualified managerial and sales personnel having experience in business. Competition for qualified individuals is intense. There can be no assurance that we will be able to find, attract and retain existing employees or that we will be able to find, attract and retain qualified personnel on acceptable terms.

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

Recruiting and retaining qualified scientific and production personnel to perform research and development work and product manufacturing is critical to our success. Because the industry in which we compete is very competitive, we face significant challenges attracting and retaining a qualified personnel base. Although we believe we have been and will be able to attract and retain these personnel, there is no assurance that we will be able to continue to successfully attract qualified personnel. In addition, our anticipated growth and expansion into areas and activities requiring additional expertise, such as clinical testing, government approvals, production, and marketing will require the addition of new management personnel and the development of additional expertise by existing management personnel. The failure to attract and retain these personnel or, alternatively, to develop this expertise internally would adversely affect our business as our ability to conduct research and development will be reduced or eliminated, resulting in fewer or no products for sale and lower revenues. We generally do not enter into employment agreements requiring these employees to continue in our employment for any period of time.

We Need to Expand Our Sales and Support Organizations to Increase Market Acceptance of Our Products.

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

The Biomedical Research Products Industry is Very Competitive, and We may be Unable to Continue to Compete Effectively in this Industry in the Future.

We are engaged in a segment of the biomedical research products industry that is highly competitive. We compete with many other suppliers and new competitors continue to enter the market. Many of our competitors, both in the United States and elsewhere, are major pharmaceutical, chemical and biotechnology companies, and many of them have substantially greater capital resources, marketing experience, research and development staff, and facilities than we do. Any of these companies could succeed in developing products that are more effective than the products that we have or may develop and may be more successful than us in producing and marketing their products. It is impossible to quantify the number of competitors since they include both the companies we attempt to sell our products and services to through their use of internal security and various other security product companies. Some of the

anti-counterfeiting and fraud protection competitors that we are aware of include: Authentix, InkSure, DNA Technologies, Inc., Art Guard International, Theft Protection Systems, Tracetag and November AG. Although it is impossible to determine the total market size and market data information because companies are secretive about what security methods they utilize and how much they spend on such measures, we have determined that annual sales by some of our competitors have been as follows:

Inksure - $1.0 million
DNA Technologies, Inc. - $22.6 million
November AG - $5.8 million

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 materially adversely affected.

Our Trademark and Other Intellectual Property Rights May not be Adequately Protected Outside the United States, Resulting in Loss of Revenue.

We believe that our trademarks, whether licensed or owned by us, and other proprietary rights are important to our success and our competitive position. In the course of our international expansion, we may, however, experience conflict with various third parties who acquire or claim ownership rights in certain trademarks. We cannot assure that the actions we have taken to establish and protect these trademarks and other proprietary rights will be adequate to prevent imitation of our products by others or to prevent others from seeking to block sales of our products as a violation of the trademarks and proprietary rights of others. Also, we cannot assure you that others will not assert rights in, or ownership of, trademarks and other proprietary rights of ours or that we will be able to successfully resolve these types of conflicts to our satisfaction. In addition, the laws of certain foreign countries may not protect proprietary rights to the same extent, as do the laws of the United States.

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. We are currently not aware of any intellectual property rights that are being infringed nor have we received notice from a third party that we may be infringing on any of their patents.

55

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. There is a risk that a court would decide that we are infringing the third party's patents and would order us to stop the activities covered by the patents. In addition, there is a risk that a court will 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 licensors' issued patents or our pending applications or our licensors' 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. We currently do not have any product liability coverage but are attempting to obtain coverage which we will believe to be adequate. We cannot assure, however, that we will be able to obtain or 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.

We are Obligated to Pay Liquidated Damages As a Result of Our Failure to Have this Registration Statement Declared Effective Prior to July 15, 2005, and the Payment of Liquidated Damages Will Either Result in Depleting Our Working Capital or Issuance of Shares of Common Stock Which Would Cause Dilution to Our Existing Shareholders.

Pursuant to the terms of our private placement that closed in January and February 2005, if we did not have a registration statement registering the shares underlying the convertible notes and warrants declared effective on or before July 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 $257,985, 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. We have currently decided to pay the liquidated damages due at this point in common stock, although any future payments of liquidated damages could be made in cash. If we decide to pay the 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 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 approximately 390,887, 444,802, 368,550, 526,500, 806,204 and 1,289,927 shares of common stock per month, respectively, in liquidated damages. The issuance of shares upon payment of 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.

Liquidated damages will be paid through the one year anniversary of the investment, ranging in time from December of 2005 through February 21, 2006. All underlying shares being registered in the pending SB-2 become eligible for sale under Rule 144, and issuance of further liquidated damages shares will cease.

There Are a Large Number of Shares Underlying Our 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 February 14, 2006, we had 114,772,385 shares of common stock issued and outstanding and outstanding options and warrants to purchase 37,029,464 shares of common stock. All of the shares issuable upon exercise of our warrants may be sold without restriction. The sale of these shares may adversely affect the market price of our common stock. The issuance of shares upon exercise of 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 OTC Bulletin Board, such as us, must be reporting issuers under Section 12 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 and new management, 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 three 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 Securities and Exchange Commission has adopted Rule 15g-9 which establishes the definition of a "penny stock," for the purposes relevant to us, as any equity security that has a market price of less than $5.00 per share or with an exercise price of less than $5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, the rules require:

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

57

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

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

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

- sets forth the basis on which the broker or dealer made the suitability determination; and
- that the broker or dealer received a signed, written agreement from the investor prior to the transaction.

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

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

58

Item 3. Controls and Procedures

a) Evaluation of Disclosure Controls and Procedures: As of December 31, 2005, our management carried out an evaluation, under the supervision of our Chief Executive Officer and Chief Financial Officer of the effectiveness of the design and operation of our system of disclosure controls and procedures pursuant to the Securities and Exchange Act, Rule 13a-15(e) and 15d-15(e) under the Exchange Act). Based on that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are not effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is not accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure. Please see the subsection "Significant Deficiencies In Disclosure Controls And Procedures Or Internal Controls" below.

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. As described below, as a result of our evaluation of our disclosure controls and procedures as of December 31, 2005, we determined that our controls and procedures are not effective and subsequent to the period of this report, began to implement changes to our internal controls.

Significant Deficiencies In Disclosure Controls And Procedures Or Internal Controls

As previously reported, on July 11, 2005, we determined there were errors in accounting for the valuation of equity consulting service transactions during the January through March 2005 time period. The valuation resulted in the overstatement of approximately $2.9 million in services provided. The errors were discovered in connection with a comment raised by the Securities and Exchange Commission ("SEC") in their review and comment on our registration statement on Form SB-2. The SEC requested that we provided additional disclosure regarding issuances of common stock to non-employees in exchange for services. Upon reviewing and updating our disclosure, we discovered our errors. During the quarter ended December 31, 2005, we implemented the following changes in our internal controls to resolve these weaknesses and deficiencies:

1) Establish and maintain a separate binder of all board authorized activities and a binder with forward looking "budget" of anticipated or contemplated activity for each of the following:

    a) shares issued for services;
    b) shares issued for employees;
    c) warrant exercises;
    d) option exercises;
    e) authorized shares and warrant re-pricing;
    f) shares issued in exchange for debt; and
    g) upcoming ESOP grants and exercises;

2) Require the signature of the principal executive and accounting officers for all issuances of securities;

3) Require monthly review of share issuances compared to binders; and

4) Authorize our transfer agent to handle and track all warrants and ESOP grants.

We believe that these actions will correct the material deficiencies and significant weaknesses in our controls and procedures.

59

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 or claims that we believe will have, individually or in the aggregate, a material adverse affect on our business, financial condition or operating results.

Stern & Co. v. Applied DNA Sciences, Inc., Case No.: 05 CV 00202

Plaintiff Stern & Co. commenced this action against us in the United States District Court for the Southern District of New York on or about January 10, 2005. In this action, Stern & Co. alleges that it entered into a contract with us to perform media and investor relations for a monthly fee of $5,000 and stock options. Stern & Co. claims that we failed to make certain payments pursuant to the contract and seeks damages in the amount of $96,042.00. In January 2006, we settled the action by issuing options to purchase 100,000 shares of our common stock, exercisable for a period of three years after issuance at an exercise price of $0.70 per share.

Oceanic Consulting, S.A. v. Applied DNA Sciences, Inc., Index No.: 603974/04

Plaintiff Oceanic Consulting, S.A. commenced this action against us in the Supreme Court of the State of New York, County of New York. Oceanic Consulting, S.A. asserts a cause of action for breach of contract based upon the allegation that we failed to make payments pursuant to a consulting agreement. Oceanic Consulting, S.A.also asserts a causes of action in which it seeks reimbursement of its expenses and attorneys' fees. Oceanic Consulting, S.A. seeks damages in the amount of $137,500.00. Oceanic Consulting, S.A. moved for a default judgment, which we have opposed based upon Oceanic Consulting, S.A.'s failure to properly serve the complaint as well as our meritorious defenses. Thereafter, Oceanic Consulting, S.A. agreed to withdraw its motion for a default judgment and accepted service of our answer on May 23, 2005. We dispute the allegations of the complaint. This action is in the early stages of discovery and we intend to vigorously defend this matter.

Crystal Research Associates, LLC v. Applied DNA Sciences, Inc., Docket No.: L-7947-04

On April 29, 2005, Crystal Research Associates, LLC obtained a default judgment against us in the Superior Court of New Jersey, Middlesex County. We intend to move to vacate the default judgment on various grounds. We dispute the allegations of the complaint and we intend to vigorously defend this matter.

Paul Reep v. Applied DNA Sciences Inc., Docket No.:

In January 2006, an ex-employee filed a $230,000 employment agreement claim against the Company. This action is in the early stages of discovery and we intend to vigorously defend this matter. 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.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

In December, 2005, we issued 40,000 shares of common stock subscribed for $200,000. This issuance is considered exempt under Regulation D of the Securities Act of 1933 and Rule 506 promulgated thereunder.

In December 2005, we issued 505,854 penalty shares pursuant to the pending SB-2 registration statement. In connection with the 7,371,000 million convertible debt financing in the quarter ended March 30, 2005, we were obligated to have an effective resale registration statement by July 2005. Since the registration statement was not effective by July 2005, we paid the required $257,985 of liquidated damages in shares of our common stock accruing at the rate of 3.5% per month on the face value of the outstanding notes for the month of September 2005. The Company valued the shares issued at approximately $0.51 per share for a total of $257,985.

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits

10.1	Promissory Note dated November 3, 2005, between Applied DNA Sciences Inc. and Allied International Fund
10.2	Letter dated February 3, 2006 amending Promissory Note dated November 3, 2005, between Applied DNA Sciences Inc. and Allied International Fund
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)

60

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 21, 2006

By: /s/ Dr. James Hayward

Chief Executive Officer
Principal Executive Officer,
Principal Financial Officer
and Principal Accounting Officer).