

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

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

AMENDMENT NO. 1 TO 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, 2006

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

For the Transition Period From _____ to _____

Commission File Number 002-90539

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

Nevada
(State or other jurisdiction of
incorporation or organization)

59-2262718
(I.R.S. Employer
Identification Number)

25 Health Sciences Drive, Suite 113
Stony Brook, New York
(Address of principal executive office)

11790
(Postal Code)

(631) 444-6862
(Issuer's telephone number)

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

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

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act o

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act of 1934 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 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.

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

Yes No

State issuer's revenues for its most recent fiscal year. \$18,900.

The aggregate market value of the voting and non-voting common equity held by non-affiliates was \$10.6 million, as computed by reference to the last sale price of the Company's Common Stock, as reported by the OTC Bulletin Board, on January 16, 2007.

As of December 29, 2006, the Company had outstanding 121,162,385 shares of Common Stock.

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-KSB/A (this "Amendment") amends the Annual Report of Applied DNA Sciences, Inc. (the "Company") on Form 10-KSB for the year ended September 30, 2006, as filed with the Securities and change Commission on January 16, 2007 (the "Original Filing"). This Amendment is being filed for the purpose of clarifying the description of the accounting errors and related disclosures to the accompanying financial statements which gave rise to the restatement of the financial statements for the year ended September 30, 2005 and from September 16, 2002 (date of inception) through September 30, 2005 as described in Note M to the financial statements.

We have not updated the information contained herein for events occurring subsequent to January 16, 2007, the filing date of the Original Filing.

APPLIED DNA SCIENCES, INC.
AMENDMENT NO. 1 TO
FORM 10-KSB
For the Fiscal Year Ended September 30, 2006

Part I		Page
Item 1.	Description of Business.	1
Item 2.	Description of Property.	13
Item 3.	Legal Proceedings.	13
Item 4.	Submission of Matters to a Vote of Security Holders.	14
Part II		Page
Item 5.	Market for Common Equity and Related Stockholder Matters.	14
Item 6.	Management's Discussion and Analysis or Plan of Operation.	15
Item 7.	Financial Statements.	30
Item 8.	Changes In and Disagreements With Accountants on Accounting and Financial Disclosure.	33
Item 8A.	Controls and Procedures.	33
Item 8B.	Other Information.	33
Part III		Page
Item 9.	Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act.	34
Item 10.	Executive Compensation.	36

Item 11.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	37
Item 12.	Certain Relationships and Related Transactions.	40
Item 13.	Exhibits.	41
Item 14.	Principal Accountant Fees and Services.	44
Signatures.		45

PART I

Forward-looking Information

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 within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, including statements using terminology such as “can”, “may”, “believe”, “designated to”, “will”, “expect”, “plan”, “anticipate”, “estimate”, “potential” or “continue”, or the negative thereof comparable terminology regarding beliefs, plans, expectations or intentions regarding the future. You should read statements that contain these words carefully because they:

- discuss our future expectations;
- contain projections of our future results of operations or of our financial condition; and
- state other “forward-looking” information.

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

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, which requires us to file reports, proxy statements and other information with the Securities and Exchange Commission (“SEC”). Such reports, proxy statements and other information may be inspected at public reference facilities of the SEC at 100 F Street, N.E., Washington, D.C. 20549. Copies of such material can be obtained from the Public Reference Section of the SEC at 100 F Street, N.E., Washington, D.C. 20549 at prescribed rates. Because we file documents electronically with the SEC, you may also obtain this information by visiting the Securities SEC’s website at <http://www.sec.gov>.

ITEM 1. DESCRIPTION OF BUSINESS.

Corporate History

We are a Nevada corporation, which was initially formed under the laws of the State of Florida as Datalink Systems, Inc. in 1983. In 1998, we reincorporated in Nevada, and in November of 2002, we changed our name to our current name, Applied DNA Sciences, Inc. In November 2005, our corporate headquarters were relocated from Los Angeles, California to the Long Island High Technology Incubator at Stony Brook University in Stony Brook, New York. This relocation was part of our restructuring effort during the fourth quarter of 2005 to transform the company from the developmental stage to an operating business. During this period and in the first two quarters of 2006, we established laboratories for the manufacture of DNA markers and product prototypes, and DNA authentication. To date, the company has a very limited operating history, and as a result, the company’s operations have produced insignificant revenues. On May 9, 2006, we entered into, and on July 25, 2006 we announced the performance of our first SigNature Program contract.

Overview

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

authenticate and identify counterfeit versions of such items enables companies and governments to detect, deter, interdict and prosecute counterfeiting enterprises and individuals.

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

- give assurance to manufacturers, suppliers, distributors, retailers and end-users that their products are authentic and can be forensically authenticated;
- integrate our SigNature DNA Markers with existing security solutions such as barcodes, radio frequency identification (RFID) tags, holograms, microchips and other securities measures; and
- add value to the “bottom-line” by helping to diminish product diversion and counterfeiting.

- 1 -

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

- continuing to improve and customize our solution to meet our potential customers' needs;
- continuing to develop and enhance our existing DNA marker authentication technologies;
- expanding our customer base both domestically and abroad by targeting high volume markets; and
- augmenting our competitive position through strategic acquisitions and alliances.

Industry Background

Counterfeiting, product diversion, piracy, forgery, identity theft, and unauthorized intrusion into physical locations and databases create significant and growing problems to companies in a wide range of industries as well as governments and individuals worldwide. The U.S. Chamber of Commerce reported in 2006 that counterfeiting and piracy cost the U.S. economy between \$200-\$250 billion per year, or an estimated 750,000 American jobs, and pose a real threat to consumer health and safety. The World Customs Organization and Interpol estimate that annual global trade in illegitimate goods increased from \$5.5 billion in 1982 to roughly \$600 billion in 2004.

Product counterfeiting and diversion particularly harms manufacturers of consumer products, especially for prestige and established brands, and the consumers who purchase them. For instance, according to the Gieschen Consultancy's 2005 Document, Product and Intellectual Property Security Report, or DOPIP, consumer products associated with worldwide counterfeit enforcement arrests, charges, convictions, sentences and civil litigation in 2005 amounted to around \$1.5 billion. This total includes:

- \$695 million of entertainment and software products;
- \$283 million of clothing and accessories;
- \$193 million of cigarettes and tobacco products ;
- \$61 million of drugs and other medical supplies;
- \$36 million of toys and sports equipment;
- \$35 million of electronic equipment and supplies;
- \$12 million in perfume and cosmetics;
- \$11 million of food and alcohol products;
- \$11 million in jewelry and watches;
- \$10 million of computer equipment and supplies;
- \$123 million of other goods.

According to this report, the value of seizures and losses associated with counterfeit documents, products and intellectual property in the United States alone was \$1.29 billion in 2005.

The artworks and collectibles markets are also particularly vulnerable to counterfeiting, forgery and fraud. New works are produced and then passed off as originating from a particular artistic period or source, authentic fragments are pieced together to simulate an original work, and existing works are modified in order to increase their purported value. Such phony artwork and collectibles are then often sold with fake or questionable signatures and "provenance," or documented ownership histories that confirm authenticity.

Governments are increasingly vulnerable to counterfeiting, terrorism and other security threats at least in part because currencies, identity and security cards and other official documents can be counterfeited with relative ease. For instance, the DOPIP valued 2005 seizures and losses associated with counterfeit currency at around \$609 billion, and counterfeit identification at \$124 million. Governments must also enforce the various anti-counterfeiting and

anti-piracy regimes of their respective jurisdictions which becomes increasingly difficult with the continued expansion of global trade.

The digital and recording media industry, including the segment that records computer software on compact discs, has long been a victim of piracy, or the production of illegal copies of genuine media or software, and the counterfeiting and distribution of imitation media or software. Compact discs, DVDs, videotapes, computer software and other digital and recording media that appears identical to genuine products are sold at substantial discounts by vendors at street and night markets, via mail order catalogs and on the internet at direct retail websites or at auction sites. In 2006 the Business Software Alliance ("BSA") reported that in 2005, the United States lost \$6.9 billion as a result of software piracy. The BSA also estimated that 21 percent of software programs in the U.S. are unlicensed and that since January 1, 2000, the BSA has settled with 1,668 companies for a total of \$81,821,895. In a white paper published in December 2005, the BSA and the IDC also reported that they found in a 2004 study that the world spent more than \$59 billion for commercial packaged software. Yet, software worth over \$90 billion was actually installed. In other words, for every two dollars worth of software purchased legitimately, one dollar was obtained illegally.

- 2 -

The pharmaceutical industry also faces major problems relative to counterfeit, diluted, or falsely labeled drugs that make their way through healthcare systems worldwide, posing a health threat to patients and a financial threat to drugmakers and distributors. In 2006 the Center for Medicine in the Public Interest predicted that counterfeit drug sales will reach \$75 billion globally in 2010, an increase of more than 90% from 2005. In February, 2006, the World Health Organization ("WHO") estimated that counterfeits account for more than 10% of the global pharmaceuticals market, 25% of pharmaceuticals consumed in developing countries and as much as 50% in some countries, are counterfeit. According to the WHO, counterfeiting can apply to both branded and generic products and counterfeit pharmaceuticals may include products with the correct ingredients but fake packaging, with the wrong ingredients, without active ingredients or with insufficient active ingredients. The challenges presented by traditional counterfeiters have recently been supplemented by the many websites, from direct retailers to auction sites, that offer counterfeit prescription drugs online. As a result, the pharmaceutical industry and regulators are examining emerging anti-counterfeit technologies, including radio-frequency identification tags and electronic product codes, known as EPCs, to help stem the wave of counterfeit drugs and better track legitimate drugs from manufacturing through the supply chain.

As more and more companies in each of these markets begin to address the problem of counterfeiting, we expect that different systems will compete to be the leading standards by which products can be tracked across world markets. Historically, counterfeiting, product diversion and other types of fraud have been combated by embedding various authentication systems and rare and easily distinguishable materials into products, such as radio frequency identification (RFID) devices and banknote threads in packaging, integrated circuit chips and magnetic strips in automatic teller machine cards, holograms on currency, elemental taggants in explosives, and radioactivity and rare molecules in crude oil. These techniques are effective but have generally been reverse-engineered and replicated by counterfeiters, which limits their usefulness as forensic methods for authentication of the sources of products and other items.

The Applied DNA Solution

We believe our solution, which we call the SigNature Program, is as broadly applicable, convenient and inexpensive as existing authentication systems, while highly resistant to reverse-engineering or replication, so that it can either be applied independently or supplement existing systems in order to allow for a forensic level of authentication of the sources of a broad range of items, such as artwork and collectibles, fine wine, consumer products, digital and recording media, pharmaceuticals, financial instruments, identity cards and official documents. The SigNature Program first involves our design and manufacture of a highly customized and encrypted botanical DNA marker, or SigNature DNA Marker. The SigNature DNA Marker is then encapsulated and stabilized so that it is resistant to heat, organic solvents, chemicals and most importantly, ultraviolet, or UV radiation. Once it has been encapsulated, our SigNature DNA Embedment system can be used to embed the SigNature DNA Marker directly onto products or other items or into special inks, threads and other media, which in turn can be incorporated into packaging or products. Once it is embedded, our SigNature DNA Encryption Detector pen can instantly show the presence or absence of any of our SigNature DNA Markers, and our SigNature polymerase chain reaction (PCR) Kits can provide rapid forensic level authentication of specific SigNature DNA Markers.

We believe that the key characteristics and benefits of the SigNature Program are as follows:

We Believe Our SigNature DNA Markers Are Virtually Impossible to Copy

In creating unique SigNature DNA Markers, we use DNA segments from one or more botanical sources, rearrange them into unique encrypted sequences, and then implement one or more layers of anti-counterfeit techniques. Because the portion of DNA in a SigNature DNA Marker used to identify the marker is so minute, it cannot be detected unless it is replicated billions of times over, or amplified. This amplification can only be achieved by applying matching strands of DNA, or a primer, and PCR techniques to the SigNature DNA Marker. The sequence

of the relevant DNA in a SigNature DNA Marker must be known in order to manufacture the primer for that DNA. As a result, we believe the effort required to find, amplify, select and clone the relevant DNA in a SigNature DNA Marker would involve such enormous effort and expense that SigNature DNA Markers are virtually impossible to copy without our proprietary systems.

Simple and Rapid Authentication

With our advanced SigNature DNA Marker detection devices and PCR testing kits, any of our customers can quickly complete an on-site verification. When our SigNature DNA Encryption Detector pen comes in contact with our proprietary overt ink on a label or product package, a biochemical reaction triggers a reversible color change from blue to pink and back to blue. Testing of this color change can be repeated between 30 to 50 times. For forensic level authentication, our SigNature PCR testing kits can produce absolute authentication in less than 30 minutes using portable PCR machines.

- 3 -

Low Cost and High Accuracy

The costs associated with the DNA required to manufacture our SigNature DNA Markers are not significant since the amount of DNA required for each marker is so minute (for instance, only 3-5 parts per million when incorporated in an ink). We manufacture the identifying segment of DNA to be used in a SigNature DNA Marker by cloning them inside microorganisms such as yeast or bacteria, which are highly productive and inexpensive to grow. As a result, SigNature DNA Markers are relatively inexpensive when compared to other anti-counterfeiting devices such as RFIDs, EPCs, integrated circuit chips, and holograms. Our SigNature DNA Encryption Detectors, which use color changing dyes and molecular "triggers" to instantly detect SigNature DNA Markers, are also relatively inexpensive. At the same time, the probability of mistakenly identifying a SigNature DNA Marker is less than 1 in 1 trillion, so our authentication systems are highly accurate, and in fact, our SigNature PCR Kits can authenticate to a forensic level.

Easily Integrated with Other Anti-Counterfeit Technologies

Our DNA Markers can be embedded onto RFID devices, banknote threads, labels, serial numbers, holograms, and other marking systems using inks, threads and other media. We believe that combined with other traditional methods, our SigNature Program provides a significant deterrent against counterfeiting, product diversion, piracy, fraud and identity theft.

Broad Applicability and Ingestible

Our SigNature DNA Markers can be embedded into almost any consumer product, and virtually any other item. For instance, the indelible SigNature DNA Ink we produce is safe to consume and can be used in pharmaceutical drug tablets and capsules. Use of our SigNature DNA in ingestible products and drugs will require FDA approval. We have initiated a strategy to approach FDA in the first quarter of calendar year 2007.

Our Strategy

We expect to generate revenues principally from sales of our SigNature Program. Key aspects of our strategy include:

Customize and Refine the SigNature Program to Meet Potential Customers' Needs

We are continuously attempting to improve our SigNature Program by testing the incorporation of our DNA Markers into different media, such as newly configured labels, inks or packing elements, for use in new applications. Each prospective customer has specific needs and employs varying levels of existing security technologies with which our solution must be integrated. Our goal is to develop a secure and cost-effective system for each potential customer that can be incorporated into that potential customer's products or items themselves or their packaging so that they can, for instance, be tracked throughout the entire supply chain and distribution system.

Continue to Enhance Detection Technologies for Authentication of our SigNature DNA Markers

We have also identified and are further examining opportunities to collaborate with companies and universities to develop a new line of detection technologies that will provide faster and more convenient ways to authenticate our SigNature DNA Markers.

Target Potential High-Volume Markets

We will continue to focus our efforts on target vertical markets that are characterized by a high level of vulnerability to counterfeiting, product diversion, piracy, fraud, identity theft, and unauthorized intrusion into physical locations

and databases. Today our target markets include art and collectibles, fine wine, consumer products, digital and recording media, pharmaceuticals, and homeland security. If and when we have significantly penetrated these markets, we intend to expand into additional related high volume markets.

Pursue Strategic Acquisitions and Alliances

We intend to pursue strategic acquisitions of companies and technologies that strengthen and complement our core technologies, improve our competitive positioning, allow us to penetrate new markets, and grow our customer base. We also intend to work in collaboration with our licensee Biowell and potential strategic partners in order to continue to market and sell new product lines derived from, but not limited to, DNA technology.

- 4 -

Target Markets

A licensee of our products, Biowell, has incorporated DNA markers, based upon the same technology we use to create our SigNature DNA Markers, in more than 1 billion consumer products including DVDs, CDs, fine art, cosmetics, luxury teas and rice wine, seafood and many other items distributed in Asia. We have just begun offering our products and services in Europe and the United States and are targeting the following six principal markets:

Art & Collectibles

The fine art and collectibles markets are particularly vulnerable to counterfeiting, forgeries and fraud. Phony artwork and collectibles are often sold with fake or questionable signatures or attributions. We believe our SigNature DNA Markers can safely be embedded directly in, and so can be used to designate and then authenticate all forms of artwork and collectibles, including paintings, books, porcelain, marble, stone, bronzes, tapestries, glass and fine woodwork, including frames. They can also be embedded in any original supporting documentation related to the artwork or collectible, the signature of the artist and any other relevant material that would provide provenance, such as:

- A signed certificate or statement of authenticity from a respected authority or expert on the artist;
- An exhibition or gallery sticker attached to the art or collectible;
- An original sales receipt;
- A film or recording of the artist talking about the art or collectible;
- An appraisal from a recognized authority or expert on the art or collectible; and
- Letters or papers from recognized experts or authorities discussing the art or collectible.

Fine Wine

Vintners and purveyors of fine wine are also vulnerable to counterfeiting or product diversion. We believe our SigNature Program can provide vintners and purveyors of fine wines several benefits:

- Verified authenticity increases potential customers' confidence in the product and their purchase decision;
- For the vintner, the SigNature Program can strengthen brand support and recognition, and offers the potential for improved marketability and sales; and,
- SigNature DNA Markers can be embedded in bottles, labels, or both at the winery, and easily authenticated at the location of the wine distributor or auctioneer.

Consumer Products

Counterfeit items are a significant and growing problem with all kinds of consumer packaged goods, especially in the retail and apparel industries. According to the 2005 DOPIP, up to \$283 million worth of clothing and accessories worldwide are fake, as well as \$12 million worth of fragrances and cosmetics are counterfeit each year. In the United States, \$1.29 billion dollars worth of seizures and losses were incurred resulting from counterfeit of apparel and other consumer products. We have developed and are currently marketing a number of solutions aimed at brand protection and authentication for the retail and apparel industries, including the clothing, accessories, fragrances and cosmetics segments. Our SigNature Program can be used by manufacturers in these industries to combat counterfeiting and piracy of primary, secondary and tertiary packaging, as well as the product itself, and to track products that have been lost in transit, whether misplaced or stolen.

Digital and Recording Media

The digital and recording media industry, including the segment that records computer software on compact discs, faces significant threats from piracy and the counterfeiting and distribution of imitation media or software. For instance, according to the BSA, in 2005 the United States lost \$6.9 billion as a result of software piracy. Our SigNature DNA Markers can be embedded onto digital and recording media products, such as CDs, DVDs, videotapes and computer software, as well as the packaging of these products.

Pharmaceuticals

The pharmaceutical industry also faces major problems relative to counterfeit, diluted, or falsely labeled drugs that make their way through healthcare systems worldwide, posing a health threat to patients and a financial threat to drugmakers and distributors. As a result, the pharmaceutical industry and regulators are examining emerging anti-counterfeit technologies, including RFID tags and EPCs to help stem the wave of counterfeit drugs and better track legitimate drugs from manufacturing through the supply chain. Our SigNature DNA Markers can easily be embedded directly into pharmaceutical packaging or into RFID tags or EPCs attached to packaging, and since they are ingestible, may be applied as part of a unit dose. In its 2004 report "Combating Counterfeit Drugs," the Food and Drug Administration ("FDA") noted that authentication technologies for pharmaceuticals (such as color-shifting inks, holograms, taggants, or chemical markers embedded in a drug or its label) have been sufficiently perfected that they can now serve as a critical component of a layered approach to control counterfeit drugs. FDA's 2004 Report acknowledged the importance of using one or more authentication technologies for drug products.

Homeland Security

Governments worldwide are increasingly faced with the problems of counterfeit currencies, official documents, and identity and security cards, as well as terrorism and other security threats. Governments must also enforce the various anti-counterfeiting and anti-piracy regimes of their respective jurisdictions which becomes increasingly difficult with the continued expansion of global trade. Our SigNature Program can provide secure, forensic, and cost-effective anti-counterfeiting, anti-piracy and identification solutions to local, state, and federal governments as well as the defense contractors and the other companies that do business with them. Our SigNature Program can be used for all types of identification and official documents, such as:

- Passports;
- Lawful permanent resident, or “green” cards;
- Visas;
- Drivers’ licenses;
- Social Security cards;
- Military identification cards;
- Series C Common Stock Series A Convertible Series D Series F Convertible Beneficially Owned(1) Preferred Stock Preferred Stock Preferred Stock Preferred Stock Beneficially Beneficially Beneficially Beneficially Owned(1) Owned(1) Owned(1) Owned(1) SHARES % SHARES % SHARES % SHARES % SHARES %

 Douglas Davis ----- 25,000 7.7%
 Davis Aircraft Products 1150 Walnut Ave. Bohemia, NY 11716 Global Ocean ----- 12,500 14.3%
 ----- 4367 Windergate Dr. Jacksonville, FL 32257 Michael Manfredo ----- 50,000 15.4%
 4367 Windergate Dr. Jacksonville, FL 32257 Jeffrey R. Power ----- 50,000 15.4%
 74 Beach St Cohasset, MA 02025 Frazer Pennebaker ----- 24,000 27.4%
 ----- 202 W. 85th St. New York, NY 10024 (4) Deborah A. Power ----- 18,000 20.6%
 ----- 959 Concord St. Carlisle, MA 01741 (5) Jeffrey R. Power, Jr. ----- 24,000 27.4%
 ----- 18 Oldwood Road Wilbraham, MA 01095 (6) Pamela L. Power ----- 24,000 27.4%
 ----- 202 W. 85th St. New York, NY 10024 (7) Rosemarie Power ----- 24,000 27.4%
 ----- 18 Oldwood Road Wilbraham, MA 01095 (8) 30 Series C Common Stock Series A Convertible Series D Series F Convertible Beneficially Owned(1) Preferred Stock Preferred Stock Preferred Stock Preferred Stock Beneficially Beneficially Beneficially Beneficially Owned(1) Owned(1) Owned(1) Owned(1) SHARES % SHARES % SHARES % SHARES % SHARES %

 Arnold Fonseca Sep ----- 19,231 5.9%
 c/o Integrated Financial Management Inc. 1831 E. Carson St. Pittsburgh, PA 15203 Eugene D. Trott -----
 ----- 41,668 12.8%
 459 12th St, Apt. 3B Brooklyn, NY 11215 Robert Swinton -----
 18,750 5.8%
 625 Derby Drive South Oceanside, NY 11572 Shirley M. Wan ----- 6,000 6.5%
 ----- 5455 Chelsen Wood Dr. Lawrence, NY 11559 All executive officers 28,060,782 17.7%

 and Directors as a Group (2)(9) * less than 1%
 1. A person is deemed to be the beneficial owner of voting securities that can be acquired by such person within 60 days after the record date upon the exercise of options and warrants and the conversion of convertible securities. Each beneficial owner's percentage of ownership is determined by assuming that all options, warrants or convertible securities held by such person (but not those held by any other person) that are currently exercisable or convertible (i.e., that are exercisable or convertible within 60 days after the record date) have been exercised or converted.
 2. Includes 10,495,067 shares held in an IRA Trust.
 3. In March, 2002 Mr. Conway voluntarily surrendered the anti-dilution agreement that insured 32.6% ownership of the voting shares to Mr. Conway and his affiliates.
 31
 4. Includes 6,000 held directly by Frazer Pennebaker, 600 shares held as custodian for Mae Pennebaker UGMA NY, 6,000 shares held as custodian for Nathaniel Pennebaker UGMA NY and 6,000 shares held by Pamela L. Power, Frazer Pennebaker's wife. Frazer Pennebaker disclaims beneficial ownership of all shares held by Pamela L. Power.
 5. Includes 6,000 shares held directly by Deborah A. Power, 6,000 shares held as custodian for Audrey D. Cooney UGMA MA and 6,000 shares as custodian for Olivia M. Cooney UGMA MA.
 6. Includes 6,000 held directly by Jeffrey R. Power, Jr., 6,000 shares

held as custodian for Jeffrey R. Power III Cooney UGMA MA, 6,000 shares held as custodian for Kerry E Power UGMA MA and 6,000 shares held by Rosemarie Power, Jeffrey R. Power, Jr.'s wife. Jeffrey R. Power, Jr. disclaims beneficial ownership of shares owned Rosemarie Power. 7. Includes 6,000 shares held directly by Pamela L. Power, 6,000 shares held directly by Frazer Pennebaker, Pamela L. Power's husband, 6,000 shares held by Frazer Pennebaker as custodian for Mae Pennebaker UGMA NY and 6,000 shares held by Frazer Pennebaker as custodian for Nathaniel Pennebaker UGMA NY. Pamela L. Power disclaims beneficial ownership of shares owned by Frazer Pennebaker. 8. Includes 6,000 shares held directly by Rosemarie Power, 6,000 shares held directly by Jeffrey R. Power, Jr., Rosemarie Power's husband, 6,000 shares held by Jeffrey R. Power, Jr. as custodian for Jeffrey R. Power III Cooney UGMA MA Y and 6,000 shares held by Jeffrey R. Power, Jr. as custodian for Kerry E Power UGMA MA. Rosemarie Power disclaims beneficial ownership of shares owned by Jeffrey R. Power, Jr. 9. Does not include Officers or Directors of the Company who were not such as of the date of record.

DESCRIPTION OF CAPITAL STOCK GENERAL Our authorized capital stock consists of 190,000,000 shares of common stock and 10,000,000 shares of preferred stock, of which 400,000 shares have been designated Series A Preferred Stock, \$.001 par value per share, 400,000 shares have been designated Series C convertible preferred stock, \$.001 par value per share, 400,000 shares have been designated Series D Preferred Stock, \$.001 par value per share, and 1,000,000 shares have been designated Series F convertible preferred stock, \$.001 par value per share. Except as to certain matters discussed below or as proscribed by applicable law, the holders of shares of all classes of the capital stock of the Company vote together as a single class. The holders of our capital stock do not have cumulative voting rights, which means that the holders of more than 50% of the outstanding shares, voting for the election of directors, can elect all of the directors to be elected, if they so choose, and, in that event, the holders of the remaining shares will not be able to elect any of our directors. The following description of our capital stock is based upon our restated certificate of incorporation, amended and restated bylaws and applicable provisions of law. We have summarized portions of our restated certificate of incorporation and amended and restated bylaws below. The summary is not complete. You should read our certificate of incorporation and amended and restated bylaws for the provisions that are important to you.

DESCRIPTION OF THE COMMON STOCK As of March 31, 2005 there were 158,834,527 shares of common stock outstanding which were held of record by approximately 816 shareholders. 32 Prior to filing the Certificate of Amendment on March 22, 2002 increasing our authorized capital stock to 200,000,000, we were authorized to issue up to 100,000,000 shares of capital stock, consisting of up to 90,000,000 shares of common stock, par value \$0.001 per share, and up to 10,000,000 shares of preferred stock. There are presently 158,834,527 shares of common stock outstanding. The Company is also obligated to issue 1,666,667 shares of common stock upon the exercise of warrants and 18,433,805 shares of common stock upon the conversion of other securities outstanding.

VOTING Each holder of common stock is entitled to one vote for each share on all matters to be voted upon by the holders of common stock.

RIGHTS AND PREFERENCES The holders of common stock: (i) have equal ratable rights to dividends from funds legally available if and when declared by our Board of Directors after all accrued but unpaid dividends have been paid to the holders of the outstanding capital stock ranking senior to the common stock as to dividends; (ii) are entitled to share ratably in all of our assets available for distribution to the holders of common stock upon liquidation, dissolution or winding up of our affairs; and (iii) do not have preemptive, subscription or conversion rights, and there are no redemption or sinking fund provisions or rights. Our common stock is admitted for trading on the OTCBB under the symbol "WTER.OB". The transfer agent and registrar for our common stock is Computershare Investor Services.

DESCRIPTION OF WARRANTS The Company issued 1,666,667 Series D warrants in 1997 to purchase common stock that are exercisable at \$0.15 per share. The warrants were originally to expire on March 27, 2002, but the exercise period was initially extended to March 27, 2004, and was extended again in March 2004 to the end of the twelve-month period immediately following the registration of the shares of common stock underlying the warrants pursuant to the court actions brought by certain 12% subordinated debenture holders. The warrants are subject to adjustment in certain circumstances, including stock splits, dividends, recapitalizations and issuances of common stock or securities convertible into common stock. The

warrants do not confer upon the holder any voting or other rights of a stockholder. **SERIES C CONVERTIBLE PREFERRED STOCK** The Certificate of Designation for the Series C convertible preferred stock provides that no shares of Series C convertible preferred stock may be converted until the later of (a) shareholder approval of the proposed increase in the authorized common stock of the Company, and the availability of a sufficient number of authorized but unissued shares of common stock to allow for conversion, and (b) a date 120 days following the date of issuance thereof, following which later date such shares may be converted, at the option of the holder, into the Company's common stock at the conversion rate of one (1) share of Series C convertible preferred stock for 33.33 shares of the Company's common stock. These shares became convertible into shares of Water Chef's common stock in June 2004 when stockholders of the corporation approved an increase in the authorized capital stock of the corporation. All dividends on the Series C convertible preferred stock are cumulative and are payable in shares of the Company's common stock valued at the then-current market price per share, at the earlier maturity or conversion. The Series C convertible preferred stockholders have voting rights equal to the common stockholders. The Series C convertible preferred stock has no stated rights in the assets of the Company upon liquidation. **RIGHT TO ACQUIRE COMMON STOCK** Due to the price of our common stock at the time, certain purchasers of our Series C convertible preferred stock received, as an inducement to purchase such Series C convertible preferred stock, rights to acquire common stock that are only exercisable upon conversion of their shares of Series C convertible preferred stock. These rights to acquire common stock have no additional voting rights other than the voting rights of underlying common stock upon exercise. The rights to acquire common stock have no stated rights in the assets of the Company upon liquidation. **SERIES F CONVERTIBLE PREFERRED STOCK** The Certificate of Designation for the Series F convertible preferred stock provides that no shares of Series F convertible preferred stock may be converted until the later of (a) shareholder approval of the proposed increase in the authorized common stock of the Company, and sufficient number of shares of authorized but unissued shares of common stock are available for conversion, or (b) a date 120 days following the date of issuance thereof, following which later date such shares may be converted, at the option of the holder, into the Company's common stock at the conversion rate of one (1) share of Series F convertible preferred stock for 40 shares of the Company's common stock. These shares became convertible into shares of Water Chef's common stock in June 2004 when stockholders of the corporation approved an increase in the authorized capital stock of the corporation. All dividends on the Series F convertible preferred stock are cumulative and are payable in shares of the Company's common stock valued at the then current market price per share, at the earlier of maturity or conversion. The Series F convertible preferred stockholders have voting rights equal to the common stockholders. The Series F convertible preferred stock has no stated rights in the assets of the company upon liquidation. **DELAWARE ANTI-TAKEOVER LAW AND PROVISIONS OF OUR CERTIFICATE OF INCORPORATION AND BYLAWS DELAWARE ANTI-TAKEOVER LAW** We are subject to Section 203 of the Delaware General Corporation Law. Section 203 generally prohibits a public Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder, unless: o prior to the date of the transaction, the Board of Directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder; o the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding (i) shares owned by persons who are directors and also officers and (ii) shares owned by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or o on or subsequent to the date of the transaction, the business combination is approved by the board and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66 2/3% of the outstanding voting stock which is not owned by the interested stockholder. Section 203 defines a business combination to include: o any merger or consolidation involving the corporation and the interested stockholder; o any sale, transfer, pledge or other disposition involving the interested stockholder of 10% or more of the assets of the corporation; o subject

to exceptions, any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder; or o the receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation. 34 In general, Section 203 defines an interested stockholder as any entity or person beneficially owning 15% or more of the outstanding voting stock of the corporation and any entity or person affiliated with, or controlling, or controlled by, the entity or person. The term "owner" is broadly defined to include any person that, individually, with or through that person's affiliates or associates, among other things, beneficially owns the stock, or has the right to acquire the stock, whether or not the right is immediately exercisable, under any agreement or understanding or upon the exercise of warrants or options or otherwise or has the right to vote the stock under any agreement or understanding, or has an agreement or understanding with the beneficial owner of the stock for the purpose of acquiring, holding, voting or disposing of the stock. The restrictions in Section 203 do not apply to corporations that have elected, in the manner provided in Section 203, not to be subject to Section 203 of the Delaware General Corporation Law or, with certain exceptions, which do not have a class of voting stock that is listed on a national securities exchange or authorized for quotation on the Nasdaq Stock Market or held of record by more than 2,000 stockholders. Our certificate of incorporation and amended and restated bylaws do not opt out of Section 203. Section 203 could delay or prohibit mergers or other takeover or change in control attempts with respect to us and, accordingly, may discourage attempts to acquire us even though such a transaction may offer our stockholders the opportunity to sell their stock at a price above the prevailing market price. CERTIFICATE OF INCORPORATION AND BYLAWS Provisions of our certificate of incorporation and amended and restated bylaws may delay or discourage transactions involving an actual or potential change in our control or change in our management, including transactions in which stockholders might otherwise receive a premium for their shares, or transactions that our stockholders might otherwise deem to be in their best interests. Therefore, these provisions could adversely affect the price of our common stock. Among other things, our restated certificate of incorporation and amended and restated bylaws: o provide that the authorized number of directors may be changed only by resolution of the board of directors; o provide that all vacancies, including newly created directorships, may, except as otherwise required by law, be filled by the affirmative vote of a majority of directors then in office, even if less than a quorum; and o do not provide for cumulative voting rights (therefore allowing the holders of a majority of the shares of common stock entitled to vote in any election of directors to elect all of the directors standing for election, if they should so choose). LEGAL MATTERS The validity of the securities offered under this prospectus will be passed upon for us by Olshan Grundman Frome Rosenzweig & Wolosky LLP, New York, New York. EXPERTS Our financial statements as of December 31, 2004, and for the year ended December 31, 2004 included in this registration statement have been audited by Marcum & Kliegman LLP, an independent registered public accounting firm, as stated in its report, appearing in this registration statement and have been so included in reliance upon the report of such firm given upon its authority as experts in accounting and auditing. 35 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE Effective April 25, 2003, Water Chef dismissed Grassi & Co. CPAs P.C. ("Grassi") as the Company's independent accountants, which action was approved by the Audit Committee of the Company's Board of Directors on April 25, 2003. Feldman, Sherb & Co., P.C., a professional corporation of certified public accountants ("Feldman") was the independent accounting firm for Water Chef for the year ended December 31, 2001 and through the period April 17, 2002. Feldman was merged into Grassi on April 17, 2002 with Grassi as the successor firm. Except as described in the following sentence, the reports of Feldman and/or Grassi on the financial statements of Water Chef for either of the two fiscal years prior to the dismissal of Grassi did not contain any adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles. The report of Feldman, prior to their merger into Grassi, on the financial statements of Water Chef for the fiscal year ended December 31, 2001 does, however, contain an expression of substantial doubt regarding Water Chef's ability to continue as a going concern. In addition, during Water Chef's two fiscal years and the interim period prior to the dismissal of Grassi, there was no disagreement with Feldman and/or Grassi on any matter of accounting

principles or practices, financial statement disclosure, or auditing scope or procedure. On April 25, 2003, Marcum & Kliegman LLP ("MKLLP") was engaged as the Company's new independent accountants, commencing with the audit for the year ending December 31, 2002. During the two most recent fiscal years and the interim period preceding the engagement of MKLLP, Water Chef has not consulted with MKLLP regarding either: (i) the application of accounting principles to a specified transaction, either completed or proposed or the type of audit opinion that might be rendered on Water Chef's financial statements, and either a written report or oral advice was provided to the Company by MKLLP that MKLLP has concluded was an important factor considered by the Company in reaching a decision as to the accounting, auditing, or financial reporting issue; or (ii) any matter that was either the subject of a "disagreement" or event identified in response to paragraph (a)(1)(iv) of Item 304, as those terms are used in Item 304(a)(1)(iv) of Regulations S-B and S-K and the related instructions to Item 304 of Regulations S-B and S-K. WHERE YOU CAN FIND MORE INFORMATION We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission. You may read and copy any document that we file at the Public Reference Room of the Securities and Exchange Commission at 450 Fifth Street NW Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the Securities and Exchange Commission at 1-800-SEC-0330. In addition, the Securities and Exchange Commission maintains an Internet site at <http://www.sec.gov> from which interested persons can access the reports, proxy and information statements and other information that we electronically file with the Securities and Exchange Commission. You may obtain a copy of these filings at no cost, by writing or telephoning us at the following: Water Chef, Inc. Attention: Investor Relations 1007 Glen Cove Avenue, Suite 1 Glen Head, New York 11545 Tel: (845) 794-4100 www.WaterChef.net

36 INDEX TO FINANCIAL STATEMENTS OF WATER CHEF, INC. Report of Marcum & Kliegman LLP, Independent Registered Public Accounting Firm..... F-2 Balance Sheet as of December 31, 2004..... F-3 Statements of Operations for the years ended December 31, 2004 and 2003 and for the period January 1, 2002 to December 31, 2004..... F-4 Statements of Changes in stockholders deficiency for the years ended December 31, 2004, 2003 and 2002..... F-5-6 Statements of Cash Flows for the years ended December 31, 2004 and 2003 and for the period January 1, 2002 to December 31, 2004..... F-7 Notes to Financial Statements F-8 F-1

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM To the Board of Directors and Stockholders of Water Chef, Inc. Glen Head, New York We have audited the accompanying balance sheet of Water Chef, Inc., (a development stage company commencing January 1, 2002) as of December 31, 2004 and the related statements of operations, stockholders' deficiency and cash flows for the years ended December 31, 2004 and 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Water Chef, Inc., (a development stage company commencing January 1, 2002) as of December 31, 2004 and the results of its operations and its cash flows for the years ended December 31, 2004 and 2003 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 Note 2(a) to the financial statements, the Company has suffered recurring losses, and has working capital and stockholders' deficiencies, which raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2(a). The financial statements do not include any adjustments that might result from the outcome of this uncertainty. /s/ Marcum & Kliegman LLP ----- Marcum & Kliegman LLP NEW

YORK, NEW YORK MARCH 11, 2005 F-2 WATER CHEF INC. (A Development Stage Company Commencing January 1, 2002) BALANCE SHEET DECEMBER 31, 2004 ASSETS CURRENT ASSETS: Cash \$ 81,732 Prepaid expenses 17,113 Subscriptions receivable 20,000 ----- TOTAL CURRENT ASSETS 118,845 PATENTS AND TRADEMARKS (net of accumulated amortization of \$6,944) 19,111 Other assets 3,162 ----- TOTAL ASSETS \$ 141,118 ===== LIABILITIES AND STOCKHOLDERS' DEFICIENCY CURRENT LIABILITIES: Accounts payable (including related party of \$9,375) \$ 222,066 Accrued expenses and other current liabilities 1,112,612 Notes payable (including accrued interest of \$499,455) 1,182,677 Accrued dividends payable 81,034 Customer deposit 70,000 ----- TOTAL CURRENT LIABILITIES 2,668,389 LONG-TERM LIABILITIES: Loans payable to stockholder (including accrued interest of \$105,221) 478,002 ----- TOTAL LIABILITIES 3,146,391 ----- COMMITMENTS AND CONTINGENCIES STOCKHOLDERS' DEFICIENCY: Preferred stock, \$.001 par value; 10,000,000 shares authorized; 614,413 shares issued and outstanding, (liquidation preference \$1,516,000) 615 Common stock, \$.001 par value; 190,000,000 shares authorized; 155,885,729 shares issued; 155,881,329 shares outstanding 155,886 Additional paid-in capital 20,258,617 Treasury stock, 4,400 common shares, at cost (5,768) Accumulated deficit through December 31, 2001 (14,531,596) Deficit accumulated during development stage (8,883,027) ----- TOTAL STOCKHOLDERS' DEFICIENCY (3,005,273) ----- TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY \$ 141,118 ===== See notes to financial statements. F-3

WATER CHEF, INC. (A Development Stage Company Commencing January 1, 2002) STATEMENTS OF OPERATIONS For the Period Year Ended December 31, January 1, 2002 ----- to December 31, 2004 2003 2004 ----- Sales \$ 56,290 \$ - \$ 96,290 -----

----- Costs and Expenses: Cost of sales 62,250 88,000 396,680 Selling, general and administrative 1,296,265 817,625 2,903,010 Non-dilution agreement termination costs (223,858) 2,477,376 2,462,453 Interest expense (including interest expense for related party of \$23,868 in both years and \$71,604 for the period January 1, 2002 to December 31, 2004) 150,228 152,478 481,817 Loss on settlement of debt 2,407,867 - 2,614,017 Stock appreciation rights 121,340 - 121,340 ----- 3,814,092 3,535,479 8,979,317 ----- Net loss (3,757,802) (3,535,479) (8,883,027) Deemed dividend on preferred stock (2,072,296) - (2,072,296)

Preferred stock dividends (134,366) (152,876) (400,230) ----- (2,206,662) (152,876) (2,472,526) Net loss applicable to common stock \$(5,964,464) \$(3,688,355) \$(11,355,553) =====

===== Basic and Diluted Loss Per Common Share: \$ (0.05) \$(0.04) ===== Weighted Average Common Shares Outstanding - Basic and Diluted 121,549,857 89,559,886 ===== See notes to financial statements. F-4 WATER CHEF, INC. (A Development Stage Company January 1, 2002) STATEMENT OF STOCKHOLDERS' DEFICIENCY Preferred Stock Common Stock Additional

----- Paid-in Shares Amount Shares Amount Capital ----- BALANCE - JANUARY 1, 2002 145,500 \$ 146 86,614,286 \$ 86,614 \$ 12,339,469 Extension of life of warrants -- -- -- 111,000 Proceeds from sale preferred stock (\$1.00 Per share) 125,000 125 -- -- 117,375 Proceeds from sale of common stock (\$0.025 Per share) -- -- 2,500,000 2,500 97,500 Common stock issued for services (\$0.08 Per share) -- -- 450,000 450 35,550 Collection of subscription receivable -- -- -- -- Net Loss -- -- -- --

----- BALANCE - DECEMBER 31, 2002 270,500 \$ 271 89,564,286 \$ 89,564 \$ 12,700,894 Proceeds from sale of preferred stock March 31, 2003 (\$1.00-\$2.00 Per share) 62,500 63 -- -- 74,937 June 30, 2003 (\$0.50 Per share) 75,000 75 -- -- 37,425 September 30, 2003 (\$1.00-\$2.40 per share) 163,281 163 -- 228,346 December 31, 2003 (\$1.33-\$2.80 Per share) 145,450 145 -- -- 258,717 Preferred stock issued for services March 31, 2003 (\$1.00 Per share) 30,000 30 -- -- 29,970 June 30, 2003 (\$1.00

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Per share) 51,250 51 -- -- 51,199 September 30, 2003 (\$1.00 per share) 67,035 67 -- 66,968 December 31, 2003 (\$1.88-\$4.00 Per share) 22,150 22 -- -- 65,378 Collection of subscription receivable -- -- -- -- --
 Write-off of subscription receivable -- -- -- -- -- Net Loss -- -- -- -- --
 ----- BALANCE - DECEMBER 31, 2003 887,166 \$ 887 89,564,286 \$ 89,564 \$
 13,513,834 Proceeds from sale of preferred stock March 31, 2004 (\$2.40-\$4.80 Per share) 130,077 130 --
 -- 400,126 June 30, 2004 (\$0.80 Per share) 15,625 16 -- -- 12,484 Preferred stock issued for services
 March 31, 2004 (\$2.00-\$4.80 Per share) 49,433 49 -- -- 158,483 Proceeds from sale of common stock
 September 30,2004 (\$0.03-\$0.15 per share) -- -- 2,541,595 2,541 205,059 December 31, 2004
 (\$0.05-\$0.10 Per share) -- -- 2,487,500 2,488 187,512 Common stock issued for services March 31, 2004
 (\$0.05 Per share) -- -- 477,133 477 23,380 September 30,2004 (\$0.05-\$0.15 per share) -- -- 1,857,800
 1,858 126,792 December 31, 2004 (\$0.08-\$0.10 Per share) -- -- 532,500 533 40,968 Preferred stock
 dividend -- -- -- -- (81,034) Common stock issued for satisfaction of liabilities June 30, 2004 (\$0.15 Per
 share) -- -- 37,786,629 37,787 5,635,934 December 31, 2004 (\$0.134 Per share) -- -- 411,100 411 54,839
 Preferred stock converted to common stock June 30, 2004 (133,250) (133) 5,108,332 5,108 (4,975)
 September 30, 2004 (269,263) (269) 12,103,854 12,104 (11,835) December 31, 2004 (65,375) (65)
 3,015,000 3,015 (2,950) Net loss -- -- -- -- --
 BALANCE - DECEMBER 31, 2004 614,413 \$ 615 155,885,729 \$ 155,886 \$ 20,258,617 =====

See notes to financial statements.

F-5 WATER CHEF, INC. (A Development Stage Company Commencing January 1, 2002)
 STATEMENT OF STOCKHOLDERS' DEFICIENCY Accumulated Deficit Deficit Accumulated Stock
 Through During Total Subscription Treasury December Development Stockholders' Receivable Stock 31,
 2001 Stage Deficiency -continued- ----- BALANCE -
 JANUARY 1, 2002 (67,500) (5,768) (14,531,596) -- (2,178,635) Extension of life of warrants -- -- -- --
 111,000 Proceeds from sale preferred stock (\$1.00 Per share) -- -- -- -- 117,500 Proceeds from sale of
 common stock (\$0.025 Per share) -- -- -- -- 100,000 Common stock issued for services (\$0.08 Per share) --
 -- -- -- 36,000 Collection of subscription receivable 30,200 -- -- -- 30,200 Net Loss -- -- -- (1,589,746)
 (1,589,746) ----- BALANCE - DECEMBER 31, 2002
 (37,300) (5,768) (14,531,596) (1,589,746) (3,373,681) Proceeds from sale of preferred stock March 31,
 2003 (\$1.00-\$2.00 Per share) -- -- -- -- 75,000 June 30, 2003 (\$0.50 Per share) -- -- -- -- 37,500 September
 30, 2003 (\$1.00-\$2.40 per share) -- -- -- -- 228,509 December 31, 2003 (\$1.33-\$2.80 Per share) -- -- -- --
 258,862 Preferred stock issued for services March 31, 2003 (\$1.00 Per share) -- -- -- -- 30,000 June 30,
 2003 (\$1.00 Per share) -- -- -- -- 51,250 September 30, 2003 (\$1.00 per share) -- -- -- 67,035 December 31,
 2003 (\$1.88-\$4.00 Per share) -- -- -- -- 65,400 Collection of subscription receivable 15,500 -- -- -- 15,500
 Write-off of subscription receivable 21,800 -- -- -- 21,800 Net Loss -- -- -- (3,535,479) (3,535,479)
 ----- BALANCE - DECEMBER 31, 2003 -- (5,768) (
 14,531,596) (5,125,225) (6,058,304) Proceeds from sale of preferred stock March 31, 2004 (\$2.40-\$4.80
 Per share) -- -- -- -- 400,256 June 30, 2004 (\$0.80 Per share) -- -- -- -- 12,500 Preferred stock issued for
 services March 31, 2004 (\$2.00-\$4.80 Per share) -- -- -- -- 158,532 Proceeds from sale of common stock
 September 30,2004 (\$0.03-\$0.15 per share) -- -- -- -- 207,600 December 31, 2004 (\$0.05-\$0.10 Per share)
 -- -- -- -- 190,000 Common stock issued for services March 31, 2004 (\$0.05 Per share) -- -- -- -- 23,857
 September 30,2004 (\$0.05-\$0.15 per share) -- -- -- -- 128,650 December 31, 2004 (\$0.08-\$0.10 Per share)
 -- -- -- -- 41,501 Preferred stock dividend -- -- -- -- (81,034) Common stock issued for satisfaction of
 liabilities June 30, 2004 (\$0.15 Per share) -- -- -- -- 5,673,721 December 31, 2004 (\$0.134 Per share) -- --
 -- -- 55,250 Preferred stock converted to common stock June 30, 2004 -- -- -- -- September 30, 2004 -- --
 -- -- -- December 31, 2004 -- -- -- -- Net loss -- -- -- (3,757,802) (3,757,802) -----
 ----- BALANCE - DECEMBER 31, 2004 -- \$ (5,768) \$(14,531,596) \$
 (8,883,027) \$ (3,005,273) =====

See notes to financial statements.

F-6 WATER CHEF INC. (A Development Stage
 Company Commencing January 1, 2002) STATEMENTS OF CASH FLOWS For the period Years Ended
 December 31, January 1, 2002 ----- to December 31, 2004 2003 2004 -----
 ----- CASH FLOWS FROM OPERATING ACTIVITIES Net loss \$(3,757,802) \$(3,535,479)

\$(8,883,027) Adjustments to reconcile net loss to net cash used in operating activities Amortization of patents 1,855 1,854 5,562 Non-cash compensation 473,878 213,685 723,563 Loss on settlement of debt 2,407,867 -- 2,614,017 Non-dilution agreement termination cost (223,858) 2,477,376 2,462,453 Inventory reserve -- -- 159,250 Write-off of stock subscription receivable -- 21,800 21,800 Change in assets and liabilities Inventory 26,500 -- -- Prepaid expenses and other current assets (5,893) (11,220) 39,387 Accounts payable, accrued expenses, accrued dividends and customer deposits 265,998 296,686 1,049,789
 ----- NET CASH USED IN OPERATING ACTIVITIES (811,455) (535,298)
 (1,807,206) ----- CASH FLOWS FROM FINANCING ACTIVITIES Reduction of stock subscription receivable -- 15,500 45,700 Proceeds from sale of preferred stock 412,756 599,871 1,130,127 Proceeds from sale of common stock 377,600 -- 477,600 Proceeds from sale of common stock to be issued -- -- 200,000 ----- NET CASH PROVIDED BY FINANCING ACTIVITIES 790,356 615,371 1,853,427 ----- NET(DECREASE)INCREASE IN CASH (21,099) 80,073 46,221 CASH AT BEGINNING OF YEAR 102,831 22,758 35,511 -----
 ----- CASH AT END OF YEAR \$ 81,732 \$ 102,831 \$ 81,732 =====

===== SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the year for: Interest \$ 20,000 \$ 2,250 \$ 20,250 =====
 ===== Income taxes \$ -- \$ -- \$ -- ===== NON-CASH FINANCING ACTIVITIES COMPENSATION SATISFIED BY ISSUANCE OF COMMON STOCK \$ 55,250 \$ -- \$ 55,250 ===== COMMON STOCK ISSUED IN SATISFACTION OF LIABILITIES \$ 5,673,721 \$ -- \$ 5,673,721 =====

===== See notes to financial statements. F-7 WATER CHEF, INC. (A Development Stage Company Commencing January 1, 2002) NOTES TO FINANCIAL STATEMENTS 1. DESCRIPTION OF BUSINESS Water Chef, Inc. (the "Company"), is a Delaware Corporation currently engaged in the design, marketing and sale of water dispensers and purification equipment both in and outside the United States. 2. BASIS OF PRESENTATION AND ACCOUNTING POLICIES a. Basis of Presentation The Company discontinued its water cooler and filtration operations in November 2001. As a result, the Company has refocused its efforts on raising capital and developing markets for its proprietary technology. Therefore, for financial purposes, the Company has determined that it has re-entered the development stage commencing January 1, 2002. The Company's statements of operations, stockholders' deficiency and cash flows for the year ended December 31, 2004 represent the cumulative, from inception information, required by Statement of Financial Accounting Standards ("SFAS") No. 7, "Development Stage Enterprises". The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company incurred losses from operations of \$3,757,802 and \$3,535,479 for the years ended December 31, 2004 and 2003, respectively. Additionally, the Company has working capital and stockholders' deficiencies of approximately \$2,550,000 and \$3,005,000 at December 31, 2004. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans with respect to these matters include restructuring its existing debt and raising additional capital through future issuances of stock and/or debt. The accompanying financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern. b. Patents and Trademarks - Patents and trademarks are amortized ratably over 9 to 14 years. c. Stock-Based Compensation - In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123." SFAS No. 148 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, SFAS No. 148 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 disclosure requirements apply to all companies for fiscal years ending after December 15, 2002. The Company will continue to account for stock-based compensation according to APB Opinion No. 25. The following table summarizes relevant information as to reported results under the Company's intrinsic value method of accounting for stock awards, with supplemental

information as if the fair value recognition provision of FAS 123 had been applied for the following periods ended December 31, 2004 and 2003 as follows: F-8 Years ended December 31, 2004 2003

-----	-----	Net loss applicable to common stock	\$ (5,964,469)	\$ (3,535,479)	Add: Stock	
		-based employee compensation expense included in reported net loss	121,340	--	Less: Stock-based	
		employee compensation cost, net of tax effect under fair value method	(291,210)	--	-----	
		Pro-forma net loss under fair value accounting	\$ (6,134,339)	\$ (3,535,479)	=====	
		=====	Loss per share - basic and diluted as reported	\$ (0.05)	\$ (0.04)	=====
		=====	Pro-forma loss per share - basic and diluted	\$ (0.05)	\$ (0.04)	=====
		=====				

d. Revenue Recognition - Revenues are recognized when product is shipped, title passes and collectibility is reasonably assured. Allowances for estimated bad debts, sales allowance and discounts are provided when such sales are recorded. e. Income Taxes - Income taxes are accounted for under SFAS No. 109, "Accounting for Income Taxes", which is an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. Valuation allowances are established when necessary to reduce deferred assets to the amounts expected to be realized. f. Loss Per Share - Basic loss per share was computed using the weighted average number of outstanding common shares. Diluted loss per share includes the effect of dilutive common stock equivalents from the assumed exercise of options, warrants and convertible preferred stock. Common stock equivalents were excluded in the computation of diluted loss per share since their inclusion would be anti-dilutive. Total shares issuable upon the exercise of options, warrants and the conversion of preferred stock for the years ended December 31, 2004 and 2003, were 34,230,804 and 35,382,471, respectively. g. Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates. F-9 WATER CHEF, INC. (A Development Stage Company Commencing January 1, 2002) NOTES TO FINANCIAL STATEMENTS h. Fair Value of Financial Instruments - The carrying amounts of the financial instruments reported in the balance sheet approximate their fair market value due to the short-term maturity of these instruments. i. Impairment of Long-Lived Assets - In the event that facts and circumstances indicate that the cost of an asset may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset would be compared to the asset's carrying amount to determine if a write-down to market value is required. j. Research and Development - Research and development cost consist of expenditures incurred during the course of planned research and investigation aimed at the discovery of new knowledge, which will be useful in developing new products or processes. The Company expenses all research and development costs as incurred. There were no research and development expenses incurred in year 2004 and 2003. k. Recent Accounting Pronouncements In January 2003, Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"). This interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," provides guidance for identifying a controlling interest in a variable interest entity ("VIE") established by means other than voting interest. FIN 46 also required consolidation of a VIE by an enterprise that holds such controlling interest. In December 2003, the FASB completed its deliberations regarding the proposed modifications to FIN No., 46 and issued Interpretation Number 46R, "Consolidation of Variable Interest Entities - an Interpretation of ARB 51" ("FIN No. 46R"). The decisions reached included a deferral of the effective date and provisions for additional scope exceptions for certain types of variable interests. Application of FIN No. 46R is required in financial statements of public entities that have interests in VIEs, or potential VIEs, commonly referred to as special-purpose entities for periods ending after December 15, 2003. Application by public small business issuers' entities is required in all interim and annual financial statements for periods ending after December 15, 2004. The adoption of this pronouncement did not have a material effect on the Company's financial statements. In December 2004, the FASB issued Statement of Financial Accounting Standard

("SFAS") No. 123R, "Share Based Payment." This statement is a revision of SFAS Statement No. 123, "Accounting for Stock-Based Compensation" and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and its related implementation guidance. SFAS 123R addresses all forms of share based payment ("SBP") awards including shares issued under employee stock purchase plans, stock options, restricted stock and stock appreciation rights. Under SFAS 123R, SBP awards result in a cost that will be measured at fair value on the awards' grant date, based on the estimated number of awards that are expected to vest. This statement is effective for public entities that file as small business issuers - as of the beginning of the first interim or annual reporting period that begins after December 15, 2005. The adoption of this pronouncement is not expected to have a material effect on the Company's financial statements.

F-10 WATER CHEF, INC. (A Development Stage Company Commencing January 1, 2002) NOTES TO FINANCIAL STATEMENTS

In December 2004, the FASB issued Statement of Financial Accounting Standard ("SFAS") No. 153, "Exchanges of Nonmonetary Assets". This Statement amends 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. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The provisions of this Statement are effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges occurring in fiscal periods beginning after December 16, 2004. The provisions of this Statement should be applied prospectively. The adoption of this pronouncement is not expected to have a material effect on the Company's financial statements.

Emerging Issue Task Force (EITF) Issue 04-8, "The Effect of Contingently Convertible Instruments on Diluted Earnings per Share." The EITF reached a consensus that contingently convertible instruments, such as contingently convertible debt, contingently convertible preferred stock, and other such securities, should be included in diluted earnings per share (if dilutive) regardless of whether the market price trigger has been met. The consensus is effective for reporting periods ending after December 15, 2004. The adoption of this pronouncement did not have a material effect on the Company's financial statements.

3. NOTES PAYABLE Notes payable at December 31, 2004 consist of the following: (a) 166,756 (b) 750,533 (c) 265,388 ----- Total \$ 1,182,677 (a) Loans payable - other: These are unsecured notes bearing interest ranging from 10% to 15% per annum, with no specific due date for repayment. An amount due on these notes, inclusive of \$83,535 in interest is \$166,756, at December 31, 2004. No demands for repayment have been made by the note holder. (b) In April 2001, the Company issued a \$400,000 promissory note at an interest rate of 2% per month. In consideration for the issuance of this note, 500,000 shares of the Company's common stock were issued to the note holder and a \$74,000 debt discount was recorded and fully amortized in the year ended December 31, 2001. The principal balance and accrued interest were payable on September 1, 2001. The Company did not make such payment and was required to issue an additional 100,000 penalty shares of its common stock to the note holder. The Company recorded additional interest expense of \$12,300 related to the issuance of these penalty shares. The amount due on this note, inclusive of \$350,533 in interest, is \$750,533 at December 31, 2004. No demands for repayment have been made by the note holder. (c) In November 2000, the Company entered into a Convertible Promissory Note agreement, whereby the Company may be advanced a maximum of \$300,000. The Company was advanced the following: \$100,000 in November 2000, \$50,000 in December 2000 and \$50,000 in January 2001. No further cash advances were made to the Company. The Convertible Promissory Note agreement also called for the payment of \$100,000 of Company expenses. The advances bear interest at 10% per annum and were to have been repaid as of January 15, 2002. A maximum of 6,000,000 shares could have been issued upon conversion had the full \$300,000 been advanced. As of December 31, 2004, the Company owed \$265,388 on these advances, inclusive of \$65,388 in interest. The Company and the note holder, by mutual consent, had agreed to extend the due date of the note to May 1, 2002 which has not been further extended. All other terms and provisions of the note are unchanged. In May 2003, these note holders entered a judgment against the Company for the principal sum of \$200,000 plus interest. During 2004, the Company paid \$20,000 of accrued interest on these notes.

F-11 WATER CHEF, INC. (A Development Stage Company Commencing January 1, 2002) NOTES TO FINANCIAL

STATEMENTS 4. LOANS PAYABLE - STOCKHOLDER At December 31, 2004, the Company is obligated to its Chief Executive Officer who is also a significant stockholder for loans and advances made to the Company totaling \$372,781, plus accrued interest of \$105,221. These advances have been accruing interest ranging from 6% to 12% per annum. The loans have no repayment terms and the stockholder has agreed not to demand payment until July 1, 2006 at the earliest. 5. COMMON STOCK ISSUED On June 4, 2004, the Company convened a special meeting of its common, Series A Preferred, Series C Preferred, Series D Preferred, Series F Preferred stockholders (together the "Stockholders"). The Stockholders, voting as a single class, voted and approved a proposal to amend the Certificate of Incorporation to increase the Company's authorized capital stock from 100,000,000 shares to 200,000,000 shares, consisting of 190,000,000 shares of common stock and 10,000,000 shares of preferred stock. During the year ended December 31, 2004, the Company recorded the following transactions: a. Cash and Subscriptions In 2002, The Company received \$100,000 for 2,500,000 shares of its common stock. The Company also received \$200,000 in 2002 for the issuance of 4,000,000 shares of its common stock. These shares were issued in June 2004 upon approval of the stockholders of the increase in the number of authorized common shares of the Company. During the year ended December 31, 2004, the Company received \$377,600 for 4,229,095 shares of its common stock. During the year ended December 31, 2004, the Company also recorded a subscription for 400,000 shares of its common stock for \$20,000. The \$20,000 was received by the Company in January 2005. b. Non-Dilution Agreement Termination Cost In May 2002, the Company agreed to issue to the Company's President and Chief Executive Officer, and to related parties of such, an aggregate of 14,923,958 shares of its common stock in connection with the voluntary surrender of a non-dilution agreement that the President had entered into with the Company in 1997. Since the issuance of these shares is subject to stockholder approval, the measurement date for purposes of valuation is established when such stockholder approval has been obtained. Accordingly, the Company was utilizing variable accounting to determine the value of these shares. These shares were issued during June 2004 upon approval by the stockholders of the increase in the number of authorized common shares of the Company. F-12 WATER CHEF, INC. (A Development Stage Company Commencing January 1, 2002) NOTES TO FINANCIAL STATEMENTS c. Services During 2002, the Company agreed to issue to various parties an aggregate of 1,075,000 shares of its common stock for a value of \$84,000 in connection with professional services. These shares were issued in June 2004 upon the approval by the stockholders of the increase in the number of authorized common shares of the Company. The Company also issued 450,000 shares of its common stock for services with a value of \$36,000 in 2002. During 2004, the Company issued to various parties an aggregate of 2,867,433 shares of its common stock for a value of \$194,000 in connection with professional services. d. Debenture Liabilities The Company was a defendant in an action brought by certain debenture holders (The "Bridge Loans") in New Hampshire Superior Court seeking repayment of \$300,000 of debenture principal together with interest from 1997, and the issuance of penalty shares for non payment of principal and interest. In addition, the plaintiff's claim that they had suffered by the Company's failure to register the shares issued under the warrant agreement. The Company had interposed defenses and counterclaims. In June 1997, in connection with the debentures, the Company had issued 6,667 shares of common stock for every \$1,000 of debt at a price of \$0.15 per share. The Company claimed that it was owed the \$300,000 consideration for such shares. In addition, the Company had issued warrants for the purchase of 2,500,000 shares of common stock at an exercise price of \$0.15 per share exercisable until March 2002. Furthermore, the Company had issued another 100,000 shares of common stock to each debenture holder, or 1,300,000 shares, at a price of \$0.15 per share. In 2002, the Company and the Bridge Lenders participating in the legal action, settled this dispute requiring the Company to: (i) Issue 3,000,000 shares of common stock valued at \$497,500 in lieu of the principal and interest owed to the debenture holders who participated ("participants") in this legal action. The Company recorded the debentures at \$300,000, plus accrued interest of \$39,400, for a total of \$339,400. The difference between the \$497,500 settlement and the \$339,400, or \$158,100, was recorded as a loss on settlement of debt. (ii) Extend the warrants attached to the participants' debentures for another two years until March 2004, for which the Company has recorded a non cash expense charge of \$111,000 (iii) In 2004, in connection with the issuance of the Bridge Lender shares, the Company

further extended the term of the warrants for twelve months until March 2005 and recorded \$94,151 as a loss on settlement of debt in connection with such warrant extension; and (iv) Issued additional shares since the product of the \$497,500, as valued for the 3,000,000 shares above, divided by the average daily trading price for the 30 days subsequent to the settlement, was greater than the original 3,000,000 shares. Due to these requirements, the Company was obligated to issue an additional 14,037,671 shares. During June 2004, the Company issued the 3,000,000 shares and the additional 14,037,671 shares originally valued at \$495,500. The Company recorded a loss on settlement of debt of \$2,313,716 since the total value of the shares on the date of issuance was \$2,811,216. The debenture holders that did not participate ("non-participating debentures") in the above legal action had total debentures of \$75,000, plus accrued interest of \$9,850 as of the settlement date, totaling \$84,850. In conjunction with the above settlement, the Company settled these outstanding non-participating debentures, plus accrued interest, with the issuance of 750,000 shares of common stock valued at \$0.0292 per share, or \$21,900. During 2004, the 750,000 shares were issued. e. Conversion of preferred stock into common stock During year ended December 31, 2004, the Company agreed to issue various parties an aggregate of 20,227,186 shares of its common stock in connection with the conversion of preferred stock, The Company recorded the deferred contingent beneficial conversion adjustment of \$2,072,296 as a deemed dividend since the contingency was resolved in June 2004. F-13 WATER CHEF, INC. (A Development Stage Company Commencing January 1, 2002) NOTES TO FINANCIAL STATEMENTS f. Payroll Liability Settlement During the year ended December 31, 2004, the Company agreed to issue 411,100 shares of its common stock in connection with a settlement of payroll liabilities of \$55,250. 6. PREFERRED STOCK The Company is authorized to issue 10,000,000 shares of \$.001 par value preferred stock, issuable in series with rights, preferences, privileges and restrictions as determined by the board of directors. At December 31, 2004, outstanding preferred shares were as follows:

	Liquidation	Current Preference	Annual Total Dividend (including Arrearage Per Share arrearage)	Authorized	Issued	Par	Dividend	Dividend Arrearage	dividend Shares	Shares	Value	Requirement
Series A	400,000	52,500	\$ 53	\$ 52,500	\$ 517,600	\$ 9.86	\$1,042,600	Series C	400,000	120,500	121	-- -- --
Series D	2,000,000	93,000	93	55,800	473,400	5.09	473,400	Series F	1,000,000	348,413	348	26,066
			82,162	.23	--	-----	-----					614,413
			\$ 615	\$ 134,366	\$1,073,162	--	\$1,516,000	=====	=====	=====	=====	=====

Series A: The Series A preferred stock provides for a 10% cumulative dividend, based on the \$10 per share purchase price, payable annually in the Company's common stock or cash, at the Company's option. The Series A preferred stock is not convertible, and is redeemable solely at the Company's option at a price of \$11 per share plus accrued dividends. The Series A preferred stockholders have voting rights equal to common stockholders. In the event of the liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, holders of the Series A preferred stock are entitled to receive out of the assets of the Company the sum of \$10.00 per share of Series A preferred stock then outstanding, plus a sum equal to all dividends (whether or not earned or declared) on such shares accrued and unpaid thereon to the date of final payment or distribution, before any payment or distribution upon dissolution, liquidation or winding up shall be made on any series or class of capital stock ranking junior to Series A preferred stock as to such payment or distribution. F-14 WATER CHEF, INC. (A Development Stage Company Commencing January 1, 2002) NOTES TO FINANCIAL STATEMENTS Series C: During the year ended December 31, 2002 the Company sold Series C 15% Convertible Preferred stock at \$1.00 per share. These shares convert in one year. All dividends are cumulative and are payable in shares of the Company's common stock valued at the then-current market price per share, or upon conversion, whichever is earlier. The conversion rate for shares, and accrued dividends payable, is 33.33 shares of common for each \$1.00 of preferred stock and dividends payable, or \$0.03 for each share of common stock. The Series C Preferred stockholders have voting rights equal to the common stockholders. The Series C preferred stock has no stated rights in the assets of the Company upon liquidation. During 2002, the Company sold 125,000 shares of Series C preferred stock. For each share of preferred stock purchased, the buyers also receive the right to receive an additional 33.33 shares of common stock upon conversion as the market value of the stock was \$0.015 at issuance. In connection with the maturity of the Series C Preferred Stock, the Company recorded accrued dividends of \$39,119.

Cash During 2003, the Company issued 12,500 shares of preferred stock and raised \$25,000 through the sale of Series C Convertible Preferred stock. SERVICES During 2003, the Company issued an aggregate of 81,250 shares of its Series C Convertible Preferred Stock for professional services totaling \$81,250. F-15 WATER CHEF, INC. (A Development Stage Company Commencing January 1, 2002) NOTES TO FINANCIAL STATEMENTS SERIES D: The Series D preferred stock provides for a 12% cumulative dividend, based on the \$5 per share purchase price, payable semi-annually in the Company's common stock or cash, at the Company's option. The Series D preferred stock is not convertible, and is redeemable solely at the Company's option at a price of \$5.75 per share plus accrued dividends. The Series D Preferred stockholders have voting rights equal to the common stockholders. In the event of the liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, holders of the Series D preferred stock are entitled to receive out of the assets of the Company the sum all dividends (whether or not earned or declared) on such shares accrued and unpaid thereon to the date of final payment or distribution, before any payment or distribution upon dissolution, liquidation or winding up shall be made on any series or class of capital stock ranking junior to Series D preferred stock as to such payment or distribution. SERIES F: In April 2003, management authorized the Company to raise up to \$550,000 through a private placement by issuing 10% two-year convertible preferred instruments. The preferred, designated as Series F, and providing for one million shares in total and can be convertible into shares of Water Chef's common stock at such time as the stockholders of the corporation approve an increase in the authorized capital stock of the corporation, which occurred on June 4, 2004. All dividends are cumulative and are payable in shares of the Company's common stock valued at the then current market price per share, at the time of maturity, or upon conversion, whichever is earlier. The conversion rate for shares and accrued dividends payable is 40 shares of common for each share of preferred stock. The Series F convertible preferred stockholders have voting rights equal to the common stockholders. The Series F convertible preferred stock has no stated rights in the assets of the company upon liquidation. Although there was a discount upon the issuance of all of the Series F preferred stock in accordance with Emerging Issue Task Force ("EITF") 98-5, a security is not yet convertible if certain contingencies exist which are dependent upon the occurrence of a future event outside the control of the security holder. In this case, the shares can only be converted into common stock after the stockholders of the Company approve an increase in the authorized capital stock of the corporation. In accordance with EITF 98-5, any beneficial conversion (discount) feature is measured at the commitment date, but will not be recognized as an adjustment to earnings until the contingency is resolved, (the date the increase in shares are approved). In June 2004, the Company voted and approved a proposal to amend the Certificate of Incorporation to increase the Company's authorized capital stock from 100,000,000 to 200,000,000 shares, consisting of 190,000,000 shares of common stock and 10,000,000 shares of preferred stock. During June 2004, the Company recorded the deferred contingent beneficial conversion adjustment of \$2,072,296 as a deemed dividend since the contingency was resolved. In connection with Series F Preferred Stock conversions, the Company recorded accrued dividends of \$41,915. CASH During 2003, the Company issued 433,731 shares of preferred stock and raised \$574,872 through the sale of Series F Convertible Preferred stock. During 2004, the Company issued 145,702 shares and raised \$412,756 through the sale of Series F Convertible Preferred Stock. SERVICES During 2003, the Company issued an aggregate of 89,185 shares of its Series F Preferred Stock for professional services totaling \$132,435. During 2004, the Company issued an aggregate of 49,433 shares of its Series F Convertible Preferred Stock for professional services totaling \$158,530. F-16 WATER CHEF, INC. (A Development Stage Company Commencing January 1, 2002) NOTES TO FINANCIAL STATEMENTS 7. STOCK OPTION, STOCK APPRECIATION RIGHTS AND WARRANT GRANT PLAN The Company's president and director were issued 6,000,000 options to purchase common stock of the Company in January 2004. The total options granted may be converted to common stock at an exercise price of \$.25 and expire in five years. Those options were converted to stock appreciation rights in November 2004. It consists of 5,000,000 stock appreciation rights granted to the President which vest over 5 years and 1,000,000 stock appreciation rights granted to the director which vest over 2 years. In March 1997, the Company, in connection with Bridge Loans for \$375,000 issued warrants to purchase 2,500,001 shares of common stock at \$.15 per share. These warrants

had a life of five years and were to have expired in March 2002. In the year ended December 31, 2000, a total of 333,334 common shares were issued upon the exercise of a like number of warrants, for net proceeds of \$50,000. Of the remaining 2,166,667 un-exercised warrants at March 2002, a total of 1,666,667 warrants had their lives extended for an additional two years until March 2004 and then later for another twelve months until March 2005. The remaining balance of 500,000 warrants was not extended, and accordingly they have expired. The extension of the exercise date was part of a settlement that the Company had reached with certain debenture holders that had brought a legal action against the Company. The fair value of each stock option, or warrant granted, is estimated on the date of grant using the Black-Scholes option-pricing model. The Company did not grant, nor issue, options or warrants in the year ended December 31, 2004. The following tables illustrate the Company's stock option and warrant issuances and balances outstanding as of, and during the years ended December 31, 2004 and 2003:

Shares	Underlying	Weighted Average	Warrants	Exercise Price	Outstanding at
December 31, 2002	2,166,667	\$ 0.15	Granted - - Expired (500,000)	0.15	Exercised - - -----
-----	Outstanding at December 31, 2003	1,666,667	\$ 0.15	Granted - - Expired - - Exercised - -	-----
-----	-----	Outstanding at December 31, 2004	1,666,667	\$ 0.15	=====

===== The following is additional information with respect to the Company's warrants as of December 31, 2004: WARRANTS OUTSTANDING WARRANTS EXERCISABLE

Remaining Average Price	Number of Warrants	Weighted Average Exercise Price	Weighted Number of Warrants
\$ 0.15	1,666,667	3 Months	\$ 0.15
=====	=====	=====	=====

===== F-17 WATER CHEF, INC. (A Development Stage Company Commencing January 1, 2002) NOTES TO FINANCIAL STATEMENTS

8. LEASES The Company's lease for its administrative facilities located in Glen Head, New York on a month to month basis. Rent expense, for the years ended December 31, 2004 and 2003 was \$29,246 and \$25,797, respectively.

9. INCOME TAXES The Company accounts for income taxes under SFAS No. 109, Accounting for Income Taxes. SFAS No. 109 requires the recognition of deferred tax assets and liabilities for both the expected impact of differences between the financial statements and tax basis of assets and liabilities, and for the expected future tax benefit to be derived from tax loss and tax credit carry forwards. SFAS No. 109 additionally requires the establishment of a valuation allowance to reflect the likelihood of realization of deferred tax assets. For the year ended December 31, 2004 and 2003, no provision for income taxes has been provided for, as a result of continued net operating losses. The Company is subject to certain state and local taxes based on capital. The Company has net operating loss carry-forwards for federal income tax purposes totaling approximately \$18,000,000 at December 31, 2004. These carry-forwards expire between the years 2009 through 2024. Utilization of these loss carry-forwards may be limited under Internal Revenue Code Section 382. The deferred tax asset arising from the net operating loss carry-forwards has been offset by a corresponding valuation allowance. The valuation allowance primarily relates to the federal and state net operating losses for which utilization in future periods is uncertain. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The Company considers projected future taxable income and tax planning strategies in making this assessment. Based on projections for future taxable income over the periods that the deferred tax assets are deductible, the Company believes it is more likely than not that the Company will not realize the benefits of these deductible differences in the near future and therefore a full valuation allowance of \$6,900,000 is provided. The valuation allowance increased approximately \$900,000 during 2004 related to increased net operating losses.

10. MAJOR CUSTOMERS During the year ended December 31, 2004 the Company's entire sales were to one customer. During the year December 31, 2003 the Company had no sales.

11. COMMITMENTS AND CONTINGENCIES In January 1, 2004, the Company entered into a 5 year employee agreement with its Chief Executive Officer ("Employee"). The Company agreed to pay to employee for the services to be rendered a base salary at an annual rate of three hundred and fifty thousand dollars. The Company granted to its employee a five-year option to 5,000,000 shares of the

Company's outstanding common stock for an option price of \$.25 per share. The Option will vest in fifty equal, consecutive monthly increments of 100,000 shares each on the first day of each month beginning with January of 2004 and ending with February of 2008. Those options were converted to stock appreciation rights in November 2004. In March 9, 2004, The Company extended for two additional years of the consulting agreement with a director. The Company agreed to increase his monthly payment to \$10,000 per month. The Company also gave him the right to purchase one million shares of the Company's common stock at a price of \$0.25 per share, such right to vest at the rate of 50% per year. Those options were converted to stock appreciation rights in November 2004. In May 2001, the Company entered into a distribution agreement with a company (the "Sub-distributor") based in the State of Jordan. The Sub- distributor has agreed to purchase no fewer than 100 units of the Company's "Pure Safe Water Station", in the calendar year commencing January 1, 2001. A minimum purchase of 50 units is required to be purchased in each of the subsequent years commencing January 1, 2002 and 2003, respectively. During the year ended December 31, 2001, 18 units had been shipped under this agreement. The sale will be recognized when the Company receives payments. The Company recorded the cost of the inventory shipped as a loss contingency of \$242,035 during the year ended December 31, 2001, since return of the items is uncertain. F-18 PART II INFORMATION NOT REQUIRED IN PROSPECTUS ITEM 24.

INDEMNIFICATION OF DIRECTORS AND OFFICERS. Section 145 of the Delaware General Corporation Law provides that a corporation may indemnify directors and officers as well as other employees and individuals against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with any threatened, pending or completed actions, suits or proceedings in which such person is made a party by reason of such person being or having been a director, officer, employee or agent to the Registrant. The Delaware General Corporation Law provides that Section 145 is not exclusive of other rights to which those seeking indemnification may be entitled under any bylaw, agreement, vote of stockholders or disinterested directors or otherwise. Section 5.1 of the Registrant's amended and restated bylaws and Section 8 of our restated certificate of incorporation provide that the Registrant shall indemnify its directors and officers, and may indemnify its employees and other agents, to the fullest extent permitted by the Delaware General Corporation Law. Section 102(b)(7) of the Delaware General Corporation Law permits a corporation to provide in its certificate of incorporation that a director of the corporation shall not be personally liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) for unlawful payments of dividends or unlawful stock repurchases, redemptions or other distributions, or (iv) for any transaction from which the director derived an improper personal benefit. The Registrant's certificate of incorporation provides for such limitation of liability. The Registrant maintains standard policies of insurance under which coverage is provided (a) to its directors, officers, employees and other agents against loss rising from claims made by reason of breach of duty or other wrongful act, and (b) to the Registrant with respect to payments which may be made by the Registrant to such officers and directors pursuant to the above indemnification provision or otherwise as a matter of law.

ITEM 25. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION. The following table sets forth the various expenses (other than selling commissions and other fees to be paid to the underwriters) which will be paid by the Registrant in connection with the issuance and distribution of the securities being registered. With the exception of the Securities and Exchange Commission ("SEC") registration fee, all amounts shown are estimates.

SEC registration fee.....	\$ 2,427.34
Legal fees and expenses.....	30,000.00
Accounting fees and expenses.....	10,000.00
Miscellaneous expenses.....	2,572.66
Total.....	\$ 45,000.00

II-1 ITEM 26. RECENT SALES OF UNREGISTERED SECURITIES. Price Per Date of # of Purchaser Share Purchase Amount Class Purchase Share -----

Marshall Serman	\$0.10	Financial Consulting	Common	04/19/2002	800,000	- \$80,000
Ronald W. Hart	\$0.08	Compensation	Common	04/19/2002	225,000	- \$18,000
Richard Wilson	\$0.08	Compensation	Common	04/19/2002	112,500	- \$9,000
John Gilbert	\$0.08	Compensation	Common			

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04/19/2002 112,500 - \$9,000 Mohamed Salem \$0.08 Compensation Common 04/19/2002 112,500 - \$9,000 Mastafa Tolba \$0.08 Compensation Common 04/19/2002 112,500 - \$9,000 John Clarke \$0.05 Commission Common 04/19/2002 100,000 - \$5,000 Earl Roberts \$0.05 Website Consultant Common 04/19/2002 50,000 - \$2,500 Patrick Brady \$0.05 \$25,000 Common 04/19/2002 500,000 Peter Hall \$0.05 \$25,000 Common 04/19/2002 500,000 George Frank \$0.05 \$50,000 Common 04/19/2002 1,000,000 Barry Moscowitz \$0.035 \$100,000 Common 04/19/2002 2,857,133 David Conway IRA \$0.05 Non-Dilution Common 04/19/2002 4,184,693 Agreement David & Rosanne Conway \$0.05 Non-Dilution Common 04/19/2002 6,769,583 Agreement Jennifer Conway \$0.05 Non-Dilution Common 04/19/2002 1,984,886 Agreement Caroline Conway \$0.05 Non-Dilution Common 04/19/2002 1,984,886 Agreement Earl Ellis \$0.05 \$100,000 Common 04/25/2002 2,000,000 Ron Breeding \$0.03 Mktg Services Common 06/04/2002 125,000 II-2 Price Per Date of # of Purchaser Share Purchase Amount Class Purchase Share -----
----- Domenic Strazzula \$0.029 Settlement Common 06/20/2002 500,000 Felix Hertzka \$0.029 Settlement Common 06/20/2002 250,000 Michael and Roberta Guadette \$0.029 Settlement Common 06/20/2002 250,000 Claudette Gelfand \$0.029 Settlement Common 06/20/2002 250,000 Catherine Griffin \$0.029 Settlement Common 06/20/2002 250,000 Joseph Fichtl \$0.029 Settlement Common 06/20/2002 500,000 KT and Callaway Decoster \$0.029 Settlement Common 06/20/2002 300,000 Holly Harris \$0.029 Settlement Common 06/20/2002 100,000 Alexander Harris \$0.029 Settlement Common 06/20/2002 100,000 Michael and Diane Hayden \$0.029 Settlement Common 06/20/2002 250,000 K. Thomas Decoster \$0.029 Settlement Common 06/20/2002 250,000 John J. Clarke \$0.029 Settlement Common 06/20/2002 500,000 Edward Brown \$0.029 Settlement Common 06/20/2002 250,000 Jeffrey Power \$1.00 \$22,500 Series C 09/25/2002 25,000 Preferred William A. Cady Trust \$1.00 \$22,500 Series C 09/26/2002 25,000 Preferred Robert and Betsy Jordan \$1.00 \$9,000 Series C 10/09/2002 10,000 Preferred Francis L. Collins \$1.00 \$13,500 Series C 10/30/2002 15,000 Preferred Jeffrey Power \$1.00 \$45,000 Series C 12/30/2002 50,000 Preferred Robert Swinton \$1.00 Comp. Marketing Series C 02/13/2003 15,000 Consult. - \$15,000 Preferred Andrew Vito \$1.00 Comp. Marketing Series C 02/13/2003 15,000 Consult. - \$15,000 Preferred Daniel Negrila \$1.00 \$5,000 Series C 04/29/2003 5,000 Preferred II-3 Price Per Date of # of Purchaser Share Purchase Amount Class Purchase Share -----
----- Peter Gherasim \$1.00 \$7,500 Series C 04/29/2003 7,500 Preferred The Funding Group \$1.00 Comp Loan Interest Series C 04/29/2003 6,750 - \$11,250 Preferred Barry Moscowitz \$1.00 \$47,500 Series F 06/13/2003 47,500 Preferred Dwight Grader \$1.00 \$50,000 Series F 07/17/2003 50,000 Preferred Barry Moscowitz \$1.00 \$27,500 Series F 07/17/2003 27,500 Preferred Resnick & Company \$1.00 Comp. - Accounting Series F 07/17/2003 26,500 Svcs. -\$26,500 Preferred The Funding Group \$1.00 Interest and Series F 07/17/2003 11,250 Late Fees - \$14,000 Preferred Michael Manfredo \$1.00 \$25,000 Series F 08/04/2003 25,000 Preferred Jeffrey Power \$1.00 \$50,000 Series F 08/04/2003 50,000 Preferred Michael Manfredo \$1.00 \$25,000 Series F 08/22/2003 25,000 Preferred Patrick Brady \$1.00 \$15,000 Series F 08/22/2003 7,500 Preferred Peter Hall \$1.00 \$15,000 Series F 08/22/2003 7,500 Preferred Michael Davis \$1.00 \$30,000 Series F 08/22/2003 15,000 Preferred Richard Van Grouw \$1.00 \$20,000 Series F 08/22/2003 10,000 Preferred Barnett Fine \$1.00 \$20,000 Series F 08/22/2003 14,285 Preferred Alliance Trade \$1.00 Fee for Design Series F 08/22/2003 1,000 Svc. - \$1,000 Preferred Robert Swinton \$1.00 Fee for Mktg Series F 08/22/2003 18,750 Svc. - \$56,250 Preferred II-4 Price Per Date of # of Purchaser Share Purchase Amount Class Purchase Share -----
----- Douglas Davis \$1.00 Fee for Series F 09/18/2003 25,000 Manufacturing Preferred /Engin. Svc. - \$55,000 Raimond Irni \$1.00 Commission Series F 09/18/2003 6,250 - \$17,500 Preferred Nathan Lis \$1.00 \$20,000 Series F 09/18/2003 11,250 Preferred David Rappaport \$1.00 \$7,500 Series F 09/18/2003 3,125 Preferred David Van Der Velde \$1.00 \$1,500 Series F 09/18/2003 625 Preferred Abraham Hershkowitz \$1.00 \$1,500 Series F 09/18/2003 781 Preferred Harold Tishler \$1.00 \$3,000 Series F 09/18/2003 1,250 Preferred Leonard Fuchs \$1.00 \$15,000 Series F 09/18/2003 6,250 Preferred Mike Majerovic \$1.00 Commission Series F 09/18/2003 1,750 - \$1,750 Preferred WWD Trading Int'l \$1.00 \$100,000 Series F 10/17/2003 65,790 Preferred David Fried \$1.00 \$850 Series F 10/17/2003 625 Preferred David Schor \$1.00 \$2,075 Series F 10/17/2003 1,563 Preferred Peter Hoffman \$1.00 \$2,075 Series F 10/17/2003 1,563 Preferred Peter Tingus \$1.00 Comp. Fee Series F 10/17/2003 390

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Editing Svc. Preferred - \$1,000 Nicholas Anagnostopoulos \$1.00 \$12,750 Series F 11/11/2003 7,500 Preferred Haralambos Kostopoulos \$1.00 \$4,250 Series F 11/11/2003 2,500 Preferred Jonathan McDermott \$1.00 \$4,000 Series F 11/11/2003 2,500 Preferred II-5 Price Per Date of # of Purchaser Share Purchase Amount Class Purchase Share ----- Robert Kaszovits \$1.00 \$20,000 Series F 12/10/2003 10,000 Preferred Seymour Yanovsky \$1.00 \$4,040 Series F 12/10/2003 2,188 Preferred Daniel Alkobi \$1.00 \$1,155 Series F 12/10/2003 625 Preferred Yacob Alcobay \$1.00 \$1,155 Series F 12/10/2003 625 Preferred Yair Matan \$1.00 \$3,465 Series F 12/10/2003 1,875 Preferred Abraham Hershkovitz \$1.00 \$1,735 Series F 12/10/2003 939 Preferred David Rappaport \$1.00 \$5,775 Series F 12/10/2003 3,125 Preferred Leonard Fuchs \$1.00 \$4,620 Series F 12/10/2003 2,500 Preferred Carlos Correias \$1.00 \$1,155 Series F 12/10/2003 625 Preferred Mike Liebhard \$1.00 \$575 Series F 12/10/2003 313 Preferred Mike Majerovic \$1.00 \$3,695 Series F 12/10/2003 2,000 Preferred Dror Magori \$1.00 \$865 Series F 12/10/2003 469 Preferred Chaim Majerovic \$1.00 \$230 Series F 12/10/2003 175 Preferred Eligio Majerovic \$1.00 \$8,000 Series F 12/10/2003 4,250 Preferred Marshall Serman \$1.00 Compensation Board Series F 12/10/2003 12,500 Svc. - \$25,000 Preferred Olshan Grundman \$1.00 Compensation Legal Series F 12/10/2003 5,000 Services - \$16,000 Preferred II-6 Price Per Date of # of Purchaser Share Purchase Amount Class Purchase Share ----- Moneesh Bakshi \$1.00 Translating Service Series F 12/10/2003 50 - \$200 Preferred Mohammad Mamaun \$1.00 Translating Service Series F 12/10/2003 50 - \$200 Preferred Leonard Cohen \$1.00 \$50,000 Series F 12/30/2003 25,000 Preferred Kollel Metzioynim Lhoroah \$1.00 \$12,000 Series F 12/30/2003 5,000 Preferred Gregory Simonelli \$1.00 \$7,000 Series F 12/30/2003 2,500 Preferred Jaime Asaro \$1.00 \$7,000 Series F 12/30/2003 2,500 Preferred Jack Neiman \$1.00 \$3,500 Series F 12/30/2003 1,250 Preferred Harris Tunick \$1.00 \$3,500 Series F 12/30/2003 1,250 Preferred Gian Ciarniello \$1.00 \$1,400 Series F 12/30/2003 500 Preferred Barry Moscowwitz \$1.00 Commission Series F 12/30/2003 3,000 - \$6,000 Preferred Barnett Fine \$1.00 \$7,000 Series F 01/06/2004 2,500 Preferred Howard Fine \$1.00 \$1,400 Series F 01/06/2004 500 Preferred Haichel Esther \$1.00 \$60,000 Series F 01/06/2004 30,000 Preferred The Resnick Group \$1.00 Fee for annual Series F 01/06/2004 8,125 acctg. svc.-\$26,000 Preferred Peter Hoffman \$1.00 \$3,750 Series F 01/15/2004 1,563 Preferred Rafael Moas \$1.00 \$3,750 Series F 01/15/2004 1,563 Preferred David Fried \$1.00 \$475 Series F 01/15/2004 195 Preferred II-7 Price Per Date of # of Purchaser Share Purchase Amount Class Purchase Share ----- Dror Magori \$1.00 \$475 Series F 01/15/2004 195 Preferred Florence Gut \$1.00 \$825 Series F 01/15/2004 344 Preferred Dror Magori \$1.00 \$1,850 Series F 02/05/2004 463 Preferred Meryl Hagler \$1.00 \$3,575 Series F 02/05/2004 893 Preferred David Fried \$1.00 \$3,575 Series F 02/05/2004 893 Preferred Ezra Moas \$1.00 \$1,000 Series F 02/05/2004 250 Preferred Morris Sabbach \$1.00 \$1,000 Series F 02/05/2004 250 Preferred Jac Steinberger \$1.00 \$3,075 Series F 02/05/2004 770 Preferred Abraham Rotban \$1.00 \$1,855 Series F 02/05/2004 465 Preferred Raimond Irni \$1.00 Compensation Series F 02/05/2004 1,000 Commission - Preferred \$4,000 Arnold Fonseca \$1.00 \$50,000 Series F 03/30/2004 19,231 Preferred Eliezer Ely \$1.00 \$2,480 Series F 03/30/2004 1,240 Preferred Moische Koffman \$1.00 \$2,325 Series F 03/30/2004 1,162 Preferred Harold Friedman \$1.00 \$775 Series F 03/30/2004 388 Preferred Aaron Groner \$1.00 \$310 Series F 03/30/2004 155 Preferred Abraham Kiplinsky \$1.00 \$775 Series F 03/30/2004 388 Preferred Annette Hunter \$1.00 \$50,000 Series F 03/30/2004 25,000 Preferred II-8 Price Per Date of # of Purchaser Share Purchase Amount Class Purchase Share ----- Eugenie Trott \$1.00 \$200,000 Series F 03/30/2004 41,668 Preferred Marshall Serman \$1.00 Compensation Series F 03/30/2004 6,250 - \$20,000 Preferred John. J. Clarke \$1.00 Compensation Series F 03/30/2004 6,250 - \$20,000 Preferred C. Trade Inc. \$1.00 Compensation Series F 03/30/2004 9,375 - \$40,000 Preferred A. Elizier \$1.00 Comp. Web Series F 03/30/2004 1,765 design - \$3,500 Preferred E. McInerney \$1.00 Commission Series F 03/30/2004 4,168 - \$20,000 Preferred T. Mendirotta \$1.00 Commission Series F 03/30/2004 12,500 - \$25,000 Preferred Haicel Esther \$1.00 \$12,500 Series F 05/20/04 15,625 Preferred Philip Koch \$0.1475 \$885 Common 08/04/2004 6,000 David Fried \$0.1475 \$5,530 Common 08/04/2004 37,500 Harold Tishler \$0.1475 \$3,685 Common 08/04/2004 25,000 David Rappaport \$0.1475 \$9,215 Common 08/04/2004 62,500 Harold Jacobowitz \$0.1475 \$1,685 Common 08/04/2004 11,428 Michael Majerovic \$0.1475 \$1,150 Common 08/04/2004 7,800 Segoes Trust LTD

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\$0.08 \$72,000 Common 08/06/2004 900,000 Richard Barsom \$0.12 Comp. Marketing Common 08/06/2004 50,000 Svc. - \$6,000 Marshall Serman \$0.12 Comp. Fin'l Common 08/06/2004 200,000 Consult. - \$24,000 Max Ollech \$0.08 \$15,400 Common 08/20/2004 200,000 Rafael Moas \$0.08 \$5,800 Common 08/20/2004 72,500 Dror Magori \$0.08 \$800 Common 08/20/2004 10,000 II-9 Price Per Date of # of Purchaser Share Purchase Amount Class Purchase Share -----
Morris Sabbach \$0.08 \$800 Common 08/20/2004 10,000 Randy Chalom \$0.08 \$1,600 Common 08/20/2004 20,000 Ezra Moas \$0.08 \$800 Common 08/20/2004 10,000 Ezra Mossieri \$0.08 \$800 Common 08/20/2004 10,000 Kellel Metzioynim \$0.08 \$34,600 Common 08/20/2004 450,000 George Feinsod \$0.10 Comp. Tax Prep Common 08/20/2004 100,000 Fees - \$10,000 Samaritan Group Intl. \$0.05 Fee for UN Common 09/08/2004 500,000 Admission - \$25,000 IMSCO/ F. Weston \$0.05 Fee for UN Common 09/08/2004 1,000,000 Admission - \$50,000 Ellis International Trust \$0.075 \$50,000 Common 09/17/2004 666,667 Max Ollech \$0.08 \$4,000 Common 09/17/2004 50,000 WW Trading Int'l \$0.075 Comp. Common 10/06/2004 200,000 Commissions - \$15,000 Annette Hunter \$0.075 Comp. Common 10/06/2004 100,000 Commissions - \$7,500 Rudolf Schindler \$0.10 Comp. Accrued Common 10/29/2004 311,100 Payroll - \$31,110 WW Trading Int'l \$0.08 \$25,000 Common 10/29/2004 312,500 Raimind Irni \$0.05 Commission Common 11/15/2004 20,000 - \$1,000 Nachum Lis \$0.05 \$40,000 Common 11/16/2004 800,000 Lyons Capital Partners \$0.08 \$50,000 Common 11/16/2004 625,000 Jason Lyons \$0.08 Commission Common 11/24/2004 62,500 - \$5,000 Richard Barsom \$0.08 Comp. Mktg Common 11/24/2004 150,000 Services - \$12,000 Rudolf W. Schindler \$0.155 Comp./Accrued Common 12/17/2004 100,000 Payroll - \$15,500 Leonard Cohen \$0.10 \$35,000 Common 12/17/2004 350,000 II-10 Price Per Date of # of Purchaser Share Purchase Amount Class Purchase Share -----
----- Haichel Esther \$0.10 \$40,000 Common 12/17/2004 400,000 Lyons Capital Group LLC \$0.05 Commission Common 3/21/2005 100,000 - \$5,000 Leonard Cohen \$0.05 \$10,000 Common 3/21/2005 200,000 The Resnick Druckman Group LLC \$0.10 Comp. for Common 3/21/2005 130,000 Accounting Fees - \$13,000 The Company issued these shares in reliance on the exemption from registration afforded by Section 4(2) of the Securities Act of 1933 and Regulation D promulgated there under. These shares were offered to less than 35 "non-accredited" investors and were purchased for investment purposes with no view to resale. ITEM 27. EXHIBITS. (a) Exhibits: NUMBER DESCRIPTION OF EXHIBIT -----
----- 3.1 Amended and Restated By-Laws of Water Chef, Inc. - Incorporated herein by reference to Exhibit 3(ii) to the Form 10-KSB/A filed November 17, 2003. 3.2* Amended and Restated Certificate of Incorporation of Water Chef, Inc. 3.3* Certificate of Amendment of Restated Certificate of Incorporation of Water Chef, Inc. dated August 2, 1993 3.4* Certificate of Amendment of Restated Certificate of Incorporation of Water Chef, Inc. dated August 2, 1992 3.5* Certificate for Renewal and Revival of Certificate of Incorporation 3.6* Certificate of Amendment of Restated Certificate of Incorporation of Water Chef, Inc. dated February 20, 2002 3.7* Certificate of Correction filed to correct a certain error in the Certificate of Amendment of the Restated Certificate of Incorporation of Water Chef, Inc. dated May 7, 2004 4.1 Certificate of Designation of Series A Preferred Stock of Water Chef, Inc. - Incorporated herein by reference to Exhibit 4.1 to the Form 10-KSB/A filed November 17, 2003. 4.2 Certificate of Designation of Series C convertible preferred stock of Water Chef, Inc. - Incorporated herein by reference to Exhibit 4.2 to the Form 10-KSB/A filed November 17, 2003. 4.3 Certificate of Designation of Series D Preferred Stock of Water Chef, Inc. - Incorporated herein by reference to Exhibit 4.3 to the Form 10-KSB/A filed November 17, 2003. 4.4* Certificate of Designation of Series F convertible preferred stock of Water Chef, Inc. 4.5 Series B Warrant to Purchase Common Stock and Allonge to and Amendment and Extension of Common Stock Purchase Warrant - Incorporated herein by reference to Exhibit 4.4 to the Form 10-KSB/A filed November 17, 2003. 4.6* Series B Second Allonge to and Amendment and Extension of Common Stock Purchase Warrant 4.7 Subordinated Debentures - Incorporated herein by reference to Exhibit 4.5 to the Form 10-KSB/A filed November 17, 2003. 5.1** Opinion of Olshan Grundman Frome Rosenzweig & Wolosky LLP 10.1 Mutual Settlement Agreement and General Release, dated June 20, 2002, by and between the Company; K. Thomas and Callaway Decoster, as husband and wife; K. Thomas Decoster, individually; Michael P. and Roberta S. Gaudette, as husband and wife; Dominic M. Strazzulla; the Felix A. Hertzka Estate; Claudette L. Gelfand and the

Claudette L. Gelfand Revocable Trust; Catherine C. Griffin; Michael B. and Diane L. Hayden, as husband and wife; Alexander Harris; Holly O. Harris; and Joseph R. II-11 NUMBER DESCRIPTION OF EXHIBIT ----- Fichtl and the Joseph R. Fichtl 1995 Trust - Incorporated herein by reference to Exhibit 10.1 to the Form 10-KSB/A filed April 15, 2004. 10.2 Addendum to Settlement Agreement, dated June 20, 2002, by and between the Company; K. Thomas and Callaway Decoster, as husband and wife; K. Thomas Decoster, individually; Michael P. and Roberta S. Gaudette, as husband and wife; Dominic M. Strazzulla; the Felix A. Hertzka Estate; Claudette L. Gelfand and the Claudette L. Gelfand Revocable Trust; Catherine C. Griffin; Michael B. and Diane L. Hayden, as husband and wife; Alexander Harris; Holly O. Harris; and Joseph R. Fichtl and the Joseph R. Fichtl 1995 Trust Trust - Incorporated herein by reference to Exhibit 10.2 to the Form 10-KSB/A filed April 15, 2004. 10.3 Subdistributorship Agreement dated May 18, 2001 between 4 Clean Waters LTD. and the Company - Incorporated herein by reference to Exhibit 10.2 to the Form 10-KSB/A filed November 17, 2003. 10.4 Convertible Promissory Note dated November 17, 2000 to 4 Clean - Lindh Joint Venture by the Company - Incorporated herein by reference to Exhibit 10.1 to the Form 10-KSB/A filed November 21, 2004. 10.5 Preliminary Agreement, dated September 8, 2004 by, and among, Water Chef, Inc., Samaritan Group International, and International Multiracial Shared Cultural Organization (IMSCO) - Incorporated herein by reference to Exhibit 10.1 to the Form 10-QSB filed November 17, 2004. 23.1** Consent of Marcum & Kliegman LLP 23.2** Consent of Olshan Grundman Frome Rosenzweig & Wolosky LLP (contained in Exhibit 5.1). 24.1* Powers of Attorney (included on the signature page of this Registration Statement). * previously filed ** filed herewith ITEM 28. UNDERTAKINGS. (a) The undersigned registrant hereby undertakes: (1) To file, during any period in which it offers or sells securities, a post-effective amendment to this registration statement: (i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933 (the "Securities Act"); (ii) To reflect in the prospectus any facts or events which, individually or together, represent a fundamental change in the information in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement; (iii) To include any additional or changed material information; PROVIDED, HOWEVER, that paragraphs (a)(1)(i) and (a)(1)(ii) of this section do not apply if the registration statement is on Form S-3, Form S-8 or Form F-3, and the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed with or furnished to the Commission by the registrant pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement. II-12 (2) That, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof. (3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering. (b) Insofar as indemnification for liabilities arising under the Securities Act of 1933 (the "Act") may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue. II-13 SIGNATURES In accordance with the requirements of the Securities Act

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of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form SB-2 and has authorized this registration statement to be signed on its behalf by the undersigned, in the City of New York, State of New York, on May 5, 2005. WATER CHEF, INC. By: /s/ David A. Conway ----- David A. Conway Chairman of the Board, President, Chief Executive Officer and Chief Financial Officer In accordance with the requirements of the Securities Act of 1933, this registration statement has been signed below by the following persons in the capacities and on the dates indicated. SIGNATURE TITLE DATE -----
---- /s/ David A. Conway Chairman of the Board, President, May 5, 2005 ----- Chief Executive Officer and Chief David A. Conway Financial Officer (Principal Executive Officer and Principal Financial and Accounting Officer) * ----- Director May 5, 2005 Marshall S. Sterman * ----- Director May 5, 2005 John J. Clarke, Jr. * By: /s/ David A. Conway ----- David A. Conway Attorney-in-fact II-14