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APPLIED DNA SCIENCES INC  
Form 10KSB  
January 14, 2005

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-KSB  
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended September 30, 2004

Commission File Number 002-90539

Applied DNA Sciences, Inc.

(Exact Name of Small Business Issuer in its charter)

Nevada  
(State or other jurisdiction  
of incorporation)

59-2262718  
(I.R.S. Employer  
Identification No.)

9229 W. Sunset Boulevard, Suite 830, Los Angeles, CA 90069  
(Address of principal executive offices) (Zip code)

Issuer's telephone number (310) 860-1362

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act:  
Common Stock, par value \$0.50 per share  
(Title of class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [ ]

State issuer's revenues for its most recent fiscal year. None

State the aggregate market value of the voting stock held by non-affiliates computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within the past 60 days. \$35,687,181.

Number of outstanding shares of the registrant's par value \$0.50 common stock as of January 13, 2005: 30,909,292

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### ITEM 1. DESCRIPTION OF BUSINESS

This Annual Report on Form 10-KSB (including the section regarding Management's Discussion and Analysis of Financial Condition and Results of Operations) contains forward-looking statements regarding our business, financial condition, results of operations and prospects. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and similar expressions or variations of such words are intended to identify forward-looking statements, but are not deemed to represent an all-inclusive means of identifying forward-looking statements as denoted in this Annual Report on Form 10-KSB. Additionally, statements concerning future matters are forward-looking statements.

Although forward-looking statements in this Annual Report on Form 10-KSB

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reflect the good faith judgment of our management, such statements can only be based on facts and factors currently known by us. Consequently, forward-looking statements are inherently subject to risks and uncertainties and actual results and outcomes may differ materially from the results and outcomes discussed in or anticipated by the forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include, without limitation, those specifically addressed under the heading "Risks Related to Our Business" below, as well as those discussed elsewhere in this Annual Report on Form 10-KSB. Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this Annual Report on Form 10-KSB. We file reports with the Securities and Exchange Commission ("SEC"). We make available on our website under "Investor Relations/SEC Filings," free of charge, our annual reports on Form 10-KSB, quarterly reports on Form 10-QSB, current reports on Form 8-K and amendments to those reports as soon as reasonably practicable after we electronically file such materials with or furnish them to the SEC. Our website address is [www.adnas.com](http://www.adnas.com). You can also read and copy any materials we file with the SEC at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. You can obtain additional information about the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site ([www.sec.gov](http://www.sec.gov)) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including us.

We undertake no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of this Annual Report on Form 10-KSB. Readers are urged to carefully review and consider the various disclosures made throughout the entirety of this Annual Report, which attempt to advise interested parties of the risks and factors that may affect our business, financial condition, results of operations and prospects.

### OUR BUSINESS

#### Overview

We are a provider of proprietary DNA-embedded biotechnology security products that protect corporate and intellectual property from counterfeiting, fraud, piracy, product diversion and unauthorized intrusion. We offer a cost effective method to detect, deter, interdict and prosecute counterfeiting enterprises. We provide proprietary DNA-embedded biotechnology solutions to companies to protect corporate and intellectual property from counterfeiting, fraud, piracy, product diversion and unauthorized intrusion. We use segments of naturally occurring botanical DNA that have unique characteristics, which are one-of-a-kind sequences. Using various anti-counterfeit mediums, or substrates, such as ink, microchips, glue, paints and holograms, we can authenticate the unique DNA characters to ensure that the product has not been counterfeited or tampered with.

Sectors of commerce benefiting from our products include: corporations, federal government agencies, information technology, security and surveillance, entertainment media, the arts, cosmetics, pharmaceutical and biometrics, as well as vertical retail markets. Our applications also enhance capabilities of product origination, identification verification, and validation of the source of components for critical manufacturing, defense, medical and other highly-integrity or secure products.

Our mission is to become the recognized standard in providing total security solutions to protect corporate and intellectual property from counterfeiting and fraud.. The Company will deliver its products to a global market via existing and emerging strategic business development agreements with recognized leaders in the security industry and through collaborations with

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leading Security Consultancy companies.

We have acquired the exclusive license to sell, market, and sub-license all of Biowell's DNA anti-counterfeit and fraud prevention biotechnology and products in North America (U.S. and Canada), Latin America and Europe. The exclusive license also gives us the initial rights to future biotechnologies developed by Biowell and also new applications for the existing technology that may be developed for the marketplace. Biowell has selected us to be its marketing and licensing partner to introduce the DNA biotechnology products to the world's largest consumer markets. In addition to marketing the DNA products

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in its territory, we will develop DNA production laboratories in the United States, as well as develop capabilities in DNA authentication, analysis and detection products with ongoing relationships with the Department of Energy's national laboratory system.

We have a very seasoned and experienced management team. This was a key factor in establishing the partnership with Biowell. Our combined executive team has professional experience totaling more than 100 years in the areas of anti-counterfeiting technology, microchip development, security, printing, marketing, and corporate sub-licensing development. Our management team has also been active in the International Anti-Counterfeiting Coalition, Homeland Security technology communities, and the anti-fraud investigation industry. Our executives have developed strong links with major international corporations, intellectual property and copyright holders, U.S. Government affiliations, and international anti-fraud organizations.

### License Agreement with Biowell Technology

In consideration for the granting of the exclusive license to us, Biowell received 1.5 million shares of our common stock, with the option to purchase another 500,000 shares. In return, we received the option to purchase 500,000 shares of Biowell common stock.

### License Agreement with Biowell Technology

In consideration for the granting of the exclusive license to us, Biowell received 1.5 million shares of our common stock, with the option to purchase another 500,000 shares. In return, we received the option to purchase 500,000 shares of Biowell common stock.

On August 20, 2004, we entered into a provisional Letter of Agreement with Biowell to acquire certain assets in return for shares of our common stock. Subsequent to the Letter of Agreement, the Company and Biowell entered into an oral agreement to sell all rights, title and interest in its intellectual property to us. On December 17, 2004, we entered into a superceding conditional Agreement with Biowell to acquire all of the Intellectual Property of Biowell in exchange for shares of our common stock. We expect to enter into a definitive agreement on or before January 31, 2005, which is subject to certain conditions including our raising \$5,000,000 in capital and our discharging of all debts.

### Biowell DNA Technologies

Every living thing has a unique DNA code in its cellular composition. By taking the DNA from a plant material, Biowell is able to create a group of DNA codes that can be turned into a unique and traceable marking for any product.

In the early 1980's the primary emphasis in DNA research was applied to pharmaceutical applications. There was very little focus in the living biotechnology arena. During the 1990's, a group of elite scientists, led by Dr.

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Sheu Jun-Jei of Taiwan, focused on the first research and development of a DNA based anti-counterfeit biotechnology. In the late 1990's, Dr. Sheu made a major breakthrough in biotechnology, and patents with commercial applications were filed. Two additional patent applications have been filed during this reporting period.. Biowell was formed in Taiwan in October of 1999 to hold these pending patents and continues to advance in the areas of DNA anti-counterfeiting biotechnology.

The key to this exclusive biotechnology is the ability to mix or attach scientifically selected and processed DNA to specific media such as paint, glue, polymer, and ink. In doing this, the characteristics of DNA are used to distinguish genuine products from counterfeits. This technology can also be used to authenticate microchips and circuit boards that contain them. The DNA AC (anti-counterfeit) biochip is a Biowell product in which DNA is embedded into a microchip. When biochips are embedded into circuitry, the biological data can be read electronically and the component can be authenticated. Without authentication, the device will not operate.

### Intellectual Property

Key to our success is ongoing research and development. Biowell has over 10 patents pending and we have filed two new patent applications this year. While patents are an important asset, they are not the only instruments used to sequester a competitive position for us. We are developing numerous tools to maintain technical superiority, which includes licensing other component and complementary technologies that will keep pace with our speed to market efforts.

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We regard our patents, trademarks, trade secrets and other intellectual property as an integral component of our success. We rely on patent law, trademark law, trade secret protection and confidentiality and/or license agreements with employees, customers, partners and others to protect our intellectual property. Effective patent, trademark and trade secret protection may not be available in every country in which our products are available. We cannot be certain that we have taken adequate steps to protect our intellectual property, especially in countries where the laws may not protect our rights as fully as in the United States. In addition, if our third-party confidentiality agreements are breached there may not be an adequate remedy available to us. If our trade secrets become publicly known, we may lose our competitive position.

Additionally, 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.

### Global Market Penetration

We have redirected our sales and marketing strategy to place a premium on business-to-business opportunities. In order to effectively service our products globally, we may enter into both exclusive and non-exclusive agreements. Each of

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these agreements will have time limits and have very specific revenue targets set against them. In the case of an exclusive agreement, we may further limit our relationship to certain products that are offered for sale in a specific region. All exclusive agreements will have time limits with specific targets for revenue to be derived out of a given region. Additionally, we have and will retain the right to allow certain global partners (as we decide from time to time) to sell into a restricted exclusive market with the provision that a fee be paid to the exclusive licensee in a given region for products sold in that region that are covered under their exclusive license. This provision was adopted to allow for certain Fortune 50 companies to pursue selling our products and services globally without restrictions and encumbrances with specific geographical regions.

### Our Products

With our exclusive licensing of Biowell's DNA technologies, we will be working to provide complete DNA anti-counterfeit and fraud prevention solutions. We will offer comprehensive and price-competitive products and solutions. The key characteristics of the DNA biotechnology are as follows:

Unique and Impossible to Replicate DNA Codes -- specially processed DNA fragments, with unique characteristics and one-of-a-kind sequences, are used. The embedded DNA concentration is extremely small (3-5 micron) and cannot be analyzed unless proprietary biochemistry and reagents are used, along with our proprietary DNA reader systems..

Easy to Customize -- We can tailor the DNA tagging to meet the customer's product requirements. For example, the DNA codes can be generated based on one or more DNA sources and one or more anti-counterfeit technologies.

Easy and Quick to Use -- With the DNA instant verification kit or scanner, instant verification can be obtained at the point-of-purchase. Hence, the authentication process can be performed quickly. Traditional anti-counterfeit technology analysis requires anywhere from 24 to 48 hours. Our technology will achieve an effective and timesaving deterrent against counterfeiters.

Broad Applications -- DNA anti-counterfeiting technology can be applied to almost any product on the market. The DNA ink is edible and can be used on tablets or capsules ensuring against counterfeiting pharmaceuticals.

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### DNA Marker

Our first anti-counterfeiting product is the DNA Marker, an agent that can be used to authenticate textile products. The DNA Marker can be applied at any point in the manufacturing process, from the freshly cut raw fibers through to the finished garment. As the DNA Marker can be applied to any fabric from cotton to wool, this will help textile vendors and governments determine the origin of thread, yarn and fabric through to the high-end garment manufacturers who suffer lost sales at the hands of counterfeiters. DNA Marker protection will also help preserve jobs at the legitimate textile and clothing manufacturers as well as ensuring that the proper taxes are collected on textiles and garments from authorities. The DNA Marker will remain effective into the 22nd century and will be detectable throughout the different manufacturing stages without degrading. It can be detected in a variety of manners from inspection under infrared light to laboratory forensic analysis that authenticates it to a certainty of 99.9999 percent. Driven by market needs, this is the first of what is expected to be a number of products and services based upon the DNA marker technology. We will continuously assess the anti-counterfeit needs of markets, companies and

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governmental organizations and will develop proprietary technologies, solutions and products for these opportunities.

### Inks

DNA anti-counterfeit ink has been developed as two major applications. The first ink is Biowell's unique anti-counterfeit ink (covert ink), which can be authenticated at a forensic-science level of certainty, in a lab, with detailed DNA analysis. The second application is an enhanced version of the first, integrating into the original anti-counterfeit ink an additional instant detection function for on-site authentication (overt ink).

This instant verification process has been designed to allow sampling at any point in the product supply chain. By swabbing testing fluid containing a special activation buffer across the authentic DNA ink surface, a biochemical reaction occurs between the coating of the DNA molecules in the ink and the buffer fluid. This reaction manifests as a reversible color change, with the ink changing color from blue to pink, and back to blue within seconds. Testing can be repeated at various checkpoints throughout the product supply chain.

Proprietary production techniques are used to manufacture DNA with the unique property for integration with ink. The key to utilizing DNA for anti-counterfeit purposes lies in the preservation of DNA. The system of production ensures that DNA can survive for over 100 years. In addition, special materials are used to shield purified DNA from environmental variation, which allows perpetual preservation of DNA and permanent proof of authenticity for genuine products.

DNA ink can be applied to:

- o General Company Use: trade marks, patents, company logos, important documents
- o Financial industry: currency, stocks, checks, bills, bonds, checks
- o Retail: event tickets, VIP tickets, clothing labels
- o Medicines: capsule and pill surface printing
- o Inner package: foil blister packs
- o Outer package: boxes, bottles
- o Arts: paintings, artifacts, collectibles and memorabilia
- o Others: lottery tickets, stamps, custom seals, passports, visas, etc.

Virtually any item that can be duplicated now can be protected with any of these DNA ink applications. These applications are cost-effective and can be adapted to any company's current branding, product tracking, or other anti-counterfeiting program.

### DNA Labels

DNA anti-counterfeit ink can be applied to garment labels. It can also be printed onto logos or on any other surface. Labels are printed with the proprietary ink containing the specific authentication DNA code for a manufacturer. The labels can then be easily tested for authenticity.

Knowledge that the labels are DNA-imprinted and can be quickly and easily verified serves as a deterrent to counterfeiters. We believe this in itself will create a demand for the proprietary DNA ink-impregnated label technology.

### DNA Chip

Computer and electronic signals constitute most of the corporate security systems. These systems are of similar function and design, and are susceptible to duplication and counterfeit. The polymorphism of DNA is significantly more complex than electronic signals, and better suited for security systems.

The DNA chip card is intended for both authentication of the card and identification of the individual. For that purpose, a set of DNA chip cards are assigned with specific DNA (group ID), along with the individual's identification information and recorded in the chip's memory. A reader module is configured to recognize (and therefore verify) only the chip carrying the correct group ID. Any DNA chip card with different group ID, or indeed any other chip card, will be rejected.

The DNA chip uses artificially constructed DNA, with each user group having the same DNA code. Individuals are differentiated in the system by identification codes stored in the chip's memory. In addition, the DNA chip can be configured for the customer to have a particular person have their own DNA as the source DNA for that user group. The DNA chip generates unique signals and will not function properly once removed from the casing. The empty chip is not available anywhere else on the market, thus making it impossible to counterfeit. Once the imbedded DNA chip is sabotaged or removed the chip will cease functioning, thus preventing data on the chip from being duplicated.

The signal of a DNA chip is generated through an interaction between DNA and a specially devised mechanism known as a DNA chip reader. A real DNA chip will generate an analogical signal and be received by the reader after the chip is stimulated. An LCD display screen provides immediate authentication by reading the unique DNA signals embedded in the chip.

The DNA chip function is versatile, which allows it to be integrated into the form of slot reader, slide through reader, or contact point reader for instant authentication. Biowell has also developed a portable, lightweight, hand-held scanner that can be used to authenticate the DNA chips. The cost of the DNA chip, card, and reader system is comparable to existing smart card systems. Above all, the reader can be linked externally with existing card readers to save replacement costs.

We believe that the DNA chip system is more secure than all other systems; since it cannot be copied or hacked, and works with specially configured readers.

The DNA biochip can be applied to many products. For example:

- o Security ID cards
- o Passports
- o Licenses
- o Credit and ATM cards
- o Debit cards
- o Consumer merchandise (CDs, VCDs, DVDs, notebook computers, PDAs, handbags, etc.)
- o Other applications where authentication is required (antiques, paintings, etc.,)

#### Demands for Security and Positive Identification

As nations are threatened by terrorism and corporations try to prevent corporate fraud and 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. Our anti-counterfeiting technology can be used for the following types of identification and important government documents:

- o Passports



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

We will explore contracting with consultants in Washington D.C. that will assist with identifying and securing potential Government contracts that will utilize the DNA technology for identity and authentication. In 2004, we won the "Best of New technology" prize at the Security Industry Association conference in Washington D.C. in competition against some of the world's largest corporations. Shortly thereafter, we were inducted into the InteGuard Alliance, a consortium of 29 major companies providing security services and security technology to the US Government.

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 of our and is currently underway in the Biowell labs.

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### Business Strategy and Approach

Our goal is to establish three integrated business operations addressing and servicing the needs of the marketplace for anti-counterfeit, fraud prevention, and homeland security solutions.

### Intellectual Property Development, Product Operations & Partnerships

We are a developer of security solutions that protects corporate and intellectual property from counterfeiting, fraud, piracy and product diversion using a proprietary line of DNA embedded biotechnology products accompanied by monitoring and enforcement support, we produce solutions customized to their customer's need. We intend to market and sell DNA anti-counterfeit and fraud prevention products and oversee laboratory facilities where consumer and corporate products can be tested for authenticity. It will oversee the development of new product lines that will address specific and individual customer needs. Additionally, this division will identify strategic licensees and partnerships in multiple sectors that will license and sell our products and biotechnologies. This will include sub-licensing the technology to key partners in each sector with an established base of customers. These new partners will be able to enhance their client services by adding our technology to the existing product line or current security methods to deter fraud and counterfeiting.

### Consultant & Enforcement Operations

As a service to our clients, we will consult with them on how to best protect their intellectual property and products. We will offer worldwide investigative and DNA analysis services for the enforcement and prosecution of counterfeiters and fraud itself and through our subcontractors or sub-licensees.

### International Sub-License Operations

This division will oversee the activities of all international sub-license alliances and partnerships. This division will also develop a corporate policy for all marketing and promotional activities.

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We intend to seek alliances with existing anti-counterfeit networks in each market. We will train these networks to use our technology to detect and monitor counterfeit and fraud, and we will use our own anti-counterfeit and security experts to help detect counterfeiting attempts against corporations and government agencies.

By combining our three operations, we will provide multiple security solutions. Each division will produce separate revenue streams and integrated organizational structures that we believe will make us a leader in the field of anti-counterfeit and fraud prevention services.

Our management team and advisory board have a unique combination of skills for providing integrated DNA anti-counterfeit and fraud prevention systems for the protection and tracking of documents, products, and intellectual property:

- Strong Security Knowledge Base -- Our team has the experience to analyze and provide solutions that address the security needs of companies in such diverse market segments as pharmaceuticals, designer clothing, luxury goods and cosmetics, aerospace, defense, diamonds, automotive, holography and chip manufacturing. Several team members are published authors in the area of security and are recognized globally as experts in their fields.
- Leading Technology -- We have exclusive rights to all patent pending, leading DNA anti-counterfeit, and fraud prevention technologies created by Biowell. We also have an agreement in place with HoloMex, Inc., a leading security hologram manufacturer, to create DNA-holograms, a new generation security product. Our management also has an in-depth understanding of microchip design and applications.
- Strategic Corporate Relationships -- Our management has personal and corporate relationships with leaders in key industries such as: high-end fashion retail, computers, entertainment, automobiles, aerospace, defense and pharmaceuticals. We will utilize these existing relationships to introduce our anti-counterfeiting products and generate contracts, although no discussions have yet been held. Each industry has multiple facets for the anti-counterfeit DNA technology. For example, fashion retail can use our anti-counterfeit chip in its high-end fashion handbags, while a company producing fine wines can take advantage of our DNA-embedded label. Our proprietary technologies offer immediate and affordable detection and security for all of their trademarks and products.

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- Strong Technology Alliances -- Our products can also work with and supplement products in key anti-fraud and security industries, such as:
  - o Electronics security
  - o Hologram manufacturing
  - o Radio Frequency Identification (RFID) systems
  - o Isotopic Markers
  - o Security papers and printing
  - o Other security-related products, systems, and services

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-- Law Enforcement Expertise -- Our management includes former federal law enforcement, security, and intelligence officers who provide us with extensive hands-on experience in:

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

### Patents Pending

Patent Name	Application No.	Filed by	Date Filed
A Method of Utilizing Nucleic Acids as Markers for Product Anti-Counterfeit Labeling and Verification	089108443 00107580.2 09/832,048; published 20020187263-A1	Biowell	March 17, May 18, 20 April 9, 2
EppenLocker (A Leakage-Prevention Apparatus of Microcentrifuge)	089204158	Biowell	March 10,
Multiple Tube Structure for Multiple in a Closed Container	089210575	Biowell	June 20, 2
Method for Processing Multi-PCR in Closed Vessel	89111477	Biowell	June 12, 2
Method for Mixing Nucleic Acid in Water Insoluble Media and Application Thereof	2002-294229 03007023.9 92121973	Biowell	August 31, March 27, August 11,
Method for Hiding Secret Message Carrying a DNA Molecule and a Method for Decoding the Secret Message Hiding by thereof	92121490 pending	Biowell	August 6, August 6,
Method for Transferring Giveback Funds by Recognizing Plurality of Objects	92119302 03150071.4	Biowell	July 15, 2 July 31, 2

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Anti-Counterfeit Chip Recognizing Device	None	Biowell	To be file
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A System and Method for Marking Textiles Using DNA	60/463215	Biowell	April 16,
		Applied DNA Sciences	

A System and Method for Marking Textiles Using Nucleic Acids	2004/012031	Applied DNA Sciences	April 15,
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System and Method for Authenticating Clients on a Local Area Network Using Nucleic Acids	10/825968	Applied DNA Sciences	January 21
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Sales and Marketing

We employ a multi-tier sales and marketing strategy. We 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 provide anti-counterfeiting and security solutions through our sales force covering a multitude of potential clients either directly or via resellers.

Customers

We do not currently have any revenue-generating customers at this point. Our client base will consist of major corporations, government entities and educational institutions. We will provide DNA chip technology, DNA ink technology as well as DNA profiling/tagging technology through various types of resale agreements. We will apply these technologies to labels and security ink, to a chip and reader as well as textile markers and agriculture profiling.

Competition

The anti-counterfeit and fraud prevention market is highly competitive and diverse. Since we believe that other forms of anti-counterfeiting and security measures can be easily defeated, we expect that utilizing DNA which cannot be replicated will garner great demand from the market. Some examples of biotechnology and other security technologies include:

FINGERPRINT- a systems scans fingerprints before granting access to computer files.

VOICE- Off-the-shelf software authenticates users based on individual vocal patterns.

CORNEA- Scanners that scan the iris of a user's eye to match compared to a computer database.

FACIAL SCAN- Computers can use complex algorithms to distinguish one face from another.

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IC CHIP & MAGNETIC STRIP- Integrated circuit chip that runs an electric current through a circuit and is verified by a IC card. Is used in many parts of Europe and Asia.

HOLOGRAPH- Optical security elements ('holograms') constitute a family of optically variable microstructures, which are difficult to copy. Most of them are difficult to reproduce using advanced color photocopiers and printing techniques. This is why they are so widely used as anti-counterfeit devices. Holograms are only one member of a family of optically variable devices which all have several features in common. These are:

- o Highly visible to the naked eye under good or reasonable conditions of illumination.
- o Colorful and change their colors with viewing angle.
- o They derive their colorful effects from microstructures within the devices, which cause interference or diffraction of the light falling upon them.

FLUORESCENCE- X-ray Fluorescence (XRF) and elemental taggant technologies were developed as a unique method for assaying uranium ore. Later on was used as a handheld alloy grade identification and spectral analysis instrument. Its use is limited to label/printing applications.

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RADIOACTIVITY& RARE MOLECULES- a method of Radiation detection is very effective but limited to use on crude oil.

Some of the bigger competitors in the field of anti-counterfeiting and fraud protection include:

- o DNA Technologies. Inc.
- o Art Guard International
- o Theft Protection Systems
- o Cypher Science (United Kingdom) Mt. Sinai Hospital
- o ChemTAG (Norway)
- o NTT DATA Labs (Japan)
- o November AG

### Management Strategy

In anticipation of internal growth, we will organize resources to manage our development effectively, minimizing organic growth, while optimizing our use of excess capacity, where core competency in the biotech arena is made available. Our Chief Executive Officer is responsible for the strategic direction, coordinating with our overseas technology partner Biowell and others as well as operations. Our President is responsible for government entity relations, corporate governance and building shareholder value. Our Chief Financial Officer covers overall financial management, financial reporting, corporate administration, investors relations. Our Vice President covers specific industries, such as the pharmaceutical, 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.

### Employees

As of January 12, 2005, we employed 11 full-time employees, of which five are in management, five are sales & marketing executives and one is in

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administration.

### Giuliani Partners

On or about August 6, 2004, we engaged Giuliani Partners LLC as our strategic marketing partner and advisor. Giuliani Partners has extensive experience in advising corporations and organizations in various business sectors. The engagement agreement had an effective date of September 1, 2004.

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

As compensation for Giuliani Partners' performance, we will pay Giuliani Partners an aggregate advisory fee of \$2,000,000 payable in increments over the term and renewal term. The initial payment of \$500,000 was made by us on or about September 7, 2004. Additionally, we will issue a net-exercisable warrant to purchase shares of our common stock at a later date. Fees were placed in escrow during Giuliani Partners' completion of its due diligence review.

All our promotional materials will be submitted to Giuliani Partners for its review, including all advertising, written sales promotion, press releases, news clippings and other publicity matters relating to Giuliani Partners' engagement and the strategic relationship created.

We have agreed to maintain confidentiality with regard to our relationship with Giuliani Partners, wherever appropriate, and have indemnified Giuliani Partners, its controlling persons, respective partners, shareholders, directors, officers, employees, agents, affiliates and representatives and will hold them harmless against any actions, judgments, claims, etc.

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### ITEM 2. DESCRIPTION OF PROPERTY

Presently, we maintain our principal office at 9229 W. Sunset Boulevard, Suite 830, Los Angeles, California 90069. We signed a lease for our office space in November 2003. The office space, which is provided to us for \$11,312.70 per month for the first twelve months of the lease, for \$ 11,635.92 for the second 12 months and \$ 12,031.01 for the last 12 months of the lease, has approximately 5,387 square feet. We consider the premises adequate for our purposes for the immediate future. Our Web address is [www.adnas.com](http://www.adnas.com).

### ITEM 3. 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. 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.

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

There were no matters submitted to a vote of shareholders for the year

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ended September 30, 2004.

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### PART II

#### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS MARKET INFORMATION

##### Market Information

Our Common Stock is traded over-the-counter on the Over the Counter Bulletin Board maintained by the National Association of Securities Dealers under the symbol "APDN". There is no certainty assurance that the Common Stock will continue to be quoted or that any liquidity exists for our shareholders.

The following table sets forth the quarterly quotes of high and low prices for our Common Stock on the OTC Bulletin Board during the fiscal years September 30, 2003 and September 30, 2004. In February of 2003, we changed our year end to September 30.

Year ended 9/30/04	High	Low
December 31, 2003	\$3.54	\$2.45
March 31, 2004	\$3.55	\$1.51
June 30, 2004	\$2.55	\$0.71
September 30, 2004	\$0.96	\$0.43
Year ended 9/30/03*	High	Low
December 31, 2002	\$2.55	\$0.05
March 31, 2003	\$2.48	\$2.05
June 30, 2003	\$2.85	\$2.30
September 30, 2003	\$2.80	\$2.40

\* We have disclosed the numbers with both years ending on September 30 for comparative purposes. Our prior year end was December 31.

The source of this information is NASDAQ Over the Counter Bulletin Board Research Reports and Yahoo Finance Historical Prices reports, as well as broker-dealers making a market in our Common Stock. These prices reflect inter-dealer prices, without retail markup, mark-down or commission and may not represent actual transactions. Number of Stockholders

As of January 7, 2005, the approximate number of holders of record of our Common Stock, which is our only class of common equity, is 465 This number does not include holders of securities in street name.

##### Dividends

We are in the developmental stage and accordingly have not generated any revenues nor had net profits on operations and therefore are currently proscribed under the Nevada Revised Statutes from declaring dividends. We have not paid any cash dividends on our Common Stock or our Preferred Stock. Our Board of Directors has no present intention of declaring any cash dividends, as we expect to re-invest all profits in the business for additional working capital for continuity and growth. The declaration and payment of dividends in the future will be determined by our Board of Directors considering the conditions then existing, including our earnings, financial condition, capital

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requirements, and other factors.

### OUR CAPITAL STRUCTURE

We are authorized to issue 10,000,000 shares of Preferred Stock and 100,000,000 shares of common stock. We have designated one series of convertible preferred stock, and as of this date, 60,000 shares are issued and outstanding.

Both our Preferred Stock and common stock had a par value of \$0.0001 per share through December 3, 2003. On December 12, 2003, we increased the par value of our common stock to \$0.50 and our Preferred Stock to \$0.001 per share by filing Articles of Amendment to our Articles of Incorporation.

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The authorized classes, and the amount or number of each, which are authorized and outstanding as of January 7, 2005 are as follows:

Security	Authorized	Issued and Outstanding	Ex
Preferred Stock	10,000,000	60,000	
Common Stock	100,000,000	30,909,292	
2003 Offering Units	2,000	183.5	
Underlying Common Stock	3,200,000	293,600	
Underlying Warrants* (\$0.60/share)	1,000,000	91,750	S
Bridge Unit Offering	33.5	33.5	
Underlying Notes	33.5	33.5	
Underlying Shares		5,583,333	
Underlying Warrants (Repriced at \$0.60/share)	1,675,000	1,675,000	S
Underlying Warrants (\$0.10/share)	335,000	335,000	S
Consulting Warrants (Stonestreet & Walehaven) (\$0.70/share)	750,000	750,000	A
[Stephanie] Stern Warrants (\$3.00/share)	62,503	62,503	D
Hutchison Warrants (\$0.60/share)	1,000,000	1,000,000	
Directors and Advisors Warrants (\$0.60/share)	3,000,000	2,850,000	O
Alpha Spectrum Warrants (\$0.50/share)	50,000	50,000	O
Lee Warrants (\$0.60/share)	600,000	600,000	
Bonus Compensation Warrants (Lower of \$1.00 or 55% of 20 day average bid and ask)	1,000,000	136,000	O
Hart Compensation Warrants Lower of \$1.00 or 65% of 20 day average bid and ask)	250,000	250,000	M



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Founders Compensation Warrants (\$0.60)	560,000	296,000
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\*As consideration for consenting to a filing date extension, all bridge note investor's warrant exercise prices were adjusted from \$3.20 per share to \$0.60 per share, and for each Unit purchased, 7,500 shares with registration rights were issued.

### Preferred Stock

The 10,000,000 shares of Preferred Stock authorized are undesignated as to preferences, privileges and restrictions. As the shares are issued, the Board of Directors must establish a "series" of the shares to be issued and designate the preferences, privileges and restrictions applicable to that series. To date, the Board has designated a Founders' Series of Convertible Preferred Stock, which, in six months from the date of issuance, shall be convertible at the option of the holder and upon our reaching certain financial objectives, into shares of our restricted Common Stock. Each share, when eligible, is convertible into 25 fully paid and non-assessable shares of our Common Stock, subject to a leak out agreement that extends the 144 Rule to two years. Holders will be permitted to

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sell, after a one year holding period through a three year holding period, 1% of the issued and outstanding shares of our common stock every 90 days. This series has been authorized by the Board of Directors. As of January 13, 2005, there are a total of 60,000 convertible preferred shares issued and outstanding.

### Common Stock

Our authorized common equity consists of One Hundred Million (100,000,000) shares of a single class of Common Stock, having a par value of \$0.50 per share. As of January 13, 2005, there were 30,909,292 shares issued and outstanding. The holders of our Common Stock (i) have general ratable rights to dividends from funds legally available therefore, when, as and if declared by the Board of Directors; (ii) are entitled to share ratably. In all assets available for distribution to shareholders upon liquidation, dissolution or winding up of our affairs; (iii) do not have preemptive, subscription or conversion rights, nor are there any redemption or sinking fund provisions applicable thereto; and (iv) are entitled to one vote per share on all matters on which shareholders may vote at all shareholder meetings. The Common Stock does not have cumulative voting rights, which means that the holders of more than fifty percent of the Common Stock voting for election of directors can elect one hundred percent of our directors if they choose to do so.

### 2003 Offering Units

In September 2003, we sold 16 units at \$4,000 a unit, for a total of \$64,000, and between October and December 2003, we sold 167.5 units for a total of \$670,000 in a private offering of its securities under Regulation D of the Securities Act of 1933, and Rule 506 promulgated thereunder. Each Unit consisted of 1,600 shares of our Common Stock plus 500 Common Stock Purchase Warrants.

The Warrants are exercisable on a one for one basis at an exercise price of \$3.50 per share for a two year exercise period from the date of issuance. The Units, and their constituent securities, were granted piggyback registration rights.

### Bridge Unit Offering

From November through December 2003, we sold 23.25 units (the "Units") to accredited investors at a price of \$50,000 per Unit (the "Offering") for a total

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of \$1,162,500. Each Unit consists of (i) a \$50,000 Principal Amount 10% Secured Convertible Promissory Note ("Note" or "Notes"), (ii) warrants to purchase 50,000 shares of our common stock, exercisable for a period of five years at a price of \$3.20 per share ("3.20 Warrant") and (iii) warrants to purchase 10,000 shares of our common stock, exercisable for a period of five years at a price of \$0.10 per share ("0.10 Warrant" and together with the 3.20 Warrant, the "Warrants"). The Notes are convertible into shares of our common stock at a price of \$2.50 per share.

### Notes

All of the Notes have been either repaid or converted.

### Bridge Offering Warrants

Each \$3.20 Warrant offered, which has been repriced to a \$0.60 Warrant, entitled the registered holder to purchase 50,000 shares of Common Stock at an exercise price of \$0.60 per share during a five-year period commencing on the initial closing of the Offering. Each \$0.10 Warrant offered entitled the registered holder to purchase 10,000 shares of Common Stock at an exercise price of \$0.10 per share during a five-year period commencing on the initial closing of the Offering.

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

### SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

In November of 2002, we created a special compensation plan to pay the founders, consultants and professionals that had been contributing valuable services to us during the previous nine months. The plan is called the Professional/Employee/ Consultant Compensation Plan (the "Plan"). Share and option issuances from the Plan were to be staggered over the following six to eight months, and consultants that were to continue providing services thereafter either became employees or received renewed contracts from us in July of 2003, which contracts contained a more traditional cash compensation component. The Plan was designed by the Board to meet our important team building objectives in our early stages, and to be temporary. As of December 31, 2004, a total of 1,440,003 shares have been issued from the Plan and 560,000 options, 264,000 of which were exercised as of as of December 31, 2004.

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December 5, 2003, an additional 32,000 options were exercised. [ANDREA]

Each qualified and eligible recipient of shares and/or options under the Plan received securities in lieu of cash payment for services. Each recipient agreed, in his or her respective consulting contract with us, to sell a limited number of shares monthly. Management feels that this carefully designed Plan was successful in attracting and retaining a strong team at a time when we had no established revenue stream and limited or no outside financing. Because recipients sold their respective shares in a controlled manner, there was also no apparent negative impact to the market from sales of these unrestricted securities, which was an important objective of the Board when the Plan was contemplated.

In our financial statements, shares that were issued from November 2002 through June 30, 2003 that were valued at \$0.065 per share were shares issued from this Plan created in November of 2002 on the basis of contracts executed at

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that time for previously rendered services. Common Stock disclosed as being issued in exchange for cash at \$1.00 per share represents options that were exercised under this Plan. In December of 2004, we adjusted the exercise price to \$0.60 per share.

Any other unrestricted shares that were issued either before or after July 1, 2003 were valued at the fair market value.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a) (b) (c)	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number Remained for Future
Professional/Consultant/Employee Stock and Stock Option Compensation Plan	2,000,000	\$177,600	-0
<b>Total</b>	<b>2,000,000</b>	<b>\$177,600</b>	<b>-0</b>

As of December 31, 2004, a total of 1,440,000 shares have been issued from the Plan and 560,000 options, 264,000 of which were exercised as of that date.

### SALES OF UNREGISTERED SECURITIES DURING THE QUARTER ENDED SEPTEMBER 30, 2004

The issuances of unregistered securities which occurred during the fiscal year were as follows:

Unless otherwise noted, each of the issuances described below is considered by us to be exempt from registration by reason of Section 4(2) of the Securities Act of 1933.

On June 30, 2004, we issued 50,000 shares of our common stock to an investor relations firm as compensation for services performed on our behalf.

On July 23, 2004 and August 2, 2004, we issued an aggregate of 55,000 shares of our common stock to our legal counsel as compensation for legal services performed on our behalf.

From July through September 2004, we issued an aggregate of 1,550,000 shares of our common stock to certain of our officers, directors and employees as compensation for services performed on our behalf.

On September 21, 2004, we issued 100,000 shares of our common stock pursuant to a conversion by one of the holders of our convertible preferred stock.

### SUBSEQUENT SALES OF UNREGISTERED SECURITIES

Unless otherwise noted, each of the issuances described below is considered by us to be exempt from registration by reason of Section 4(2) of the Securities Act of 1933.

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

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

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

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

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

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

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

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

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

Also on January 10, 2005, we issued additional shares to our investors in accordance with an adjustment provision in our private placement and placement agent agreement. We issued a total of 3,249,750 shares of Common Stock to 24 investors.

On January 13, 2005, we issued additional shares to two consultants in accordance with an adjustment provision in their consulting agreements. A total of 662,000 shares were issued.

### ITEM 6. PLAN OF OPERATIONS

When used in this Form 10-KSB and in our future filings with the Securities and Exchange Commission, the words or phrases will likely result, management expects, or we expect, will continue, is anticipated, estimated or similar expressions are intended to identify forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Readers are cautioned not to place undue reliance on any such forward-looking statements, each of which speak only as of the date made. These statements are subject to risks and uncertainties, some of which are described below. Actual results may differ materially from historical earnings and those presently anticipated or projected. We have no obligation to publicly release the result of any revisions that may be made to any forward-looking statements to reflect anticipated events or circumstances occurring after the date of such statements.

#### Business Strategy and Approach

The Company has 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.

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### Intellectual Property Development, Product Operations & Partnerships

The company has proprietary DNA security technology, and develops 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 OEM 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 use highly reputable outside labs to provide independent third party validation testing to assure maximum quality control, objectivity and strict security procedures in handling and shipping. No compromise can enter the security chain of our product(s).

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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.

### Consultant & Enforcement Operations

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

This division will oversee the activities of all international sub-licensees and partnerships. This division will also develop a corporate policy for all marketing and promotional activities.

We intend to establish alliances with existing anti-counterfeit experts, agencies and companies in each market. This collaborative security consortium will employ DNA technology to detect illegal activities, counterfeiting and fraud, and provide the gold standard in security for corporations and government agencies.

These operations will provide multiple security solutions. Each sub-licensee or collaborative partnership will produce separate revenue streams and be operational via integrated organizational structures.

Our management and advisory board and strategic consultants have the

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knowledge, experience, contacts and skills to provide a comprehensive DNA security business, with advanced anti-counterfeit and fraud prevention systems for the protection and tracking of currency, documents, consumer products, and intellectual property.

**Strong Security Knowledge Base** -- Our executives and consultants have the requisite experience to provide solutions that address the security needs of major companies in such diverse markets as pharmaceuticals, automotive, cosmetics, apparel and accessories, aerospace, luxury goods, among others.

**Developing Technology** - We plan to acquire all rights, title and interest in all patents, patents pending, developing, DNA anti-counterfeit, and fraud prevention technologies created by Biowell. We also 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 OEM's in these specialist fields.

**Strategic Corporate Relationships** - The management has personal and corporate relationships with leaders in key industries such as: pharmaceuticals, cosmetics/beauty, fashion, retail, computers, entertainment, automobiles, petroleum, fine arts and collectibles.

The Company will utilize its existing relationships and develop new ones to introduce its anti-counterfeiting technology to generate business. Each industry has unique requirements and needs for their anti-counterfeit solutions, and the company's DNA technology stands at the pinnacle of available maximum security technologies. For example, the company's 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. The Company's 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;

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

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**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:

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

### Critical Accounting Policy

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

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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 policy involve the most complex, difficult and subjective estimates and judgments:

- o stock-based compensation

### 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.

### Revenues

We have not generated any revenues from operations from our inception. We believe we will begin earning revenues from operations during fiscal year 2005 as we transition from a development stage company to that of an active growth and acquisition stage company.

### Costs and Expenses

From our inception through September 30, 2004, we have incurred losses of \$22,815,034. These expenses were associated principally with equity-based compensation to employees and consultants, product development costs and professional services.

### Liquidity and Capital Resources

As of September 30, 2004, we had a deficiency in working capital of \$4.8 million. For the year ended September 30, 2004, we generated a net cash flow deficit from operating activities of \$3,100,000, consisting primarily of year to date losses of \$19,400,000, adjusted for non cash expenses of \$1,625,000 for beneficial conversion amortization, \$9,820,000 in net stock issued for consulting services, \$1,500,000 for preferred shares in exchange for services, \$2,020,000 for warrants issued to consultants as well as a net increase in current liabilities and other of \$1,300,000.

Cash used in investing activities totaled \$74,000, which was utilized for patent filings, facility lease deposits and property, plant, and equipment. Cash provided by financing activities totaled \$3,000,000 consisting of \$2,800,000 in proceeds from loans, and \$124,000 and \$87,000 in common stock and exercised options proceeds, respectively.

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

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

We have a variety of financing arrangements. Please see Notes C, D, E and F in the notes to our consolidated financial statements for the year ended September 30, 2004 for the terms of each separate financing arrangement.

### Recent Accounting Pronouncements

In April 2003, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 149, Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities. SFAS 149 amends SFAS No. 133 to provide clarification on the financial accounting and reporting of derivative instruments and hedging activities and requires that contracts with similar characteristics be accounted for on a comparable basis. The provisions of SFAS 149 are effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. The adoption of SFAS 149 did not have a material impact on the Company's results of operations or financial position.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity. SFAS 150 establishes standards on the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. The provisions of SFAS 150 are effective for financial instruments entered into or modified after May 31, 2003 and to all other instruments that exist as of the beginning of the first interim financial reporting period beginning after June 15, 2003. The adoption of SFAS 150 did not have a material impact on the Company's results of operations or financial position.

In December 2003, the FASB issued a revision of SFAS No. 132, "Employers' Disclosures About Pensions And Other Postretirement Benefits." This pronouncement, SFAS No. 132-R, expands employers' disclosures about pension plans and other post-retirement benefits, but does not change the measurement or recognition of such plans required by SFAS No. 87, No. 88, and No. 106. SFAS No. 132-R retains the existing disclosure requirements of SFAS No. 132, and requires certain additional disclosures about defined benefit post-retirement plans. Except as described in the following sentence, SFAS No. 132-R is effective for foreign plans for fiscal years ending after June 15, 2004; after the effective date, restatement for some of the new disclosures is required for earlier annual periods. Some of the interim-period disclosures mandated by SFAS No. 132-R (such as the components of net periodic benefit cost, and certain key assumptions) are effective for foreign plans for quarters beginning after December 15, 2003; other interim-period disclosures will not be required for the Company until the first quarter of 2005. Since the Company does not have any defined benefit post-retirement plans, the adoption of this pronouncement did not have any impact on the Company's results of operations or financial condition.

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



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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

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fiscal years beginning after June 15, 2005. Management does not believe the adoption of this Statement will have any immediate material impact on the Company. 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. On December 16, 2004, the Financial Accounting Standards Board ("FASB") published Statement of Financial Accounting Standards No. 123 (Revised 2004), Share-Based Payment ("SFAS 123R").

SFAS 123R requires that compensation cost related to share-based payment transactions be recognized in the financial statements. Share-based payment transactions within the scope of SFAS 123R include stock options, restricted stock plans, performance-based awards, stock appreciation rights, and employee share purchase plans. The provisions of SFAS 123R are effective as of the first interim period that begins after June 15, 2005. Accordingly, the Company will implement the revised standard in the third quarter of fiscal year 2005. Currently, the Company accounts for its share-based payment transactions under the provisions of APB 25, which does not necessarily require the recognition of compensation cost in the financial statements. Management is assessing the implications of this revised standard, which may materially impact the Company's results of operations in the third quarter of fiscal year 2005 and thereafter. 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.

### Product Research and Development

We anticipate continuing to incur research and development expenditures in connection with the development of our DNA embedded biotechnology security products and solutions during the next twelve months. This includes, but is not

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limited to projects involving the following agencies and companies:

- o Department of Energy;
- o Department of Agriculture;
- o Oakridge National Laboratories; and
- o Holo-Mex

These projected expenditures are dependent upon our generating revenues and obtaining sources of financing in excess of our existing capital resources. There is no guarantee that we will be successful in raising the funds required or generating revenues sufficient to fund the projected costs of research and development during the next twelve months

### Acquisition or Disposition of Plant and Equipment

We do not anticipate the sale of any significant property, plant or equipment during the next twelve months. We do not anticipate the acquisition of any significant property, plant or equipment during the next 12 months.

### Number of Employees

From our inception through the period ended September 30, 2004, we have relied on the services of outside consultants for services and currently have 11 full time employees. In order for us to attract and retain quality personnel, we anticipate we will have to offer competitive salaries to future employees. We do not anticipate our employment base will significantly change during the next 12 months. As we continue to expand, we will incur additional cost for personnel. This projected increase in personnel is dependent upon our generating revenues and obtaining 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.

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### 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 our common stock.

### Cautionary Factors that may Affect Future Results

We provide the following cautionary discussion of risks, uncertainties and possible inaccurate assumptions relevant to our business and our products. These are factors that we think could cause our actual results to differ materially from expected results. Other factors besides those listed here could adversely affect us.

### RISKS RELATED TO OUR BUSINESS

#### We Have A Limited Operating History With Which To Judge Our Performance.

We have only been engaged in our current and proposed business operations since October of 2002. Accordingly, we have a limited operating history. We may encounter risks and difficulties frequently encountered by early stage companies in new and rapidly evolving markets. We cannot assure stockholders that our business strategy will be successful or that we will successfully address these risks. Our failure to do so could materially adversely affect our business, financial condition and operating results.

We Have A History Of Losses And We Anticipate Future Losses And Negative Cash Flow.

We incurred net losses from operations of \$22,803,423 from the date of our inception through September 30, 2004. We cannot assure you that we can achieve or sustain profitability on a quarterly or annual basis in the future. If revenues grow more slowly than we anticipate, or if operating expenses exceed our expectations or cannot be adjusted accordingly, we will continue to incur losses. In addition, we require additional funds to implement, sustain and expand our manufacturing, sales and marketing activities, research and development, and our strategic alliances, particularly if a well-financed competitor emerges or if there is a rapid technological shift in our industry. 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 sufficient funds from operations or external sources would require us to curtail or cease operations.

We Need Additional Financing.

We have insufficient capital resources to fully develop and implement our business plan and need to raise additional capital through equity or debt financings, research and development financings or collaborative relationships. There is no assurance that additional capital will be available or be on terms acceptable to us. If additional capital is unavailable, we may be forced to limit or cease our business operations accordingly. In such event, it will adversely and materially effect our business operations.

Given that we are primarily a research and development company, certain economic and strategic factors may require us to raise additional capital in order to:

- o Finance our biotechnology or DNA development programs;
- o Fund our operating expenses;
- o Pursue regulatory approvals;
- o License or acquire additional DNA entity candidates or technologies;
- o Develop manufacturing, marketing and sales capabilities; and
- o Prosecute and defend our intellectual property rights.

Doubt About Our Ability To Continue Operations as a "Going Concern"; You May Lose All Of Your Investment If We Are Unable to Continue Operations.

Our ability to continue as a going concern is subject to substantial doubt given our current financial condition and requirements for additional funding. There can be no assurance that we will be able to obtain sufficient funds to continue the development of and, if successful, to commence the sale of our products and services under development. As a result of the foregoing, our auditors have expressed substantial doubt about our ability to continue as a going concern. If we cannot continue as a going concern, then you may lose all of your investment.

If we raise additional funds by issuing equity securities, existing stockholders may experience a dilution in their ownership. In addition, as a condition to giving additional funds to us, future investors may demand, and may be granted, rights superior to those of existing stockholders.

Our Research And Development Efforts For New Products May Be Unsuccessful.

We incur significant research and development expenses to develop new products and technologies. There can be no assurance that any of these products

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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.

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 obtain 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 commercialization, sublicensing, minimum payment, and other obligations. If we fail to comply with these requirements, we could lose important rights under a license. In addition, certain rights granted under the license could be lost for reasons beyond our control. We do not always receive significant indemnification from a licensor against third party claims of intellectual property infringement.

We are currently in the process of negotiating several of these licenses and expect that we will also negotiate these types of licenses in the future. There can be no assurances that we will be able to negotiate these licenses on favorable terms, or at all.

Our Future Success May Depend On The Timely Introduction Of New Products And The Acceptance Of These New Products In The Marketplace.

Our ability to gain access to technologies needed for new products and services depends in part on our ability to convince licensors that we can successfully commercialize their inventions. We cannot assure that we will be able to continue to 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 Fail To Introduce New Products, Or Our New Products Are Not Accepted By Potential Customers, We 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

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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:

- o Availability, quality and price relative to competitive products;
- o The timing of introduction of the product relative to competitive products;
- o Customers' opinions of the products' utility;

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- o Ease of use;
- o Consistency with prior practices;
- o Scientists' opinions of the products' usefulness;
- o Citation of the product in published research; and
- o General trends in life sciences research.

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.

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 will place a significant strain on our current management resources. To manage this expected growth, we will need to improve our:

- o operations and financial systems;
- o procedures and controls; and
- o 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.

Dependence On Key Personnel.

Our success depends on the continuing services of our management team, the loss of any of which could have a material and adverse effect on our business operations. In particular, our success depends on our Chairman of the Board, Robin (Rob) Hutchison, our President Peter Brocklesby, our Chief Marketing Officer, Adrian Botash, and our Chief Operating Officer, Karin Klemm. We do not maintain any "key man" insurance policies regarding any of these individuals. We may not be able to retain the services of our executive officers and key personnel or attract additional qualified members to management in the future. The loss of services of these individuals, or of any of our other key management or employees, could have a material adverse effect upon our business.

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 are critical to our success. Because the industry in which we compete is very competitive, we

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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.

**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, 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.

**Limited Board of Directors.**

We currently have five directors on our Board of Directors, two of which are independent outside (non-employee) directors. We have allocated necessary capital and are actively seeking to purchase a Director and Officers Insurance Policy and will actively recruit 1-2 additional qualified outside directors upon purchase of the insurance policy.

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After we purchase an appropriate D&O policy, however, we cannot guarantee that we will be able to attract or retain qualified directors.

**Limitation of Officers' and Directors' Liabilities**

The Company's by-laws limit directors' and officers' liabilities to the maximum extent permitted under Nevada Law. In addition, the Company is obligated under its by-laws to indemnify its directors and officers against certain liabilities incurred with respect to their service in such capacities. Each of these measures could reduce the legal remedies available to the Company and the shareholders against such individuals.

**We Depend Upon Our Third Party Suppliers.**

We will rely on third party suppliers to supply the raw materials that we will utilize in our manufacturing processes.

We cannot assure our ability to obtain adequate supplies of raw materials on time to manufacture our products. Our inability to obtain adequate supplies of product may materially and adversely affect our business operations.

**We Have Experienced Delays in the Introduction of Our Products**

We have experienced numerous delays in the introduction of our DNA embedded security and related products. These delays have been caused by lack of working capital and completion of research and development efforts. We cannot assure our

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ability to raise the necessary working capital or completion of our research and development efforts in order to produce our products.

Reduction Or Delays In Research And Development Budgets And In Government Funding May Negatively Impact Our Sales.

Our future customers may include researchers at pharmaceutical and biotechnology companies, academic institutions and government and private laboratories. Fluctuations in the research and development budgets of these researchers and their organizations could have a significant effect on the demand for our products. Research and development budgets fluctuate due to numerous factors that are outside our control and are difficult to predict, including changes in available resources, spending priorities and institutional budgetary policies. Our business could be seriously damaged by any significant decrease in life sciences research and development expenditures by pharmaceutical and biotechnology companies, academic institutions or government and private laboratories. A portion of our future sales may be to researchers, universities, government laboratories and private foundations whose funding is dependent upon grants from government agencies such as the U.S. National Institute of Health ("NIH") and similar domestic and international agencies. Although the level of research funding has increased during the past several years, we cannot assure that this trend will continue. Government funding of research and development is subject to the political process, which is inherently unpredictable. Our revenues may be adversely affected if our customers delay purchases as a result of uncertainties surrounding the approval of government budget proposals. Also, government proposals to reduce or eliminate budget deficits have sometimes included reduced allocations to the NIH and other government agencies that fund research and development activities. A reduction in government funding for the NIH or other government research agencies could seriously damage our business. Also, our potential customers receive funds from government-approved grants at particular times of the year. In the past, grants have been frozen for extended periods or have otherwise become unavailable to various institutions without advance notice. The timing of the receipt of grant funds affects the timing of purchase decisions by our customers and, as a result, can cause fluctuations in our sales and operating results.

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

- o Product performance, features and liability;
- o Price;
- o Timing of product introductions;
- o Ability to develop, maintain and protect proprietary products and technologies;

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- o Sales and distribution capabilities; o Technical support and service;
- o Brand loyalty; o Applications support; and

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- o 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.

We May Be Unable To Protect Our Trademarks, Trade Secrets And Other Intellectual Property Rights That Are Important To Our Business.

We regard our trademarks, trade secrets and other intellectual property as an integral component of our success. We rely on trademark law, trade secret protection and confidentiality and/or license agreements with employees, customers, partners and others to protect our intellectual property. Effective trademark and trade secret protection may not be available in every country in which our products are available. We cannot be certain that we have taken adequate steps to protect our intellectual property, especially in countries where the laws may not protect our rights as fully as in the United States. In addition, if our third-party confidentiality agreements are breached there may not be an adequate remedy available to us. If our trade secrets become publicly known, we may lose our competitive position.

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.

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 carry product liability insurance coverage which is limited in scope and amount but which we believe to be adequate. We cannot assure, however, that we will be able to maintain this insurance at reasonable cost and on reasonable terms. We also cannot assure that this insurance will be adequate to protect us against a product liability claim, should one arise.

We Are Currently Subject To Governmental Regulation



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Our business is currently subject to regulation, supervision and licensing by federal, state and local governmental authorities. We must also expend resources from time to time to comply with newly adopted regulations, as well as changes in existing regulations. If we fail to comply with these regulations, we could be subject to disciplinary actions or administrative enforcement actions. These actions could result in penalties, including fines.

### RISKS RELATED TO OUR COMMON STOCK

Effect of Issuance of Preferred Stock.

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Our authorized capital consists of 100,000,000 shares of Common Stock and 10,000,000 shares of Preferred Stock. We have attained board approval and written approval from holders of the majority of issued and outstanding shares of Common Stock to increase the authorized Common Stock to 400,000,000 shares and reduce the par value to \$0.001 per share, and also to adopt a Stock Option Plan. We plan to file a 14C Information Statement soon after filing this 10-KSB.

The Board of Directors, without any action by our shareholders, is authorized to designate and issue shares of Preferred Stock in such series as it deems appropriate and to establish the rights, preferences and privileges of such shares, including dividends, liquidation and voting rights. The rights of holders of shares of Preferred Stock that may be issued may be superior to the rights granted to the holders of existing Shares of Common Stock. The ability of the Board of Directors to designate and issue such undesignated shares could impede or deter an unsolicited tender offer or takeover proposal regarding the Company, and the issuance of additional shares having preferential rights could adversely affect the voting power and other rights of holders of Common Stock.

The Lack of a Mature Trading Market for our Common Stock May Cause our Stock Price to Decline Significantly and Limit the Liquidity of our Common Stock.

We do not meet the listing requirements for the listing or quotation of our common stock on any national or regional securities exchange or on NASDAQ. Currently, our common stock is traded on the Over-The-Counter Bulletin Board. As a result, accurate current quotations as to the value of our common stock are unavailable making it more difficult for investors to dispose of our common stock. The lack of current quotations and liquidity can cause our stock price to decline or to trade lower than the prices that might prevail if our securities were listed or quoted on an exchange or on NASDAQ.

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:

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

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

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

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

We Have Paid No Dividends On Our Common Stock

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We have paid no cash dividends on our Common Stock in the past and do not intend to pay any dividends on our Common Stock in the foreseeable future. Our Board of Directors is empowered to declare dividends, if any, to holders of the common stock, based on our earnings, capital requirements, financial condition, and other relevant factors. We anticipate that we will reinvest profits from our operations, if any, into our business. We cannot assure you that we will ever pay dividends to holders of our common stock.

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ITEM 7. FINANCIAL STATEMENTS

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FINANCIAL STATEMENTS AND SCHEDULES

SEPTEMBER 30, 2004 AND 2003

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APPLIED DNA SCIENCES, INC.  
(A development Stage Company)

APPLIED DNA SCIENCES , INC.  
Index to Financial Statements

Report of Registered Independent Certified Public Accountants

Consolidated Balance Sheet as of September 30, 2004

Consolidated Statement of Losses for the year ended September 30, 2004 and 2003 and the period September 16, 2002 (date of inception) to September 30, 2004

Consolidated Statement of Deficiency in Stockholders' Equity for the period September 16, 2002 (date of inception) to September 30, 2004

Consolidated Statements of Cash Flows for the year ended September 30, 2004 and 2003, and the period September 16, 2002 (date of inception) to September 30, 2004

Notes to Consolidated Financial Statements

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RUSSELL BEDFORD STEFANOU MIRCHANDANI LLP  
CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF REGISTERED INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors  
Applied DNA Sciences, Inc.  
Los Angeles, California

We have audited the accompanying consolidated balance sheets of Applied DNA Sciences, Inc. (a development stage company) as of September 30, 2004 and the related consolidated statements of losses, deficiency in stockholders' equity, and cash flows for the years ended September 30, 2004 and 2003 and the period September 16, 2002 (date of inception) through September 30, 2004. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on the financial statements based upon our audits.

We have conducted our audits in accordance with auditing standards of the Public Company Accounting Oversight Board (PCAOB) (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

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In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Applied DNA Sciences, Inc. (a development stage company) at September 30, 2004 and the results of its operations and its cash flows for the years ended September 30, 2004 and 2003, and the period September 16, 2002 (date of inception) through September 30, 2004 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in the Note K to the accompanying financial statements, the Company is in the development stage and has not established a source of revenues. This raises substantial doubt about the company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ RUSSELL BEDFORD Stefanou MIRCHANDANI LLP

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 Russell Bedford Stefanou Mirchandani LLP  
 Certified Public Accountants

McLean, Virginia  
 January 11, 2005

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APPLIED DNA SCIENCES, INC  
 (A development stage company)  
 CONSOLIDATED BALANCE SHEET

September 30

ASSETS

Current Assets:

Cash

Total Current Assets

Property, Plant and Equipment (Note A)

Less: accumulated depreciation

Total Property, Plant and Equipment

Other Assets:

Deposits

Intangible assets (net of accumulated amortization of \$1,756) (Note A)

Total Other Assets

LIABILITIES AND DEFICIENCY IN STOCKHOLDERS' EQUITY

Current Liabilities:

Accounts payable and accrued liabilities

Accrued expenses - related parties (Note D)

Convertible notes payables (Note F)

Due to related parties (Note D)

Note payable -related parties (Note C)

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Total Current Liabilities

Commitments and contingencies (Note J)

DEFICIENCY IN STOCKHOLDERS' EQUITY: (Note E)

Convertible Preferred Stock, par value \$0.001 per share; 10,000,000 shares authorized; 60,000 shares issued and outstanding at September 30, 2004

Common Stock, par value \$0.50 per share; 100,000,000 authorized;

23,981,054 shares issued and outstanding at September 30, 2004

Additional paid in capital

Common stock subscribed

Deficit accumulated during development stage

Total deficiency in stockholders' equity

See accompanying notes to consolidated financial statements

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APPLIED DNA SCIENCES , INC.  
( A development stage company)  
CONSOLIDATED STATEMENT OF LOSSES

	For the Year Ended September 30, 2004	For the Year Ended September 30, 2003
	-----	-----
Operating expenses:		
General and administrative	\$ 17,580,098	\$ 3,468,363
Depreciation and Amortization	3,161	-
Total expenses	17,583,259	3,468,363
Loss from operations	(17,583,259)	(3,468,363)
Other income (expense)	1,385	25,000
Interest (expense)	(1,776,385)	(1,801)
Income (taxes) benefit	-	-
Net loss	\$ (19,358,259)	\$ (3,445,164)
Basic and diluted loss per common share (Note H)	\$ (0.93)	\$ (0.27)
Weighted average common shares outstanding	20,819,700	12,955,358

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See accompanying notes to consolidated financial statements

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APPLIED DNA SCIENCES, INC  
(A development stage company)  
CONSOLIDATED STATEMENT OF DEFICIENCY IN STOCKHOLDER'S EQUITY  
FOR THE PERIOD SEPTEMBER 16, 2002 (Date of Inception) THROUGH  
SEPTEMBER 30, 2004

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Amount	Additional Paid in Capital Amount	Common Stock Subscribed	Sub R
	-----	-----	-----	-----	-----	-----	-----
Issuance of common stock to Founders in exchange for services on September 16, 2002 at \$.01 per share	-	\$ -	100,000	\$ 10	\$ 990	-	\$
Net Loss	-	-	-	-	-	-	
Balance at September 30, 2002	-	-	100,000	10	990	-	
Issuance of common stock in connection with merger with Prohealth Medical Technologies , Inc on October 1, 2002	-	-	10,178,352	1,018	-	-	
Cancellation of Common stock in connection with merger with Prohealth Medical Technologies , Inc on October 21, 2002	-	-	(100,000)	10	(1,000)	-	
Issuance of common stock in exchange for services in October 2002 at \$ 0.65 per share	-	-	602,000	60	39,070	-	
Issuance of common stock in exchange for subscription in November and December 2002 at \$ 0.065 per share	-	-	876,000	88	56,852	-	(56
Cancellation of common stock in January 2003 previously issued in exchange for consulting services	-	-	(836,000)	(84)	(54,264)	-	54
Issuance of common stock in exchange for licensing services valued at \$ 0.065 per share in January 2003	-	-	1,500,000	150	97,350	-	
Issuance of common stock in exchange for consulting services valued at \$ 0.13 per share in January 2003	-	-	586,250	58	76,155	-	

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Issuance of common stock in exchange for consulting services at \$ 0.065 per share in February 2003	-	-	9,000	1	584	-
Issuance of common stock to Founders in exchange for services valued at \$0.0001 per share in March 2003	-	-	10,140,000	1,014	-	-
Issuance of common stock in exchange for consulting services valued at \$2.50 per share in March 2003	-	-	91,060	9	230,625	-

See accompanying notes to consolidated financial statements

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APPLIED DNA SCIENCES, INC  
(A development stage company)  
CONSOLIDATED STATEMENT OF DEFICIENCY IN STOCKHOLDER'S EQUITY  
FOR THE PERIOD SEPTEMBER 16, 2002 (Date of Inception) THROUGH  
SEPTEMBER 30, 2004  
(Continued)

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

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

See accompanying notes to consolidated financial statements

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APPLIED DNA SCIENCES, INC  
(A development stage company)  
CONSOLIDATED STATEMENT OF DEFICIENCY IN STOCKHOLDER'S EQUITY  
FOR THE PERIOD SEPTEMBER 16, 2002 (Date of Inception) THROUGH  
SEPTEMBER 30, 2004  
(Continued)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	Su R
	-----	-----	-----	-----	-----	-----	-----
Common stock canceled in July 2003, previously issued for services rendered at \$2.50 per share	-	-	(24,000)	(2)	(59,998)	-	-



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Common stock issued in exchange for options exercised at \$1.00 in July 2003	-	-	20,000	2	19,998	-
Common stock issued in exchange for exercised of options previously subscribed at \$1.00 in July 2003	-	-	10,000	1	9,999	(10,000)
Common stock issued in exchange for consulting services at approximately \$2.38 per share, August 2003	-	-	172,500	17	410,913	-
Common stock issued in exchange for options exercised at \$1.00 in August 2003	-	-	29,000	3	28,997	-
Common stock issued in exchange for consulting services at approximately \$2.42 per share, September 2003	-	-	395,260	40	952,957	-
Common stock issued in exchange for cash at \$2.50 per share-subscription payable-September 2003	-	-	19,200	2	47,998	(48,000)
Common stock issued in exchange for cash at \$2.50 per share pursuant to private placement September 2003	-	-	6,400	1	15,999	-
Common stock issued in exchange for options exercised at \$1.00 in September 2003	-	-	95,000	10	94,991	-
Common stock subscription receivable reclassification adjustment						
Common Stock subscribed to at \$2.50 per share in September 2003			-	-	-	-
Net Loss for the year ended September 30, 200			-	-	-	300,000
Balance at September 30, 2003	-	-	-	-	-	-
	-----	-----	-----	-----	-----	-----
	-	\$ -	17,811,082	\$ 1,781	\$2,577,568	\$300,000
	=====	=====	=====	=====	=====	=====

See accompanying notes to consolidated financial statements

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APPLIED DNA SCIENCES, INC  
(A development stage company)  
CONSOLIDATED STATEMENT OF DEFICIENCY IN STOCKHOLDER'S EQUITY  
FOR THE PERIOD SEPTEMBER 16, 2002 (Date of Inception) THROUGH  
SEPTEMBER 30, 2004  
(Continued)

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

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

See accompanying notes to consolidated financial statements

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APPLIED DNA SCIENCES, INC  
(A development stage company)  
CONSOLIDATED STATEMENT OF DEFICIENCY IN STOCKHOLDER'S EQUITY  
FOR THE PERIOD SEPTEMBER 16, 2002 (Date of Inception) THROUGH  
SEPTEMBER 30, 2004  
(Continued)  
Deficit

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

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See accompanying notes to consolidated financial statements

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APPLIED DNA SCIENCES, INC  
(A development stage company)  
CONSOLIDATED STATEMENT OF DEFICIENCY IN STOCKHOLDER'S EQUITY  
FOR THE PERIOD SEPTEMBER 16, 2002 (Date of Inception) THROUGH  
SEPTEMBER 30, 2004

(Continued)  
Deficit

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

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

See accompanying notes to consolidated financial statements

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APPLIED DNA SCIENCES, INC  
(A development stage company)  
CONSOLIDATED STATEMENT OF DEFICIENCY IN STOCKHOLDER'S EQUITY  
FOR THE PERIOD SEPTEMBER 16, 2002 (Date of Inception) THROUGH  
SEPTEMBER 30, 2004

(Continued)

Deficit

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

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services at \$0.39 per share in August 2004			100,000	50,000	(16,500)	-
Preferred stock converted to common stock for consulting services at \$0.39 per share in August 2004	(2000)	(2)	50,000	25,000	(5,500)	-

See accompanying notes to consolidated financial statements

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APPLIED DNA SCIENCES, INC  
(A development stage company)  
CONSOLIDATED STATEMENT OF DEFICIENCY IN STOCKHOLDER'S EQUITY  
FOR THE PERIOD SEPTEMBER 16, 2002 (Date of Inception) THROUGH  
SEPTEMBER 30, 2004

(Continued)  
Deficit

	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 \$0.50 per share in August 2004			100,000	50,000	250	
Common stock issued in exchange for consulting services at \$0.56 per share in August 2004			200,000	100,000	12,500	-
Common stock issued in exchange for consulting services at \$0.41 per share in August 2004			92,500	46,250	(8,787)	-
Common stock issued in exchange for consulting services at \$0.52 per share in September 2004			1,000,000	500,000	17,500	-
Common stock issued in exchange for consulting services at \$0.46 per share in September 2004			5,000	2,500	(212)	-
Common stock issued pursuant to subscription at \$0.50 per share in September 2004			40,000	20,000	-	-
Preferred shares converted to common stock for consulting services at \$0.41 per share in September 2004	(4000)	(4)	100,000	50,000	4,000	-
Preferred shares issued in exchange for service at \$25 per share in September 2004	60,000	6			1,499,994	

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Warrants issued to consultants in the fourth quarter 2004 2,019,862

Net Loss - - - -

Balance at September 30, 2004 60,000 \$6 23,981,054 11,990,527 6,118,993 -

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APPLIED DNA SCIENCES, INC.  
(A Development Stage Company)  
CONSOLIDATED STATEMENT OF CASH FLOWS

	For the Year Ended September 30, 2004	For the Year Ended September 30, 2003	For Septem (Date throu
Cash Flows from operating activities:			
Net loss from operating activities	\$ (19,358,259)	\$ (3,445,164)	\$ (22
Adjustments to reconcile net loss to net cash (used in) operating activities:			
Depreciation and amortization	3,161	-	
Organizational expenses	-	88,500	
Preferred shares issued in exchange for service at \$25 per share in September 2004	1,500,000	-	1
Warrants issued to consultants in the fourth quarter 2004	2,019,862	-	2
Amortization of beneficial conversion feature	1,625,000	-	1
Common stock issued in exchange for consultant services rendered	10,105,382	2,292,350	12
Common stock canceled-previously issued for services rendered	(285,575)	-	
Changes in assets and liabilities:			
Prepaid Expenses and Deposits	-	-	
Increase in-Other Assets	-	(13,890)	
Increase (decrease) in:			
Increase in due related parties	20,000	132,696	
Accounts payable and accrued liabilities	1,301,560	454,000	1
Net cash (used in) operating activities	(3,068,719)	(491,509)	(3
Cash flows from investing activities:			
Payments for Patent Filing	(21,351)	-	
Payments for security deposits	(23,559)	-	
Capital expenditures	(29,507)	-	
Net cash (used in) investing activities	(74,417)	-	
Cash flows from financing activities:			
Proceeds from sale of common stock, net of cost	-	432,000	
Proceeds from subscription of common stock	124,000	-	

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Proceeds from sale of options	87,000	154,000	
Net advances from shareholders	(9,504)	98,980	
Proceeds from loans	2,750,000	-	2
	-----	-----	-----
Net cash provided by financing activities	2,951,496	684,980	3
Increase (decrease) in cash and cash equivalents	(191,640)	193,471	
Cash and cash equivalents, beginning of year	193,471	-	
Cash and cash equivalents, end of year	\$ 1,832	\$ 193,471	\$
	=====	=====	=====
Supplemental Information:			
Cash paid during the period for interest	\$ -	\$ -	\$
Cash paid during the year for taxes	-	-	
Non cash disclosures:			
Common stock issued for services	\$ 10,105,382	\$ 2,292,350	\$ 12
Amortization of beneficial conversion feature	\$ 1,625,000	\$ -	\$ 1
Common stock canceled-previously issued for services rendered	\$ (285,575)	\$ -	\$
Preferred shares issued in exchange for service at \$25 per share in September 2004	1,500,000	-	1
	-----	-----	-----
Warrants issued to consultants in the fourth quarter 2004	2,019,862	-	2
	-----	-----	-----
Acquisition:			
Common stock retained	\$ -	\$ 1,015	\$
Assets acquired	\$ -	\$ (135)	\$
	-----	-----	-----
Total consideration paid	\$ -	\$ 880	\$
	-----	-----	-----
Organization expenses- note issued in exchange of shares retired	\$ -	\$ 88,500	\$

See accompanying notes to consolidated financial statements

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APPLIED DNA SCIENCES, Inc.  
(A Development Stage Company)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004 AND 2003

NOTE A - SUMMARY OF ACCOUNTING POLICIES

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements follows.

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



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inception through September 30, 2004, the Company has accumulated losses of \$22,815,034.

### Estimates

The preparation of the financial statement in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

### Revenue Recognition

The Company recognizes revenue in accordance with SEC Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101"). SAB 101 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the selling price is fixed and determinable; and (4) collectibility is reasonably assured. Determination of criteria (3) and (4) are based on management's judgments regarding the fixed nature of the selling prices of the products delivered and the collectibility of those amounts. Provisions for discounts and rebates to customers, estimated returns and allowances, and other adjustments are provided for in the same period the related sales are recorded.

On December 17, 2003, the SEC staff released Staff Accounting Bulletin (SAB) No. 104, Revenue Recognition. The staff updated and revised the existing revenue recognition in Topic 13, Revenue Recognition, to make its interpretive guidance consistent with current accounting guidance, principally EITF Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables." Also, SAB 104 incorporates portions of the Revenue Recognition in Financial Statements - Frequently Asked Questions and Answers document that the SEC staff considered relevant and rescinds the remainder. The company's revenue recognition policies are consistent with this guidance; therefore, this guidance will not have an immediate impact on the company's consolidated financial statements.

### Cash Equivalents

For the purpose of the accompanying financial statements, all highly liquid investments with a maturity of three months or less are considered to be cash equivalents.

### Income Taxes

The Company has adopted Financial Accounting Standard No. 109 (SFAS 109) which requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statement or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Temporary differences between taxable income reported for financial reporting purposes and income tax purposes are insignificant.

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APPLIED DNA SCIENCES, Inc.  
(A Development Stage Company)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004 AND 2003

### Property and Equipment

Property and equipment are stated at cost and depreciated over their estimated

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useful lives of 3 to 5 years using the straight line method. At September 30, 2004 property and equipment consist of:

	September 30, 2004
	-----
Furniture	\$ 29,507
Accumulated depreciation	1,405
	=====
Net	\$ 28,102

### NOTE A - SUMMARY OF ACCOUNTING POLICIES (continued)

#### Impairment of Long-Lived Assets

The Company has adopted Statement of Financial Accounting Standards No. 144 (SFAS 144). The Statement requires that long-lived assets and certain identifiable intangibles held and used by the Company be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Events relating to recoverability may include significant unfavorable changes in business conditions, recurring losses, or a forecasted inability to achieve break-even operating results over an extended period. The Company evaluates the recoverability of long-lived assets based upon forecasted undercounted cash flows. Should an impairment in value be indicated, the carrying value of intangible assets will be adjusted, based on estimates of future discounted cash flows resulting from the use and ultimate disposition of the asset. SFAS No. 144 also requires assets to be disposed of be reported at the lower of the carrying amount or the fair value less costs to sell.

#### Comprehensive Income

The Company does not have any items of comprehensive income in any of the periods presented.

#### Segment Information

The Company adopted Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information ("SFAS 131"). SFAS establishes standards for reporting information regarding operating segments in annual financial statements and requires selected information for those segments to be presented in interim financial reports issued to stockholders. SFAS 131 also establishes standards for related disclosures about products and services and geographic areas. Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker, or decision making group, in making decisions how to allocate resources and assess performance. The information disclosed herein, materially represents all of the financial information related to the Company's principal operating segment.

#### Net Loss Per Share

The Company has adopted Statement of Financial Accounting Standard No. 128, "Earnings Per Share," specifying the computation, presentation and disclosure requirements of earnings per share information. Basic earnings per share has been calculated based upon the weighted average number of common shares outstanding. Stock options and warrants have been excluded as common stock equivalents in the diluted earnings per share because they are either antidilutive, or their effect is not material.

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APPLIED DNA SCIENCES , Inc.  
(A Development Stage Company)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004 AND 2003

NOTE A - SUMMARY OF ACCOUNTING POLICIES (continued)

Stock Based Compensation

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure-an amendment of SFAS 123." This statement amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in APB Opinion No. 25 and related interpretations. Accordingly, compensation expense for stock options is measured as the excess, if any, of the fair market value of the Company's stock at the date of the grant over the exercise price of the related option. The Company has adopted the annual disclosure provisions of SFAS No. 148 in its financial reports for the year ended September 30, 2004 and for the subsequent periods.

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

	For the Year Ended September 30, 2004 -----	For the Year September 30 -----
Net loss - as reported	\$ (19,358,259)	\$ (3,44
Add: Total stock based employee compensation expense as reported under intrinsic value method (APB. No. 25)	-	
Deduct: Total stock based employee compensation expense as reported under fair value based method (SFAS No. 123)	-	
	-----	-----
Net loss - Pro Forma	\$ (19,358,259)	\$ (3,44
Net loss attributable to common stockholders - Pro forma	\$ (19,358,259)	\$ (3,44
Basic (and assuming dilution) loss per share - as reported	\$ (0.93)	\$
Basic (and assuming dilution) loss per share - Pro forma	\$ (0.93)	\$

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APPLIED DNA SCIENCES , Inc.  
(A Development Stage Company)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004 AND 2003

### NOTE A - SUMMARY OF ACCOUNTING POLICIES (continued)

#### Liquidity

As shown in the accompanying financial statements, the Company incurred a net loss of \$22,815,034. during the period September 16, 2002 (date of inception) through September 30, 2004. The Company's current liabilities assets exceeded its current assets by \$4,786,323 as of September 30, 2004.

#### Concentrations of Credit Risk

Financial instruments and related items, which potentially subject the Company to concentrations of credit risk, consist primarily of cash, cash equivalents and trade receivables. The Company places its cash and temporary cash investments with high credit quality institutions. At times, such investments may be in excess of the FDIC insurance limit.

#### Research and Development

The Company accounts for research and development costs in accordance with the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 2 ("SFAS 2"), "Accounting for Research and Development Costs. Under SFAS 2, all research and development costs must be charged to expense as incurred. Accordingly, internal research and development costs are expensed as incurred. Third-party research and developments costs are expensed when the contracted work has been performed or as milestone results have been achieved. Company-sponsored research and development costs related to both present and future products are expensed in the period incurred. The Company did not incur any research and development expenses from September 16, 2002 (date of inception) through September 30, 2004.

#### Advertising

The Company will follow a policy of charging the costs of advertising to expenses incurred. The Company incurred advertising costs of \$125,758 and \$0, respectively during the years ended September 30, 2004 and 2003, respectively.

#### Reclassifications

Certain reclassifications have been made in prior year's financial statements to conform to classifications used in the current year.

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APPLIED DNA SCIENCES, INC.  
(A Development Stage Company)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004 AND 2003

### NOTE A - SUMMARY OF ACCOUNTING POLICIES (continued)

#### Intangible Assets

Intangible assets are amortized using the straight-line method over their estimated period of benefit, ranging from one to ten years. We periodically evaluate the recoverability of intangible assets and take into account events or

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circumstances that warrant revised estimates of useful lives or that indicate that an impairment exists. All of our intangible assets are subject to amortization.

At September 30, 2004, intangible assets consist of:

	September 30, 2004
Intangible assets	\$ 29,910
Accumulated amortization	(1,756)
	-----
Net Intangible Assets	\$ 28,154
	=====

New Accounting Pronouncements

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APPLIED DNA SCIENCES , Inc.  
(A Development Stage Company)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004 AND 2003

NOTE A - SUMMARY OF ACCOUNTING POLICIES (continued)

In April 2003, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 149, Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities. SFAS 149 amends SFAS No. 133 to provide clarification on the financial accounting and reporting of derivative instruments and hedging activities and requires that contracts with similar characteristics be accounted for on a comparable basis. The provisions of SFAS 149 are effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. The adoption of SFAS 149 did not have a material impact on the Company's results of operations or financial position.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity. SFAS 150 establishes standards on the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. The provisions of SFAS 150 are effective for financial instruments entered into or modified after May 31, 2003 and to all other instruments that exist as of the beginning of the first interim financial reporting period beginning after June 15, 2003. The adoption of SFAS 150 did not have a material impact on the Company's results of operations or financial position.

In December 2003, the FASB issued a revision of SFAS No. 132, "Employers' Disclosures About Pensions And Other Postretirement Benefits." This pronouncement, SFAS No. 132-R, expands employers' disclosures about pension plans and other post-retirement benefits, but does not change the measurement or recognition of such plans required by SFAS No. 87, No. 88, and No. 106. SFAS No. 132-R retains the existing disclosure requirements of SFAS No. 132, and requires certain additional disclosures about defined benefit post-retirement plans. Except as described in the following sentence, SFAS No. 132-R is effective for foreign plans for fiscal years ending after June 15, 2004; after the effective date, restatement for some of the new disclosures is required for earlier annual periods. Some of the interim-period disclosures mandated by SFAS No. 132-R (such

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as the components of net periodic benefit cost, and certain key assumptions) are effective for foreign plans for quarters beginning after December 15, 2003; other interim-period disclosures will not be required for the Company until the first quarter of 2005. Since the Company does not have any defined benefit post-retirement plans, the adoption of this pronouncement did not have any impact on the Company's results of operations or financial condition.

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. Management does not believe the adoption of this Statement will have any immediate material impact on the Company.

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.

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On December 16, 2004, the Financial Accounting Standards Board ("FASB") published Statement of Financial Accounting Standards No. 123 (Revised 2004), Share-Based Payment ("SFAS 123R"). SFAS 123R requires that compensation cost related to share-based payment transactions be recognized in the financial statements. Share-based payment transactions within the scope of SFAS 123R include stock options, restricted stock plans, performance-based awards, stock appreciation rights, and employee share purchase plans. The provisions of SFAS 123R are effective as of the first interim period that begins after June 15, 2005. Accordingly, the Company will implement the revised standard in the third

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quarter of fiscal year 2005. Currently, the Company accounts for its share-based payment transactions under the provisions of APB 25, which does not necessarily require the recognition of compensation cost in the financial statements. Management is assessing the implications of this revised standard, which may materially impact the Company's results of operations in the third quarter of fiscal year 2005 and thereafter.

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.

### NOTE B - MERGER

#### Acquisition

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

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

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

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### NOTE B - MERGER (continued)

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

Common stock retained by ProHealth shareholders	\$ 1,015
Assets acquired	(135)
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Total consideration paid \$ 880  
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In accordance with SOP 98-5, the Company expensed \$880 as organization costs.

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 E). 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 accounted for the acquisition of the shares as an organization cost and charged \$88,500 to operations and retired the 7,500,000 shares acquired common stock.

### NOTE C - RELATED PARTY TRANSACTIONS

At September 30, 2004, notes payable are as follows:

	September 30, 2004 -----
Note payable , related party, together with interest at 8% per annum, unsecured. Should the Company default under the terms of the Note, Noteholder has the option to convert the unpaid principal at maturity to 7,500,000 shares of the Company's common stock and receive additional common shares in exchange for accrued and unpaid interest at a conversion rate equal to the then fair market value of the Company's common stock. (refer to note J)	\$88,500 -----
Note payable, unsecured, related party, payable from August 1, 2005, right to convert to restricted stock in lieu of cash, rate of interest 4%, 160,000 shares prior to October 31, 2005 or 180,000 shares after that date.	425,000 -----
Due to ex-president, in September 2004, note holder entered into a private transaction, selling a total of 2,500,000 shares to him, after which he loaned all proceeds of \$600,000 to us.	600,000 -----
Note payable, ex-officer of the Company, due \$70,000 upon first funding, 20% rate of interest, or 100,000 shares at par value of \$0.001	50,000 -----
	1,163,500 -----
Less: current portion	1,163,500 -----
Note payable - long-term	\$ - -----

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### NOTE C - RELATED PARTY TRANSACTIONS



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Included in current liabilities is \$111,943 at September 30, 2004 which represents advances from the stockholders of the Company. No formal agreements or repayment terms exist.

Also, the Company owed \$117,333 at September 30, 2004 to the stockholders and other related parties towards accrued expenses.

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

The Company has entered into long term employment and consulting agreements with Company's ex- President and Chief Executive Officer and an entity controlled by a significant Company shareholder, respectively (see Note H).

### NOTE D - CAPITAL STOCK

The Company is authorized to issue 10,000,000 shares of convertible preferred stock, with \$0.001 par value per share. The Company is authorized to issue 100,000,000 shares of common stock, with \$0.50 par value per share. In January 2004, the Company passed a resolution authorizing change in the par value per common shares from \$0.0001 per share to \$0.50 per share. As of September 30, 2004, the Company has issued and outstanding 23,981,054 common share with par value of \$0.50 per share and 60,000 convertible preferred shares with par value of \$0.0001.

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

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

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

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.

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APPLIED DNA SCIENCES, INC.  
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### NOTE D- CAPITAL STOCK (continued)

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

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

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

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

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

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

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.

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APPLIED DNA SCIENCES, INC.  
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NOTE D- CAPITAL STOCK (continued)

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.

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

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

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

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

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

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

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

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

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APPLIED DNA SCIENCES, INC.  
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NOTE D- CAPITAL STOCK (continued)

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.

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

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

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

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

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

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

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

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

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

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APPLIED DNA SCIENCES, INC.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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### NOTE D- CAPITAL STOCK (continued)

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.

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

In September 2003, the Company received \$300,000 in connection with a 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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in exchange for consulting services valued at \$7,120.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### NOTE E - STOCK OPTIONS AND WARRANTS

#### Warrants

The following table summarizes the changes in warrants outstanding and the

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

Exercise Prices	Warrants Outstanding			Warrants Exercisable	Warrants Exercised
	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price		
\$0.10	335,000	4.79	\$ 0.10	335,000	
\$0.60	3,472,750	4.01	\$ 0.60	3,472,750	
\$0.70	750,000	2.84	\$ 0.70	750,000	
\$1.00	250,000	1.61	\$ 1.00	250,000	
\$3.00	62,503	1.25	\$ 3.00	62,503	
	4,870,253			4,870,253	

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NOTE E- STOCK OPTIONS AND WARRANTS (continued)

Transactions involving warrants are summarized as follows:

	Number of Shares	Weighted Average Price Per Share
Outstanding at September 30, 2003	383,500	\$ 1.38
Granted	4,574,753	0.58
Exercised	(88,000)	1.00
Canceled or expired	-	-
Outstanding at September 30, 2004	4,870,253	\$ 0.63

The estimated value of the compensatory warrants granted to non-employees in exchange for services and financing expenses was determined using the Black-Scholes pricing model and the following assumptions: contractual term of 2 to 5 years, a risk free interest rate of 3.00%, a dividend yield of 0% and volatility of 30%. The amount of the expense charged to operations for compensatory warrants granted in exchange for services was \$0 for the years ended September 30, 2004 and 2003.

The estimated value of the compensatory warrants granted to non-employees in exchange for services and financing expenses was determined using the Black-Scholes pricing model and the following assumptions: contractual term of 2 to 5 years, a risk free interest rate of 1.00%, a dividend yield of 0% and volatility of 22.9%. The amount of the expense charged to operations for compensatory warrants granted in exchange for services was \$2,019,862 and \$0, respectively, for the years ended September 30, 2004 and 2003.

NOTE F - CONVERTIBLE PROMISSORY NOTES PAYABLE



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A summary of convertible promissory notes payable at September 30, 2004 is as follows:

Convertible notes payable ("Bridge Unit Offering"), in quarterly installments of interest only at 10% per annum, secured by all assets of the Company and due on the earlier of the 9-month anniversary date of the initial closing of the Offering, or the completion of any equity financing of \$3M or more; The Company, in its sole discretion, may prepay principal at any time without penalty. The notes are convertible into shares of common stock of the Company at a price of \$2.50 per share.

	September 30, 2004
Convertible notes payable	\$ 1,675,000
Debt discount - beneficial conversion feature, net of accumulated amortization of \$1,270,444	(20,393)
Debt discount, net of accumulated amortization of \$354,556	(29,607)
Net balance	\$ 1,625,000

During the three months ended December 31, 2003, the Company sold 27.5 units (the "Units") to accredited investors at a price of \$50,000 per Unit (the "Bridge Offering") for a total of \$1,375,000. Each Unit consists of (i) a \$50,000 Principal Amount 10% Secured Convertible Promissory Note ("Note" or "Notes"), (ii) detachable warrants to purchase 50,000 shares of our common stock, exercisable for a period of five years at a price of \$3.20 per share ("\$3.20 Warrant") and (iii) detachable warrants to purchase 10,000 shares of our common stock, exercisable for a period of five years at a price of \$0.10 per share ("\$0.10 Warrant" and together with the \$3.20 Warrant, the "Warrants"). The Notes are convertible into shares of our common stock at a price of \$2.50 per share.

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APPLIED DNA SCIENCES, INC.  
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The Company accounted for the warrants and notes payable in accordance with APB No. 14, "Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants" ("APB 14"). APB 14 requires a portion of the proceeds from the issuance of debt securities with detachable stock warrants be allocated to the warrants and treated as paid-in capital. Any resulting discount or premium on the notes payable should be recorded and amortized over the life of the notes. The Company used the Black-Scholes model to determine the value of the warrants issued to the noteholders. Under the Black-Scholes model, the value of the warrants are determined by taking the difference between acquiring the stock outright and the present value of paying the exercise price on the expiration day. As a result, the Company valued the warrants at \$206,526. This amount was recorded as paid-in capital and the resulting discount on the notes payable was recorded and is being amortized using the interest method over the life of the notes. The debt discount attributed is amortized over the Bridge Offering's

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earliest maturity period of 9 months from the date of issue as interest expense.

In accordance with EMERGING ISSUES TASK FORCE ISSUE 98-5, ACCOUNTING FOR CONVERTIBLE SECURITIES WITH A BENEFICIAL CONVERSION FEATURES OR CONTINGENTLY ADJUSTABLE CONVERSION RATIOS ("EITF 98-5"), the Company recognized an imbedded beneficial conversion feature present in the Bridge Offering note. The Company allocated a portion of the proceeds equal to the intrinsic value of that feature to additional paid in capital. The Company recognized and measured an aggregate of \$1,168,474 of the proceeds, which is equal to the intrinsic value of the imbedded beneficial conversion feature, to additional paid in capital and a discount against the Bridge Offering. The debt discount attributed to the beneficial conversion feature is amortized over the Bridge Offering's earliest maturity period of 9 months from the date of issue as interest expense.

The Company valued the beneficial conversion of the notes and warrants in accordance with EITF 00-27 using the Black-Scholes pricing model and the following assumptions:

- o contractual terms of 5 years
- o an average risk free interest rate of 1.00%
- o a dividend yield of 0.00%
- o volatility of 22.9%.

During the three months ended March 31, 2004, the Company sold 6 units (the "Units") to accredited investors at a price of \$50,000 per Unit (the "Bridge Offering") for a total of \$300,000. Each Unit consists of (i) a \$50,000 Principal Amount 10% Secured Convertible Promissory Note ("Note" or "Notes"), (ii) warrants to purchase 50,000 shares of our common stock, exercisable for a period of five years at a price of \$3.20 per share ("3.20 Warrant") and (iii) warrants to purchase 10,000 shares of our common stock, exercisable for a period of five years at a price of \$0.10 per share ("0.10 Warrant" and together with the 3.20 Warrant, the "Warrants"). The Notes are convertible into shares of our common stock at a price of \$2.50 per share.

The Company accounted for the warrants and notes payable in accordance with APB No. 14, "Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants" ("APB 14"). APB 14 requires a portion of the proceeds from the issuance of debt securities with detachable stock warrants be allocated to the warrants and treated as paid-in capital. Any resulting discount or premium on the notes payable should be recorded and amortized over the life of the notes. The Company used the Black-Scholes model to determine the value of the warrants issued to the noteholders. Under the Black-Scholes model, the value of the warrants are determined by taking the difference between acquiring the stock outright and the present value of paying the exercise price on the expiration day. As a result, the Company valued the warrants at \$177,638. This amount was recorded as paid-in capital and the resulting discount on the notes payable was recorded and is being amortized using the interest method over the life of the notes. The debt discount attributed is amortized over the Bridge Offering's earliest maturity period of 9 months from the date of issue as interest expense.

In accordance with EMERGING ISSUES TASK FORCE ISSUE 98-5, ACCOUNTING FOR CONVERTIBLE SECURITIES WITH A BENEFICIAL CONVERSION FEATURES OR CONTINGENTLY ADJUSTABLE CONVERSION RATIOS ("EITF 98-5"), the Company recognized an imbedded beneficial conversion feature present in the Bridge Offering note. The Company allocated a portion of the proceeds equal to the intrinsic value of that feature to additional paid in capital. The Company recognized and measured an aggregate of \$122,362 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

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beneficial conversion feature is amortized over the Bridge Offering's earliest maturity period of 9 months from the date of issue as interest expense.

The Company valued the beneficial conversion of the notes and warrants in accordance with EITF 00-27 using the Black-Scholes pricing model and the following assumptions:

- o contractual terms of 5 years
- o an average risk free interest rate of 4.25%
- o a dividend yield of 0.00%
- o volatility of 42.0%.

In September 2004, the Company re-priced the \$3.20 warrants to \$0.60 as an inducement to convertible note holders as the Company sought additional financing. The Company recorded a charge of \$371,850 to earnings for the year ended September 30, 2004.

### NOTE G- INCOME TAXES

The Company has adopted Financial Accounting Standard No. 109 which requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statement or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between financial statements and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Temporary differences between taxable income reported for financial reporting purposes and income tax purposes are insignificant.

At September 30, 2004, the Company has available for federal income tax purposes a net operating loss carryforward of approximately \$22,815,034, expiring in the year 2023, that may be used to offset future taxable income. The Company has provided a valuation reserve against the full amount of the net operating loss benefit, since in the opinion of management based upon the earnings history of the Company, it is more likely than not that the benefits will not be realized. Due to significant changes in the Company's ownership, the future use of its existing net operating losses may be limited.

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APPLIED DNA SCIENCES, INC.  
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### NOTE G- INCOME TAXES (continued)

Components of deferred tax assets as of September 30, 2003 are as follows:

Non current:  
Net operating loss carryforward

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	\$7,985,000
Valuation allowance	(7,985,000)
	-----
Net deferred tax asset	\$ -
	=====

NOTE H-LOSSES PER SHARE

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

	For the Year Ended September 30, 2004	For the Year September 30,
	-----	-----
Loss available for common shareholders	\$ (19,358,259)	\$ (3,445,
	=====	=====
Basic and fully diluted loss per share	\$ (0.93)	\$ (0
	=====	=====
Weighted average common shares outstanding	20,819,700	12,955,

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

NOTE I- COMMITMENTS AND CONTINGENCIES

Licensing Agreement

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

Year ending October 8,	Minimum purchase orders	Alternative Minimum Royalty Payable
2004	\$300,000	\$100,000
2005	360,000	-
2006	432,000	-
2007	518,400	-

Consulting Agreement

GP has been engaged, on a non-exclusive basis, to provide advice and assistance to the Company regarding issues associated with Applied DNA's proprietary DNA embedded security solutions. GP will assist the Company with strategic positioning and enhancement of the Company's business, and will assist the Company in the development of domestic and international marketing strategies for the Company's DNA products and services. The term of the engagement is one

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year from the effective date, with automatic one year renewals unless either party expresses, in writing, an intention not to renew within 60 days prior to the expiration of the term.

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

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

The Company has agreed to maintain confidentiality with regard to its relationship with GP, wherever appropriate, and has indemnified GP, its controlling persons, respective partners, shareholders, directors, officers, employees, agents, affiliates and representatives and will hold them harmless against any actions, judgments, claims, etc. The Agreement, in its entirety, will be filed with the Company's 10-KSB in accordance with SEC regulatory requirements.

### Franchising and Distribution Agreements

The Company has entered into a Distribution and Franchising Agreement ("Franchise Agreement") in July 2003. Under the terms of the Franchise Agreement, the franchisee is obligated to pay the Company \$3,000,000 payable \$25,000 upon execution of the Franchise Agreement and the balance of \$2,975,000 payable over five (5) years with interest accruing at 8% per annum. Payments under the Franchise Agreement are subject to franchisee's net profits, as defined, under the Franchise Agreement. During the year ended September 30, 2004 and 2003 the Company has received the initial \$25,000 and \$0, as installment and has recognized the receipt as other income in the accompanying financial statements.

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APPLIED DNA SCIENCES, INC.  
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### NOTE I- COMMITMENTS AND CONTINGENCIES (continued)

#### Operating Lease Commitments

The Company leases office space under operating lease in Los Angeles, California for its corporate use from an entity controlled by significant former shareholder, expiring in November 2006. Total lease rental expenses for the

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years ended on September 30, 2004 and 2003, was \$120,804 and \$38,725, respectively.

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

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

### Employment and Consulting Agreements

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

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

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

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APPLIED DNA SCIENCES, INC.  
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### NOTE J- SUBSEQUENT EVENTS

On October 31, 2004, the Company defaulted on a note held by a former company officer and director in the amount of \$88,500 (See Note C), and in accordance with the default, the noteholder has the right, at any time without further notice, to demand that his outstanding note be converted back into 7,500,000 shares. On December 28, 2004, the noteholder made his demand for the issuance of 7,500,000 shares of common stock. The Company is currently negotiating a settlement of this matter with the noteholder.

In October 2004, the Company granted 3,036,000 common stock warrants to the Company's Directors and certain advisors as additional compensation for services. The warrants have excise prices between \$.50 and \$1.00 per share and expire in periods ranging from 3 to 5 years.

In January 2005, the Company arranged a \$6 million private placement of 12 million shares at \$0.50 per share along with 12 million attached warrants with an exercise price of \$0.75 that expires in 5 years. As of January 10, 2005, \$4

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million of the \$6 million has been subscribed.

In January 2005, holders of 1,625,000 of convertible notes payable elected to convert their notes to common stock at \$.33 per share (See Note F).

### NOTE K - GOING CONCERN

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the accompanying financial statements during the period September 16, 2002 through September 30, 2004, the Company incurred a loss of \$22,815,034. In addition, the Company has a deficiency in stockholder's equity of \$4,706,508. These factors among others may indicate that the Company will be unable to continue as a going concern for a reasonable period of time.

The Company's existence is dependent upon management's ability to develop profitable operations. Management is devoting substantially all of its efforts to developing DNA embedded biotechnology security solutions in the United States and there can be no assurance that the Company's efforts will be successful. However, the planned principal operations have not commenced and no assurance can be given that management's actions will result in profitable operations or the resolution of its liquidity problems. The accompanying statements do not include any adjustments that might result should the Company be unable to continue as a going concern.

In order to improve the Company's liquidity, the Company's management is actively pursuing additional equity financing through discussions with investment bankers and private investors. There can be no assurance the Company will be successful in its effort to secure additional equity financing.

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### ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

### ITEM 8A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures: As of September 30, 2004, the Company's management carried out an evaluation, under the supervision of the Company's Chief Executive Officer and the Chief Financial Officer of the effectiveness of the design and operation of the Company's system of disclosure controls and procedures pursuant to the Securities and Exchange Act, Rule 13a-15(e) and 15d-15(e) under the Exchange Act). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective, as of the date of their evaluation, for the purposes of recording, processing, summarizing and timely reporting material information required to be disclosed in reports filed by the Company under the Securities Exchange Act of 1934.

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

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## ITEM 8B. OTHER INFORMATION

None.

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## PART III

### ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

Directors and Executive Officers. The position(s) held by each of our executive officers and Directors as of January 7, 2005 are shown in the following table. Biographical information for each is set forth following the table.

Names:	Ages	Titles:	Board of Directors
Rob Hutchison	49	Chairman & CEO	Director
Peter Brocklesby	52	President	Director
Lawrence Lee	44	Chief Technology Strategist	Director
Michael Hill	44		Director
Ron Erickson	61		Director
Karin Klemm	38	Secretary	

Chairman of the Board & CEO, Robin Hutchison

In November 2003, Robin "Rob" Hutchison joined our Board of Directors. On December 12, 2003, he was appointed Chairman of the Board and on March 1, 2004, he was appointed Chief Executive Officer. Previously, Mr. Hutchison served on Board of Directors of PowerHouse Technologies Group, Inc., the developer of mobile computing solutions that enhance personal productivity. He is the founder of several companies, including eCharge Corporation of Seattle, Washington, specialists in alternative payment methods for the Internet. Mr. Hutchison served as eCharge's president and chief technical officer and played an integral role in raising in excess of \$90 million in private funding. Mr. Hutchison pioneered, and holds the patent pending on, unique digital certificate technology using Bio-metrics that enabled eCharge to provide secure Internet commerce transactions.

Prior to co-founding eCharge, Mr. Hutchison was president of Canada-based SNI Corporation, specialists in the integration of SUN Microsystems UNIX-based systems and Internet and computer firewall security. Mr. Hutchison also served as the western regional director of sales and operations for Everex Canada Inc. and as vice president and co-founder of Vivox International Inc.

Mr. Hutchison remains on the Board of Directors of eCharge. He retired from that company in 2002 to assist in the development of several start-ups and mature technology companies, including Bit Learning, Via Vis Technologies Inc., One Person Health Inc. and Applied DNA Canada. Mr. Hutchison is a member of the Board of Directors of Golden Goliath Resources and Serebra Learning Corporations.

President, Peter Brocklesby

Mr. Brocklesby graduated from Leeds University, UK with a BA Honors degree in History in 1970. He attended the Royal Air Force College, UK and was commissioned in the RAF. In 1977, after 7 years service in the UK Armed Forces, Mr. Brocklesby left to become Director of Logistics for Air Asia (Air America),



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a US defense contractor providing support for the US military and for other governments in Asia.

Following acquisition of Air Asia by E-Systems, Inc., a multi-billion dollar defense contractor, and now part of Raytheon, Mr. Brocklesby was appointed VP Marketing. E-Systems specialized in the development and integration of advanced airborne and land-based military and government communications systems, electronic warfare equipment, electronic surveillance and airborne intelligence gathering systems.

As an independent businessman, Mr. Brocklesby developed sophisticated electronics systems for commercial aircraft in a joint-venture with Plessey, a multi-billion dollar defense contractor and avionics manufacturer. The products included satellite communication systems, on-board electronic management systems and fully interactive video, audio and voice/data communications systems. Mr. Brocklesby has extensive experience in the development, commercialization and marketing of new technologies and has many contacts in the aerospace, defense, electronics and telecommunications industries worldwide.

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Chief Technology Strategist, Director- Larry Lee

Larry Lee served as President, CEO and Director from September of 2002 to March 1st, 2004, when he assumed the role of Chief Technology Strategist. Lee has over 20 years of leadership experience in technology and telecommunications with both Fortune 500 companies and start-up organizations. His roles have ranged from Senior scientist to CEO, managing all aspects of business development including technical, financial, resource management and marketing.

Prior to becoming president and CEO of the Company, Lee has held management positions at Hughes Aircraft, Boeing and General Motors where he worked on innovative and cutting-edge new technology.

While working in the environment of Fortune 500 companies, he led the new initiatives divisions where he mastered entrepreneurial skills by developing a variety of new business ventures. His success was so notable that he was awarded the coveted Six Sigma Black Belt training award for his accomplishments. This is an award that is given after an intensive program to groom high corporate achievers to learn how to make companies successful.

He recently successfully initiated the start-up of three satellite telecommunications product lines for wireless, broadband and multi-media applications with sales exceeding \$200 million. He was also instrumental in directing the development of integrated data and software systems for the automotive industry, military and government security programs.

Lee currently serves on the board of advisors and/or partners for several U.S. and international companies including: Dery Resources Inc.; IMC, and VO Management, LLC.

Lee has a Master of Science in Computer/Electronic Engineering from California State University and a Bachelor of Science in Mechanical/Biomedical Engineering from Virginia Tech. He has also received advanced training in Business Executive Management and Finance from University of California, Los Angeles and the Hughes Education Center.

Consultant-and Director--Michael E. Hill

Mr. Hill has 18 years of experience in venture capital finance, investment banking and business development in North America and Europe. Hill has been

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involved in the initial funding and start-up of numerous companies including: multi-media, technology, biotech and the resource sectors. He has successfully completed transactions ranging as high as \$200 million and has been an intricate participant in many acquisition and merger strategies. Hill is currently a major shareholder in a west coast commercial real estate company and retail chain. He is also serving as the trustee and governor for the Shawnigan Lake School, a top ranked, international private school in Canada.

Previous to joining the Applied DNA Sciences team, Hill was an Investment Banker at Research Capital from 1997-2002 where he managed a portfolio exceeding \$300 million. At Research Capital Hill worked closely with senior executives and Management in developing new product, marketing, recruiting, due diligence and structuring investment banking deals. Prior to working with Research Capital, Hill performed similar tasks with Scotia Capital Markets and Burns Fry Ltd. He was employed with these companies from 1987 until 1997.

Ronald P. Erickson Director

Ronald Erickson has over thirty years of experience as a manager, attorney and senior level executive. In January 2004, Mr. Erickson was appointed to the Company's Board of Directors. From 1997 through the present, Mr. Erickson served as Chairman and Chief Executive Officer of eCharge Corporation in Seattle, Washington where he played a major role in raising approximately \$90 Million in equity capital from major international investors including Deutsche Telekom's venture arm, Korea Telecom, National Data Corp. and others. Previously, from 1995 through 1997, he served as Chairman and Chief Executive Officer of Globaltel Resources, Inc. where he co-founded and lead the worldwide financing efforts and managed all aspects of growth of this privately held international telecommunications and networking company. From 1992 through 1994, he was Chairman, Interim President and Chief Executive Officer of Egghead Software, Inc. in Issaquah, Washington.

Karin Klemm

On August 2, 2004, Applied DNA Sciences, Inc. (the "Company") appointed Karin Lise Klemm to the position of Chief Operating Officer and Secretary. In that capacity, Ms. Klemm oversees the day-to-day operations of the Company. Ms. Klemm continues to serve as President of Poly Pacific Entertainment, Inc., an entertainment company based in Beverly Hills, where she began her employ in that

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role in August of 1999. Since August of 2003, Ms. Klemm has served as Chief Executive Officer to Uncensored Music Network, Inc., also an entertainment company. Previously, from 1997 through 2000, Ms. Klemm was a branch manager of RH11, an executive search firm in Los Angeles, California.

### COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

In September of 2004, we reviewed the holdings of our officers and directors to determine if any purchase, sales or transfers were made throughout the year that may not have been disclosed properly on a Form 4. Any such sales were properly disclosed on Form 5.

### ITEM 10. EXECUTIVE COMPENSATION

The following table sets forth certain compensation paid or accrued by us to certain Fof our executive officers during fiscal years ended 2004, 2003 and 2002.

Summary Compensation Table

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Name & Principal Position	Year	Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Restricted Stock Awards (\$)	Options SARs (#) (1)
Rob Hutchison, CEO	2004	159,450	0	0	39,000	0
	2003	0	0	0	0	0
	2002	0	0	0	0	0
Lawrence C. Lee, CEO	2004	150,000	0	0	2,017,500	0
	2003	300,000	0	0	0	0
	2002	0	0	0	182,000	0
Gerhard Wehr, CFO	2004	58,328	0	22,489	54,000	0
	2003	180,000	0	0	0	0
	2002	0	0	0	40,000	0

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ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of January 13, 2005, information regarding the beneficial ownership of shares of our Common Stock by each person known by us to own five percent or more of the outstanding shares of our Common Stock, by each of our executive officers, by each of our directors, and by all executive officers and directors as a group. At the close of business on January 13, 2005, there were 30,909,292 shares issued and outstanding of record.

Name And Address Of Beneficial Owners	Shares of Common Stock	Percentage January 13, 2005
Rob Hutchison 3489 Canterbury Place. S. Surrey BC. V4P 2N5	1,120,000 (1)	3.6%
Peter Brocklesby c/o 9229 W. Sunset Blvd. Ste. 830 Los Angeles, CA 90069	1,000,000 (2)	3.2%
Lawrence Lee P O Box 88715 Los Angeles, CA 90009	2,920,000 (3)	9.4%
Michael Hill 44 Sierra Vista Close SW Calgary, Alberta T3H3A3	552,000 (4)	1.7%
Ron Erickson 9437 NE Coral Court Bainbridge Island, WA 98110	550,000 (5)	1.7%
Karin Klemm		

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5758 Las Virgenes Road  
Calabasas, CA 91302

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Total shares held by Officers and Directors (6 persons)	6,142,000 (6)	17
RHL Management, Inc. Roxbury Road Los Angeles, CA 90069 Chaim Stern 1880 East 26th Street Brooklyn, NY 11229	5,094,525  2,650,000	16  8.

\* Less than 1%

- (1) Includes 1,000,000 shares underlying currently exercisable options.
- (2) Includes 1,000,000 shares underlying currently exercisable options.
- (3) Includes 600,000 shares underlying currently exercisable options.
- (4) Includes 315,000 shares underlying currently exercisable options.
- (5) Includes 400,000 shares underlying currently exercisable options and 50,000 shares underlying currently exercisable options owned by Alpha Spectrum Investments, LLC, of which Mr. Erickson is deemed a beneficial owner.
- (6) Includes 3,365,000 shares underlying currently exercisable options.

### ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In September of 2004, Larry Lee entered into a private transaction with Mr. Chaim Stern, selling a total of 2,500,000 shares to him, after which he loaned all proceeds of \$600,000 to us.

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### PART IV

### ITEM 13. EXHIBITS

The exhibits listed below are required by Item 601 of Regulation S-B. Each management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10-KSB has been identified.

- 2.2\* Articles of Merger of Foreign and Domestic Corporations, filed December 19, 1998 with the Nevada Secretary of State.
- 3.1\* Articles of Incorporation of DCC Acquisition Corporation, filed April 20, 1998 with the Nevada Secretary of State.
- 3.2\* Articles of Amendment of Articles of Incorporation of DCC Acquisition Corp. changing corporation name to ProHealth Medical Technologies, Inc.
- 3.3\* Certificate of Designations, Powers, preferences and Rights of the Founders' Series of Convertible Preferred Stock, filed March 19, 2003 with the Nevada Secretary of State.
- 3.4\* Articles of Amendment of Articles of Incorporation of Applied DNA Sciences, Inc. increasing the par value of the company's common stock, filed on December 3, 2003 with the Nevada Secretary of State.
- 3.5\* By-Laws of Applied DNA Sciences, Inc.

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- 4.1\* 2004 Combined Incentive and Nonqualified Sock Option Plan.
- 10.1\* Exclusive License Agreement between Biowell Technology Corp. and Applied DNA Sciences, Inc. executed on October 8, 2002.
- 10.2\* Sub-License Agreement with G. A. Corporate Finance Ltd. Applied DNA Sciences, Inc., executed on July 29, 2003, and amended.
- 10.3\* Indemnification Agreement with Larry Lee.
- 10.4\* Indemnification Agreement with Robin Hutchison.
- 10.7\* Indemnification Agreement with Jaime Cardona.
- 10.8\* Indemnification Agreement with Michael Hill.
- 10.10\* Employment Agreement between the Company and Larry Lee.
- 10.14\* Lease Agreement with SUNSET SIERRA PROPERTIES INC.
- 10.15\* Indemnification Agreement with Peter Brocklesby.
- 10.16\* Indemnification Agreement with Adrian Botash.
- 10.17\* Indemnification Agreement with Karin Klemm
- 10.18\* Giuliani Partners Strategic Marketing Partnership Agreement
- 31.1 Chief Executive Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Chief Financial Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Chief Executive Officer certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Chief Financial Officer certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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\* Previously filed

### ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

#### Principal Accountant Fees and Services

The following is a summary of the fees billed to Applied DNA Sciences, Inc. by Russell Bedford Stefanou Mirchandani LLP for professional services rendered for the fiscal years ended September 30, 2004 and 2003:

Fee Category	Fiscal 2004 Fees	Fiscal 2003 Fees
Audit Fees	\$ 120,433	\$ 17,925
Audit-Related Fees	-	-
Tax Fees	-	-

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	-	-
	-	-
All Other Fees		
Total Fees	\$ 120,433	\$ 17.925

Audit Fees. Consists of fees billed for professional services rendered for the audit of Applied DNA Sciences, Inc.'s consolidated financial statements and review of the interim consolidated financial statements included in quarterly reports and services that are normally provided by Russell Bedford Stefanou Mirchandani LLP in connection with statutory and regulatory filings or engagements.

Audit-Related Fees. Consists of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of Applied DNA Sciences Inc.'s consolidated financial statements and are not reported under "Audit Fees." There were no Audit-Related services provided in fiscal 2004 or 2003.

Tax Fees. Consists of fees billed for professional services for tax compliance, tax advice and tax planning..

All Other Fees. Consists of fees for products and services other than the services reported above. There were no management consulting services provided in fiscal 2004 or 2003.

Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors

The Audit Committee's policy is to pre-approve all audit and permissible non-audit services provided by the independent auditors. These services may include audit services, audit-related services, tax services and other services. Pre-approval is generally provided for up to one year and any pre-approval is detailed as to the particular service or category of services and is generally subject to a specific budget. The independent auditors and management are required to periodically report to the Audit Committee regarding the extent of services provided by the independent auditors in accordance with this pre-approval, and the fees for the services performed to date. The Audit Committee may also pre-approve particular services on a case-by-case basis.

SIGNATURES

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

Date: January 14, 2005

Applied DNA Sciences, Inc.

/s/ ROB HUTCHISON

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Rob Hutchison  
Chief Executive Officer

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/s/ ROB HUTCHISON

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Rob Hutchison, Interim  
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Position	Date
/s/ ROB HUTCHISON ----- Rob Hutchison	CEO, CFO and Chairman of the Board	January 14, 2005
/s/ PETER BROCKLESBY ----- Peter Brocklesby	President and Director	January 14, 2005
/s/ LARRY LEE ----- Larry Lee	Chief Technology Strategist, Director	January 14, 2005
/s/ RON ERICKSON ----- Ron Erickson	Director	January 14, 2005
/s/MICHAEL HILL ----- Michael Hill	Director	January 14, 2005