

APPLIED DNA SCIENCES INC  
Form 10-Q  
February 11, 2010

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

FORM 10-Q

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

For the quarterly period ended December 31, 2009

OR

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: 33-17387

Applied DNA Sciences, Inc.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

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

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

11790  
(Zip Code)

631-444- 8090  
(Registrant's telephone number, including area code)

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

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or

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a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer”, and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

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

Yes  No

As of February 11, 2010, the registrant had 275,204,070 shares of common stock outstanding.

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Applied DNA Sciences, Inc.

Form 10-Q for the Quarter Ended December 31, 2009

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## Part I

## Item 1 - Financial Statements

APPLIED DNA SCIENCES, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS

|   | December 31,<br>2009<br>(unaudited) | September 30,<br>2009 |
|---|-------------------------------------|-----------------------|
| <b>ASSETS</b>   |                                     |                       |
| Current assets:   |                                     |                       |
| Cash  | \$6,022                             | \$213,307             |
| Accounts Receivable   | 16,006                              | 47,302                |
| Prepaid expenses  | 51,962                              | 79,436                |
| Total current assets  | 73,990                              | 340,045               |
| Property, plant and equipment-net of accumulated depreciation of \$201,472 and \$199,119, respectively  | 9,390                               | 11,743                |
| Other assets:   |                                     |                       |
| Deposits  | 8,322                               | 8,322                 |
| Capitalized finance costs-net of accumulated amortization of \$670,391 and \$615,611, respectively  | 132,109                             | 146,389               |
| Intangible assets:  |                                     |                       |
| Patents, net of accumulated amortization of \$34,257 and \$34,112, respectively (Note B)  | -                                   | 145                   |
| Intellectual property, net of accumulated amortization and write off of \$8,521,422 and \$8,430,474, respectively (Note B)                            | 909,478                             | 1,000,426             |
| <b>Total Assets</b>   | <b>\$1,133,289</b>                  | <b>\$1,507,070</b>    |
| <b>LIABILITIES AND DEFICIENCY IN STOCKHOLDERS' EQUITY</b>   |                                     |                       |
| Current liabilities:  |                                     |                       |
| Accounts payable and accrued liabilities (Note C)   | \$1,058,318                         | \$843,491             |
| Advances from related party (Note E)  | 150,000                             | -                     |
| Convertible notes payable, net of unamortized discount of \$191,253 and \$319,589, (Note D)   | 2,808,747                           | 2,410,411             |
| Total current liabilities   | 4,017,065                           | 3,253,902             |
| Commitments and contingencies (Note H)  | -                                   | -                     |
| Deficiency in Stockholders' Equity (Note F)   |                                     |                       |
| Preferred stock, par value \$0.001 per share; 10,000,000 shares authorized; -0- issued and outstanding as of December 31, 2009 and September 30, 2009 | -                                   | -                     |
| Common stock, par value \$0.001 per share; 410,000,000 shares authorized; 275,204,070 issued and outstanding as of December 31, 2009 and September    | 275,204                             | 275,204               |

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30, 2009

|   |                    |                    |
|---|--------------------|--------------------|
| Additional paid in capital                                      | 142,080,731        | 141,409,667        |
| Accumulated deficit   | (145,239,711 )     | (143,431,703 )     |
| Total deficiency in stockholders' equity                        | (2,883,776 )       | (1,746,832 )       |
| <b>Total Liabilities and Deficiency in Stockholders' Equity</b> | <b>\$1,133,289</b> | <b>\$1,507,070</b> |

See the accompanying notes to the unaudited condensed consolidated financial statements

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APPLIED DNA SCIENCES, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(unaudited)

|  | Three Months Ended December |                 |
|--|-----------------------------|-----------------|
|  | 2009                        | 31,<br>2008     |
| Sales                                      | \$ 72,715                   | \$ 146,575      |
| Cost of sales                              | (14,434 )                   | (43,741 )       |
| Gross Profit                               | 58,281                      | 102,834         |
| Operating expenses:                        |                             |                 |
| Selling, general and administrative        | 1,542,135                   | 2,764,009       |
| Research and development                   | 6,148                       | 62,529          |
| Depreciation and amortization              | 93,446                      | 108,984         |
| Total operating expenses                   | 1,641,729                   | 2,935,522       |
| NET LOSS FROM OPERATIONS                   | (1,583,448 )                | (2,832,688 )    |
| Other income (Note C)                      | -                           | -               |
| Interest expense, net                      | (224,260 )                  | (482,829 )      |
| Net loss before provision for income taxes | (1,807,708 )                | (3,315,517 )    |
| Income taxes (benefit)                     | 300                         | 497             |
| NET LOSS                                   | \$ (1,808,008 )             | \$ (3,316,014 ) |
| Net loss per share-basic and fully diluted | \$ (0.01 )                  | \$ (0.01 )      |
| Weighted average shares outstanding-       |                             |                 |
| Basic and fully diluted                    | 275,204,070                 | 222,657,096     |

See the accompanying notes to the unaudited condensed consolidated financial statements

APPLIED DNA SCIENCES, INC  
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
(unaudited)

|   | Three months ended December |                 |
|---|-----------------------------|-----------------|
|   | 2009                        | 31,<br>2008     |
| <b>Cash flows from operating activities:</b>                                  |                             |                 |
| Net loss  | \$ (1,808,008 )             | \$ (3,316,014 ) |
| <b>Adjustments to reconcile net loss to net used in operating activities:</b> |                             |                 |
| Depreciation and amortization   | 93,446                      | 108,984         |
| Fair value of vested options issued to officers, directors and employees      | 296,844                     | 1,850,247       |
| Amortization of capitalized financing costs                                   | 54,780                      | 83,784          |
| Amortization of debt discount attributable to convertible debentures          | 149,679                     | 417,934         |
| Equity based compensation   | 352,877                     | -               |
| <b>Change in assets and liabilities:</b>                                      |                             |                 |
| Decrease in accounts receivable   | 31,296                      | 4,151           |
| Decrease in prepaid expenses and deposits                                     | 27,474                      | 31,250          |
| Increase (decrease) in accounts payable and accrued liabilities               | 214,827                     | 234,405         |
| Net cash used in operating activities   | (586,785 )                  | (585,259 )      |
| <b>Cash flows from financing activities:</b>                                  |                             |                 |
| Net proceeds from related party advances                                      | 150,000                     | -               |
| Net proceeds from issuance of convertible notes                               | 229,500                     | 500,000         |
| Net cash provided by financing activities                                     | 379,500                     | 500,000         |
| Net decrease in cash and cash equivalents                                     | (207,285 )                  | (85,259 )       |
| Cash and cash equivalents at beginning of period                              | 213,307                     | 136,405         |
| Cash and cash equivalents at end of period                                    | \$ 6,022                    | \$ 51,146       |
| <b>Supplemental Disclosures of Cash Flow Information:</b>                     |                             |                 |
| Cash paid during period for interest  | \$ -                        | \$ -            |
| Cash paid during period for taxes   | \$ -                        | \$ -            |
| <b>Non-cash transactions:</b>   |                             |                 |
| Fair value of vested options issued to officers, directors and employees      | \$ 296,844                  | \$ 1,850,247    |
| Equity based compensation   | \$ 352,877                  | \$ -            |
| Common stock issued in exchange for previously incurred debt                  | \$ -                        | \$ 2,860,000    |

See the accompanying notes to the unaudited condensed consolidated financial statements

APPLIED DNA SCIENCES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2009  
(unaudited)

NOTE A — SUMMARY OF ACCOUNTING POLICIES

General

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

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month period ended December 31, 2009 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2010. The unaudited condensed consolidated financial statements should be read in conjunction with the consolidated September 30, 2009 financial statements and footnotes thereto included in the Company's SEC Form 10-K.

Business and Basis of Presentation

On September 16, 2002, Applied DNA Sciences, Inc. (the "Company") was incorporated under the laws of the State of Nevada. Effective December 17, 2008, the Company reincorporated from the State of Nevada to the State of Delaware. During the year ended September 30, 2007, the Company transitioned from a development stage enterprise to an operating company. The Company is principally devoted to developing DNA embedded biotechnology security solutions in the United States. To date, the Company has generated minimum sales revenues from its services and products; it has incurred expenses and has sustained losses. Consequently, its operations are subject to all the risks inherent in the establishment of a new business enterprise. For the period from inception through December 31, 2009, the Company has accumulated losses of \$145,239,711.

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

Estimates

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

Revenue Recognition

Revenues are derived from research, development, qualification and production testing for certain commercial products. Revenue from fixed price testing contracts is generally recorded upon completion of the contracts, which are generally short-term, or upon completion of identifiable contractual tasks. At the time the Company enters into a contract that includes multiple tasks, the Company estimates the amount of actual labor and other costs that will be required to complete each task based on historical experience. Revenues are recognized which provide for a profit margin relative to the testing performed. Revenue relative to each task and from contracts which are time and materials based is recorded as effort is expended. Billings in excess of amounts earned are deferred. Any anticipated



losses on contracts are charged to income when identified. To the extent management does not accurately forecast the level of effort required to complete a contract, or individual tasks within a contract, and the Company is unable to negotiate additional billings with a customer for cost over-runs, the Company may incur losses on individual contracts. All selling, general and administrative costs are treated as period costs and expensed as incurred.

APPLIED DNA SCIENCES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2009

(unaudited)

NOTE A — SUMMARY OF ACCOUNTING POLICIES (continued)

For revenue from product sales, the Company recognizes revenue in accordance with Accounting Standards Codification subtopic 605-10, Revenue Recognition (“ASC 605-10”). ASC 605-10 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the selling price is fixed and determinable; and (4) collectability is reasonably assured. Determination of criteria (3) and (4) are based on management’s judgments regarding the fixed nature of the selling prices of the products delivered and the collectability of those amounts. Provisions for allowances and other adjustments are provided for in the same period the related sales are recorded. The Company defers any revenue for which the product has not been delivered or is subject to refund until such time that the Company and the customer jointly determine that the product has been delivered or no refund will be required. At December 31, 2009 and September 30, 2009, the Company did not record any deferred revenue for the respective periods.

ASC 605-10 incorporates Accounting Standards Codification subtopic 605-25, Multiple-Element Arrangements (“ASC 605-25”). ASC 605-25 addresses accounting for arrangements that may involve the delivery or performance of multiple products, services and/or rights to use assets. The effect of implementing ASC 605-25 on the Company’s financial position and results of operations was not significant.

Cash Equivalents

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

Accounts Receivable

The Company provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. The Company’s estimate is based on historical collection experience and a review of the current status of trade accounts receivable. It is reasonably possible that the Company’s estimate of the allowance for doubtful accounts will change. At December 31, 2009 and September 30, 2009, the Company has deemed that no allowance for doubtful accounts was necessary.

Income Taxes

The Company has adopted Accounting Standards Codification subtopic 740-10, Income Taxes (“ASC 740-10”) which requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statement or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Temporary differences between taxable income reported for financial reporting purposes and income tax purposes are insignificant.

APPLIED DNA SCIENCES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2009

(unaudited)

NOTE A — SUMMARY OF ACCOUNTING POLICIES (continued)

Property and Equipment

Property and equipment are stated at cost and depreciated over their estimated useful lives of 3 to 5 years using the straight line method. At December 31, 2009 and September 30, 2009 property and equipment consist of:

|                          | December 31,<br>2009<br>(unaudited) | September<br>30,<br>2009 |
|--------------------------|-------------------------------------|--------------------------|
| Computer equipment       | \$ 27,404                           | \$ 27,404                |
| Lab equipment            | 77,473                              | 77,473                   |
| Furniture                | 105,985                             | 105,985                  |
|                          | 210,862                             | 210,862                  |
| Accumulated depreciation | (201,472)                           | (199,119)                |
| Net                      | \$ 9,390                            | \$ 11,743                |

Impairment of Long-Lived Assets

The Company has adopted Accounting Standards Codification subtopic 360-10, Property, Plant and Equipment (“ASC 360-10”). ASC 360-10 requires that long-lived assets and certain identifiable intangibles held and used by the Company be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company evaluates its long lived assets for impairment annually or more often if events and circumstances warrant. Events relating to recoverability may include significant unfavorable changes in business conditions, recurring losses, or a forecasted inability to achieve break-even operating results over an extended period. The Company evaluates the recoverability of long-lived assets based upon forecasted undiscounted cash flows. Should impairment in value be indicated, the carrying value of intangible assets will be adjusted, based on estimates of future discounted cash flows resulting from the use and ultimate disposition of the asset. ASC 360-10 also requires assets to be disposed of be reported at the lower of the carrying amount or the fair value less costs to sell.

Comprehensive Income

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

Segment Information

The Company adopted Accounting Standards Codification subtopic Segment Reporting 280-10 (“ASC 280-10”). ASC 280-10 establishes standards for reporting information regarding operating segments in annual financial statements and requires selected information for those segments to be presented in interim financial reports issued to stockholders. ASC 280-10 also establishes standards for related disclosures about products and services and geographic areas. Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker, or decision-making group, in making decisions how to allocate resources and assess performance. The information disclosed herein, materially

represents all of the financial information related to the Company's single principal operating segment.

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APPLIED DNA SCIENCES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2009

(unaudited)

NOTE A — SUMMARY OF ACCOUNTING POLICIES (continued)

Net Loss Per Share

The Company has adopted Accounting Standards Codification subtopic 260-10, Earnings Per Share (“ASC 260-10”) which specifies the computation, presentation and disclosure requirements of earnings per share information. Basic earnings per share have been calculated based upon the weighted average number of common shares outstanding. For the three months ended December 31, 2009 and 2008, common equivalent shares are excluded from the computation of the diluted loss per share as their effect would be anti-dilutive. Fully diluted shares outstanding were 336,290,914 and 253,851,073 for the three month periods ended December 31, 2009 and 2008, respectively.

Stock Based Compensation

Effective for the year beginning January 1, 2006, the Company has adopted Accounting Standards Codification subtopic 718-10, Compensation (“ASC 718-10”) which requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro-forma disclosure is no longer an alternative. The Company implemented ASC 718-10 on January 1, 2006 using the modified prospective method. Stock-based compensation expense recognized under ASC 718-10 for the three months ended December 31, 2009 and 2008 were \$296,844 and \$-0-, respectively.

As of December 31, 2009, 38,920,000 employee stock options were outstanding with 25,874,205 shares vested and exercisable.

Concentrations

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

Research and Development

The Company accounts for research and development costs in accordance with the Accounting Standards Codification subtopic 730-10, Research and Development (“ASC 730-10”). Under ASC 730-10, all research and development costs must be charged to expense as incurred. Accordingly, internal research and development costs are expensed as incurred. Third-party research and development costs are expensed when the contracted work has been performed or as milestone results have been achieved. Company-sponsored research and development costs related to both present and future products are expensed in the period incurred. The Company incurred research and development expenses of \$6,148 and \$62,529 for the three month periods ended December 31, 2009 and 2008, respectively.

Advertising

The Company follows the policy of charging the costs of advertising to expense as incurred. The Company charged to operations \$13,055 and \$14,337 as advertising costs for the three month periods ended December 31, 2009 and

2008, respectively.

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APPLIED DNA SCIENCES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2009

(unaudited)

NOTE A — SUMMARY OF ACCOUNTING POLICIES (continued)

Intangible Assets

The Company amortized its intangible assets using the straight-line method over their estimated period of benefit. The estimated useful life for patents is five years while intellectual property uses a seven year useful life. We periodically evaluate the recoverability of intangible assets and take into account events or circumstances that warrant revised estimates of useful lives or that indicate that impairment exists. All of our intangible assets are subject to amortization.

Fair Value of Financial Instruments

In the first quarter of fiscal year 2008, the Company adopted Accounting Standards Codification subtopic 820-10, Fair Value Measurements and Disclosures (“ASC 820-10”). ASC 820-10 defines fair value, establishes a framework for measuring fair value, and enhances fair value measurement disclosure. ASC 820-10 delays, until the first quarter of fiscal year 2009, the effective date for ASC 820-10 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The adoption of ASC 820-10 did not have a material impact on the Company’s financial position or operations. Refer to Footnote I for further discussion regarding fair valuation.

Effective October 1, 2008, the Company adopted Accounting Standards Codification subtopic 820-10, Fair Value Measurements and Disclosures (“ASC 820-10”) and Accounting Standards Codification subtopic 825-10, Financial Instruments (“ASC 825-10”), which permits entities to choose to measure many financial instruments and certain other items at fair value. Neither of these statements had an impact on the Company’s unaudited condensed consolidated financial position, results of operations or cash flows. The carrying value of cash and cash equivalents, accounts payable and short-term borrowings, as reflected in the balance sheets, approximate fair value because of the short-term maturity of these instruments.

Recently Adopted Accounting Principles

Effective July 1, 2009, the Company adopted the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 105-10, Generally Accepted Accounting Principles – Overall (“ASC 105-10”). ASC 105-10 establishes the FASB Accounting Standards Codification (the “Codification”) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with U.S. GAAP. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. All guidance contained in the Codification carries an equal level of authority. The Codification superseded all existing non-SEC accounting and reporting standards. All other non-grandfathered, non-SEC accounting literature not included in the Codification is non-authoritative. The FASB will not issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates (“ASUs”). The FASB will not consider ASUs as authoritative in their own right. ASUs will serve only to update the Codification, provide background information about the guidance and provide the bases for conclusions on the change(s) in the Codification. References made to FASB guidance throughout this document have been updated for the Codification.

In April 2008, the FASB issued ASC 350-10, "Determination of the Useful Life of Intangible Assets". ASC 350-10 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under ASC 350-10, "Goodwill and Other Intangible Assets." ASC No. 350-10 is effective for fiscal years beginning after December 15, 2008. The adoption of this ASC did not have a material impact on the Company's unaudited condensed consolidated financial statements.



APPLIED DNA SCIENCES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2009

(unaudited)

NOTE A — SUMMARY OF ACCOUNTING POLICIES (continued)

In March 2008, the FASB issued ASC 815-10, “Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133”. ASC 815-10 requires enhanced disclosures regarding derivatives and hedging activities, including: (a) the manner in which an entity uses derivative instruments; (b) the manner in which derivative instruments and related hedged items are accounted for under Accounting Standards Codification 815-10, “Accounting for Derivative Instruments and Hedging Activities”; and (c) the effect of derivative instruments and related hedged items on an entity’s financial position, financial performance, and cash flows. ASC 815-10 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. As ASC 815-10 relates specifically to disclosures, it currently has no impact on the Company’s unaudited condensed consolidated financial statements.

In June 2008, the FASB ratified ASC 815-40-15, “Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity’s Own Stock”. ASC 815-40-15 provides that an entity should use a two-step approach to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock, including evaluating the instrument’s contingent exercise and settlement provisions. It also clarifies the impact of foreign currency denominated strike prices and market-based employee stock option valuation instruments on the evaluation. ASC 815-40-15 is effective for fiscal years beginning after December 15, 2008. The adoption of this ASC did not have a material impact on the Company’s unaudited condensed consolidated financial statements.

In April 2009, the FASB issued ASC 805-10, “Accounting for Assets Acquired and Liabilities assumed in a Business Combination That Arise from Contingencies — an amendment of FASB Statement No. 141 (Revised December 2007), Business Combinations”. ASC 805-10 addresses application issues raised by preparers, auditors, and members of the legal profession on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. ASC 805-10 is effective for assets or liabilities arising from contingencies in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. ASC 805-10 will have an impact on the Company’s accounting for any future acquisitions and its unaudited condensed consolidated financial statements.

In May 2009, the FASB issued SFAS No. 165, “Subsequent Events”, which is included in ASC Topic 855, Subsequent Events. ASC Topic 855 established principles and requirements for evaluating and reporting subsequent events and distinguishes which subsequent events should be recognized in the financial statements versus which subsequent events should be disclosed in the financial statements. ASC Topic 855 also required disclosure of the date through which subsequent events are evaluated by management. ASC Topic 855 was effective for interim periods ending after June 15, 2009 and applies prospectively. Because ASC Topic 855 impacted the disclosure requirements, and not the accounting treatment for subsequent events, the adoption of ASC Topic 855 did not impact our results of operations or financial condition. See Note K for disclosures regarding our subsequent events.

In August 2009, the FASB issued ASU No. 2009-05, Measuring Liabilities at Fair Value, which provides additional guidance on how companies should measure liabilities at fair value under ASC 820. The ASU clarifies that the quoted price for an identical liability should be used. However, if such information is not available, an entity may use, the quoted price of an identical liability when traded as an asset, quoted prices for similar liabilities or similar liabilities traded as assets, or another valuation technique (such as the market or income approach). The ASU also indicates that

the fair value of a liability is not adjusted to reflect the impact of contractual restrictions that prevent its transfer and indicates circumstances in which quoted prices for an identical liability or quoted price for an identical liability traded as an asset may be considered level 1 fair value measurements. This ASU is effective October 1, 2009. The adoption of this ASC did not have a material impact on the Company's unaudited condensed consolidated financial statements.

APPLIED DNA SCIENCES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2009

(unaudited)

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

In October 2009, the FASB issued ASU No. 2009-13, Multiple-Deliverable Revenue Arrangements—a consensus of the FASB Emerging Issues Task Force, that provides amendments to the criteria for separating consideration in multiple-deliverable arrangements. As a result of these amendments, multiple-deliverable revenue arrangements will be separated in more circumstances than under existing U.S. GAAP. The ASU does this by establishing a selling price hierarchy for determining the selling price of a deliverable. The selling price used for each deliverable will be based on vendor-specific objective evidence if available, third-party evidence if vendor-specific objective evidence is not available, or estimated selling price if neither vendor-specific objective evidence nor third-party evidence is available. A vendor will be required to determine its best estimate of selling price in a manner that is consistent with that used to determine the price to sell the deliverable on a standalone basis. This ASU also eliminates the residual method of allocation and will require that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method, which allocates any discount in the overall arrangement proportionally to each deliverable based on its relative selling price. Expanded disclosures of qualitative and quantitative information regarding the application of the multiple-deliverable revenue arrangement guidance are also required under the ASU. The ASU does not apply to arrangements for which industry specific allocation and measurement guidance exists, such as long-term construction contracts and software transactions. ASU No. 2009-13 is effective beginning January 1, 2011. The Company is currently evaluating the impact of this standard on its consolidated results of operations and financial condition.

## NOTE B - ACQUISITION OF INTANGIBLE ASSETS

The identifiable intangible assets acquired and their carrying values at December 31, 2009 and September 30, 2009, respectively, are as follows:

|  | December<br>31,<br>2009<br>(unaudited) | September<br>30,<br>2009 |
|--|--|--------------------------|
| Trade secrets and developed technologies<br>(Weighted average life of 7 years) | \$ 9,430,900                           | \$ 9,430,900             |
| Patents (Weighted average life of 5 years)                                     | 34,257                                 | 34,257                   |
| Total Amortized identifiable intangible assets-                                |  |                          |
| Gross carrying value:  | 9,465,157                              | 9,465,157                |
| Less:  |  |                          |
| Accumulated Amortization   | (2,900,668)                            | (2,809,575)              |
| Impairment (See below)   | (5,655,011)                            | (5,655,011)              |
| Net:   | \$ 909,478                             | 1,000,571                |
| Residual value:  | \$ 0                                   | 0                        |

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

Total amortization expense charged to operations for the three month periods ended December 31, 2009 and 2008 were \$91,093 and \$91,966, respectively.

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## NOTE C – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at December 31, 2009 and September 30, 2009 are as follows:

|                          | December<br>31,<br>2009<br>(unaudited) | September<br>30,<br>2009 |
|--------------------------|--|--------------------------|
| Accounts payable         | \$ 749,871                             | \$ 593,025               |
| Accrued consulting fees  | 102,500                                | 102,500                  |
| Accrued interest payable | 185,348                                | 110,767                  |
| Accrued salaries payable | 20,599                                 | 37,199                   |
| Total                    | \$ 1,058,318                           | \$ 843,491               |

## Registration Rights Liquidated Damages

In private placements in November and December, 2003, December, 2004, and January and February, 2005, the Company issued secured convertible promissory notes and warrants to purchase the Company's common stock. Pursuant to the terms of a registration rights agreement, the Company agreed to file a registration statement to be declared effective by the SEC for the common stock underlying the notes and warrants in order to permit public resale thereof. The registration rights agreement provided for the payment of liquidated damages if the stipulated registration deadlines were not met. The liquidated damages are equal to 3.5% per month of the face amount of the notes, which equals \$367,885, with no limitations. During the year ended September 30, 2008, the SEC declared effective the Company's registration statement with respect to the common stock underlying the notes and warrants. As of September 30, 2009, the Company concluded that the payment of liquidated damages under these commitments was not probable. Accordingly, the Company reversed the accrued expenses for the potential liquidated damages of \$12,023,888 as other income in the statement of operations during the year ended September 30, 2009.

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## NOTE D – PRIVATE PLACEMENT OF CONVERTIBLE NOTES

Convertible notes payable as of December 31, 2009 and September 30, 2009:

|  | December 31,<br>2009 | September 30,<br>2009 |
|--|----------------------|-----------------------|
| Secured Convertible Note Payable dated October 21, 2008, net of unamortized debt discount of \$-0- and \$14,591, respectively (see below)      | 500,000              | 485,409               |
| Secured Convertible Note Payable dated January 29, 2009, net of unamortized debt discount of \$5,679 and \$23,693, respectively (see below)    | 144,321              | 126,307               |
| Secured Convertible Note Payable dated February 27, 2009, net of unamortized debt discount of \$8,883 and \$22,975, respectively (see below)   | 191,117              | 177,025               |
| Secured Convertible Note Payable dated March 30, 2009, net of unamortized debt discount of \$23,629 and \$48,054, respectively (see below)     | 226,371              | 201,946               |
| Secured Convertible Note Payable dated April 14, 2009, net of unamortized debt discount of \$35,329 and \$66,581, respectively (see below)     | 264,671              | 233,419               |
| Secured Convertible Note Payable dated June 22, 2009, net of unamortized debt discount of \$21,189 and \$32,457, respectively (see below)      | 228,811              | 217,543               |
| Secured Convertible Note Payable dated June 30, 2009, net of unamortized debt discount of \$12,159 and \$18,374, respectively (see below)      | 137,841              | 131,626               |
| Secured Convertible Note Payable dated August 21, 2009, net of unamortized debt discount of \$42,299 and \$59,000, respectively (see below)    | 387,701              | 371,000               |
| Secured Convertible Note Payable dated September 30, 2009, net of unamortized debt discount of \$12,652 and \$16,932, respectively (see below) | 237,348              | 233,068               |
| Secured Convertible Note Payable dated September 30, 2009, net of unamortized debt discount of \$12,652 and \$16,932, respectively (see below) | 237,348              | 233,068               |
| Secured Convertible Note Payable dated October 14, 2009, net of unamortized debt discount of \$16,782 (see below)                              | 253,218              |                       |
|  | 2,808,747            | 2,410,411             |
| Less: current portion  | (2,808,747)          | (2,410,411)           |
|  | \$ -                 | \$ -                  |

## 10% Secured Convertible Promissory Note dated October 21, 2008

On October 21, 2008, the Company issued a \$500,000 related party convertible promissory note to a related party due October 21, 2009 with interest at 10% per annum due upon maturity. The date of maturity of the note was extended to a future date. The note is convertible at any time prior to maturity, at the holder's option, into shares of our common stock at a price equal to the greater of (i) 50% of the average price of our common stock for the ten trading days prior to the date of the notice of conversion or (ii) at \$0.02617152 per share, which is equal to a 30% discount to the average volume, weighted average price of our common stock for the ten trading days prior to issuance. At maturity, the note, including any accrued and unpaid interest, is automatically convertible at \$0.02617152 per share. The Company has granted the noteholder a security interest in all the Company's assets.

In accordance ASC 470-20, the Company recognized an embedded beneficial conversion feature present in the note. The Company allocated a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital. The Company recognized and measured an aggregate of \$279,188 of the proceeds, which is equal to the intrinsic value of the embedded beneficial conversion feature, to additional paid-in capital and a discount against the note. The debt discount attributed to the beneficial conversion feature is amortized over the note's maturity period (one year) as interest expense.

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NOTE D — PRIVATE PLACEMENT OF CONVERTIBLE NOTES (continued)

In connection with the placement of the note the Company issued non-detachable warrants granting the holder the right to acquire 1,000,000 shares of the Company's common stock at \$0.50 per share. The warrants expire five years from the issuance. In accordance with ASC 470-20, the Company recognized the value attributable to the warrants in the amount of \$34,104 to additional paid in capital and a discount against the note. The Company valued the warrants in accordance with ASC 470-20 using the Black-Scholes pricing model and the following assumptions: contractual terms of 5 years, an average risk free interest rate of 1.86%, a dividend yield of 0%, and volatility of 207.46%. The debt discount attributed to the value of the warrants issued is amortized over the note's maturity period (one year) as interest expense.

The Company recorded the intrinsic value of the embedded beneficial conversion feature (\$279,188) and warrants (\$34,104) to debt discount, aggregating \$313,292, which will be amortized to interest expense over the term of the Notes. Amortization of \$14,591 and \$64,375 was recorded for the three month periods ended December 31, 2009 and 2008, respectively.

10% Secured Convertible Promissory Note dated January 29, 2009

On January 29, 2009, the Company issued a \$150,000 related party convertible promissory note to a related party due January 29, 2010 with interest at 10% per annum due upon maturity. The note is convertible at any time prior to maturity, at the holder's option, into shares of our common stock at a price equal to the greater of (i) 50% of the average price of our common stock for the ten trading days prior to the date of the notice of conversion or (ii) at \$0.033337264 per share, which is equal to a 20% discount to the average volume, weighted average price of our common stock for the ten trading days prior to issuance. At maturity, the note, including any accrued and unpaid interest, is automatically convertible at \$0.033337264 per share. The Company has granted the noteholder a security interest in all the Company's assets.

In accordance with ASC 470-20, the Company recognized an embedded beneficial conversion feature present in the note. The Company allocated a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital. The Company recognized and measured an aggregate of \$61,974 of the proceeds, which is equal to the intrinsic value of the embedded beneficial conversion feature, to additional paid-in capital and a discount against the note. The debt discount attributed to the beneficial conversion feature is amortized over the note's maturity period (one year) as interest expense.

In connection with the placement of the note the Company issued non-detachable warrants granting the holder the right to acquire 300,000 shares of the Company's common stock at \$0.50 per share. The warrants expire five years from the issuance. In accordance with ASC 470-20, the Company recognized the value attributable to the warrants in the amount of \$9,498 to additional paid in capital and a discount against the note. The Company valued the warrants in accordance with ASC 470-20 using the Black-Scholes pricing model and the following assumptions: contractual terms of 5 years, an average risk free interest rate of 1.87%, a dividend yield of 0%, and volatility of 150.55%. The debt discount attributed to the value of the warrants issued is amortized over the note's maturity period (one year) as interest expense.



The Company recorded the intrinsic value of the embedded beneficial conversion feature (\$61,974) and warrants (\$9,498) to debt discount, aggregating \$71,472, which will be amortized to interest expense over the term of the Notes. Amortization of \$18,015 was recorded for the three month period ended December 31, 2009.

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NOTE D — PRIVATE PLACEMENT OF CONVERTIBLE NOTES (continued)

10% Secured Convertible Promissory Note dated February 27, 2009

On February 27, 2009, the Company issued a \$200,000 related party convertible promissory note to a related party due February 27, 2010 with interest at 10% per annum due upon maturity. The note is convertible at any time prior to maturity, at the holder's option, into shares of our common stock at a price equal to the greater of (i) 50% of the average price of our common stock for the ten trading days prior to the date of the notice of conversion or (ii) at \$0.046892438 per share, which is equal to a 20% discount to the average volume, weighted average price of our common stock for the ten trading days prior to issuance. At maturity, the note, including any accrued and unpaid interest, is automatically convertible at \$0.046892438 per share. The Company has granted the noteholder a security interest in all the Company's assets.

In accordance with ASC 470-20, the Company recognized an embedded beneficial conversion feature present in the note. The Company allocated a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital. The Company recognized and measured an aggregate of \$55,905 of the proceeds, which is equal to the intrinsic value of the embedded beneficial conversion feature, to additional paid-in capital and a discount against the note. The debt discount attributed to the beneficial conversion feature is amortized over the note's maturity period (one year) as interest expense.

The Company recorded the intrinsic value of the embedded beneficial conversion feature (\$55,905) will be amortized to interest expense over the term of the Notes. Amortization of \$14,091 was recorded for the three month period ended December 31, 2009.

10% Secured Convertible Promissory Note dated March 30, 2009

On March 30, 2009, the Company issued a \$250,000 related party convertible promissory note to a related party due March 30, 2010 with interest at 10% per annum due upon maturity. The note is convertible at any time prior to maturity, at the holder's option, into shares of our common stock at a price equal to the greater of (i) 50% of the average price of our common stock for the ten trading days prior to the date of the notice of conversion or (ii) at \$0.043239467 per share, which is equal to a 20% discount to the average volume, weighted average price of our common stock for the ten trading days prior to issuance. At maturity, the note, including any accrued and unpaid interest, is automatically convertible at \$0.043239467 per share. The Company has granted the noteholder a security interest in all the Company's assets.

In accordance with ASC 470-20, the Company recognized an embedded beneficial conversion feature present in the note. The Company allocated a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital. The Company recognized and measured an aggregate of \$96,905 of the proceeds, which is equal to the intrinsic value of the embedded beneficial conversion feature, to additional paid-in capital and a discount against the note. The debt discount attributed to the beneficial conversion feature is amortized over the note's maturity period (one year) as interest expense.

The Company recorded the intrinsic value of the embedded beneficial conversion feature (\$96,905) will be amortized to interest expense over the term of the Notes. Amortization of \$24,425 was recorded for the three month period ended

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APPLIED DNA SCIENCES, INC.  
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NOTE D — PRIVATE PLACEMENT OF CONVERTIBLE NOTES (continued)

10% Secured Convertible Promissory Note dated April 14, 2009

On April 14, 2009, the Company issued a \$300,000 convertible promissory note due April 14, 2010 with interest at 10% per annum due upon maturity. The note is convertible at any time prior to maturity, at the holder's option, into shares of our common stock at a price equal to the greater of (i) 50% of the average price of our common stock for the ten trading days prior to the date of the notice of conversion or (ii) at \$0.070756456 per share, which is equal to a 20% discount to the average volume, weighted average price of our common stock for the ten trading days prior to issuance. At maturity, the note, including any accrued and unpaid interest, is automatically convertible at \$0.070756456 per share. The Company has granted the noteholder a security interest in all the Company's assets.

In accordance with ASC 470-20, the Company recognized an embedded beneficial conversion feature present in the note. The Company allocated a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital. The Company recognized and measured an aggregate of \$123,990 of the proceeds, which is equal to the intrinsic value of the embedded beneficial conversion feature, to additional paid-in capital and a discount against the note. The debt discount attributed to the beneficial conversion feature is amortized over the note's maturity period (one year) as interest expense.

The Company recorded the intrinsic value of the embedded beneficial conversion feature (\$123,990) will be amortized to interest expense over the term of the Notes. Amortization of \$31,252 was recorded for the three month period ended December 31, 2009.

10% Secured Convertible Promissory Note dated June 22, 2009

On June 22, 2009, the Company issued a \$250,000 convertible promissory note due June 22, 2010 with interest at 10% per annum due upon maturity. The note is convertible at any time prior to maturity, at the holder's option, into shares of our common stock at a price equal to the greater of (i) 50% of the average price of our common stock for the ten trading days prior to the date of the notice of conversion or (ii) at \$0.110279774, which is equal to a 20% discount to the average volume, weighted average price of our common stock for the ten trading days prior to issuance. At maturity, the note, including any accrued and unpaid interest, is automatically convertible at \$0.110279774 per share. The Company has granted the noteholder a security interest in all the Company's assets.

In accordance with ASC 470-20, the Company recognized an embedded beneficial conversion feature present in the note. The Company allocated a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital. The Company recognized and measured an aggregate of \$44,705 of the proceeds, which is equal to the intrinsic value of the embedded beneficial conversion feature, to additional paid-in capital and a discount against the note. The debt discount attributed to the beneficial conversion feature is amortized over the note's maturity period (one year) as interest expense.

The Company recorded the intrinsic value of the embedded beneficial conversion feature (\$44,705) will be amortized to interest expense over the term of the Notes. Amortization of \$11,268 was recorded for the three month period ended December 31, 2009.



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NOTE D — PRIVATE PLACEMENT OF CONVERTIBLE NOTES (continued)

10% Secured Convertible Promissory Note dated June 30, 2009

On June 30, 2009, the Company issued a \$150,000 related party convertible promissory note to a related party due June 30, 2010 with interest at 10% per annum due upon maturity. The note is convertible at any time prior to maturity, at the holder's option, into shares of our common stock at a price equal to the greater of (i) 50% of the average price of our common stock for the ten trading days prior to the date of the notice of conversion or (ii) at \$0.103059299 per share, which is equal to a 20% discount to the average volume, weighted average price of our common stock for the ten trading days prior to issuance. At maturity, the note, including any accrued and unpaid interest, is automatically convertible at \$0.103059299 per share. The Company has granted the noteholder a security interest in all the Company's assets.

In accordance with ASC 470-20, the Company recognized an embedded beneficial conversion feature present in the note. The Company allocated a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital. The Company recognized and measured an aggregate of \$24,657 of the proceeds, which is equal to the intrinsic value of the embedded beneficial conversion feature, to additional paid-in capital and a discount against the note. The debt discount attributed to the beneficial conversion feature is amortized over the note's maturity period (one year) as interest expense.

The Company recorded the intrinsic value of the embedded beneficial conversion feature (\$24,657) will be amortized to interest expense over the term of the Notes. Amortization of \$6,215 was recorded for the three month period ended December 31, 2009.

10% Secured Convertible Promissory Notes dated August 21, 2009

On August 21, 2009, the Company issued an aggregate of \$430,000 convertible promissory notes due August 21, 2010 with interest at 10% per annum due upon maturity. The note is convertible at any time prior to maturity, at the holder's option, into shares of our common stock at a price equal to the greater of (i) 50% of the average price of our common stock for the ten trading days prior to the date of the notice of conversion or (ii) at \$0.095312615 per share, which is equal to a 20% discount to the average volume, weighted average price of our common stock for the ten trading days prior to issuance. At maturity, the note, including any accrued and unpaid interest, is automatically convertible at \$0.095312615 per share. The Company has granted the noteholder a security interest in all the Company's assets.

In accordance with ASC 470-20, the Company recognized an embedded beneficial conversion feature present in the note. The Company allocated a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital. The Company recognized and measured an aggregate of \$66,262 of the proceeds, which is equal to the intrinsic value of the embedded beneficial conversion feature, to additional paid-in capital and a discount against the note. The debt discount attributed to the beneficial conversion feature is amortized over the note's maturity period (one year) as interest expense.

The Company recorded the intrinsic value of the embedded beneficial conversion feature (\$66,262) will be amortized to interest expense over the term of the Notes. Amortization of \$16,702 was recorded for the three month period ended

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NOTE D — PRIVATE PLACEMENT OF CONVERTIBLE NOTES (continued)

10% Secured Convertible Promissory Notes dated September 30, 2009

On September 30, 2009, the Company issued an aggregate of \$250,000 convertible promissory notes due September 30, 2010 with interest at 10% per annum due upon maturity. The note is convertible at any time prior to maturity, at the holder's option, into shares of our common stock at a price equal to the greater of (i) 50% of the average price of our common stock for the ten trading days prior to the date of the notice of conversion or (ii) at \$0.121732857 per share, which is equal to a 20% discount to the average volume, weighted average price of our common stock for the ten trading days prior to issuance. At maturity, the note, including any accrued and unpaid interest, is automatically convertible at \$0.121732857 per share. The Company has granted the noteholder a security interest in all the Company's assets.

In accordance with ASC 470-20, the Company recognized an embedded beneficial conversion feature present in the note. The Company allocated a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital. The Company recognized and measured an aggregate of \$16,978 of the proceeds, which is equal to the intrinsic value of the embedded beneficial conversion feature, to additional paid-in capital and a discount against the note. The debt discount attributed to the beneficial conversion feature is amortized over the note's maturity period (one year) as interest expense.

The Company recorded the intrinsic value of the embedded beneficial conversion feature (\$16,978) will be amortized to interest expense over the term of the Notes. Amortization of \$4,279 was recorded for the three month period ended December 31, 2009.

10% Secured Convertible Promissory Note dated September 30, 2009

On September 30, 2009, the Company issued a \$250,000 related party convertible promissory note due September 30, 2010 with interest at 10% per annum due upon maturity. The note is convertible at any time prior to maturity, at the holder's option, into shares of our common stock at a price equal to the greater of (i) 50% of the average price of our common stock for the ten trading days prior to the date of the notice of conversion or (ii) at \$0.121732857 per share, which is equal to a 20% discount to the average volume, weighted average price of our common stock for the ten trading days prior to issuance. At maturity, the note, including any accrued and unpaid interest, is automatically convertible at \$0.121732857 per share. The Company has granted the noteholder a security interest in all the Company's assets.

In accordance with ASC 470-20, the Company recognized an embedded beneficial conversion feature present in the note. The Company allocated a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital. The Company recognized and measured an aggregate of \$16,978 of the proceeds, which is equal to the intrinsic value of the embedded beneficial conversion feature, to additional paid-in capital and a discount against the note. The debt discount attributed to the beneficial conversion feature is amortized over the note's maturity period (one year) as interest expense.

The Company recorded the intrinsic value of the embedded beneficial conversion feature (\$16,978) will be amortized to interest expense over the term of the Notes. Amortization of \$4,279 was recorded for the three month period ended



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NOTE D — PRIVATE PLACEMENT OF CONVERTIBLE NOTES (continued)

10% Secured Convertible Promissory Notes dated October 14, 2009

On October 14, 2009, the Company issued an aggregate of \$270,000 convertible promissory note due October 14, 2010 with interest at 10% per annum due upon maturity. The note is convertible at any time prior to maturity, at the holder's option, into shares of our common stock at a price equal to the greater of (i) 50% of the average price of our common stock for the ten trading days prior to the date of the notice of conversion or (ii) at \$0.092674218 per share, which is equal to a 20% discount to the average volume, weighted average price of our common stock for the ten trading days prior to issuance. At maturity, the note, including any accrued and unpaid interest, is automatically convertible at \$0.092674218 per share. The Company has granted the noteholder a security interest in all the Company's assets.

In accordance with ASC 470-20, the Company recognized an embedded beneficial conversion feature present in the note. The Company allocated a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital. The Company recognized and measured an aggregate of \$21,343 of the proceeds, which is equal to the intrinsic value of the embedded beneficial conversion feature, to additional paid-in capital and a discount against the note. The debt discount attributed to the beneficial conversion feature is amortized over the note's maturity period (one year) as interest expense.

The Company recorded the intrinsic value of the embedded beneficial conversion feature (\$21,343) will be amortized to interest expense over the term of the Notes. Amortization of \$4,561 was recorded for the three month period ended December 31, 2009.

NOTE E - RELATED PARTY TRANSACTIONS

The Company's current and former officers and shareholders have advanced funds to the Company for travel related and working capital purposes. The Company has not entered into any agreement on the repayment terms for these advances. As of December 31, 2009 and September 30, 2009, there were \$150,000 and \$-0- advances outstanding, respectively.

NOTE F - CAPITAL STOCK

The Company is authorized to issue 410,000,000 shares of common stock, with a \$0.001 par value per share as the result of a shareholder meeting conducted on May 16, 2007. In addition, the Company is authorized to issue 10,000,000 shares of preferred stock with a \$0.001 par value per share. As of December 31, 2009, there were 275,204,070 shares of common stock issued and outstanding.

NOTE G - STOCK OPTIONS AND WARRANTS

Warrants

The following table summarizes the changes in warrants outstanding and the related prices for the shares of the Company's common stock issued to non-employees of the Company. These warrants were granted in lieu of cash

compensation for services performed or financing expenses in connection with the sale of the Company's common stock.

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APPLIED DNA SCIENCES, INC.  
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## NOTE G — STOCK OPTIONS AND WARRANTS (continued)

| Exercise Prices | Number Outstanding | Warrants Outstanding Remaining Contractual Life (Years) | Weighted Average Exercise Price | Weighted Average Exercisable | Exercisable Weighted Average Exercise Price |
|-----------------|--------------------|---|---------------------------------|------------------------------|---|
| \$0.06          | 2,000,000          | 4.14  | \$ 0.06                         | 2,000,000                    | \$ 0.06                                     |
| \$0.07          | 200,000            | 2.21  | \$ 0.07                         | 200,000                      | \$ 0.07                                     |
| \$0.09          | 16,400,000         | 1.67  | \$ 0.09                         | 16,400,000                   | \$ 0.09                                     |
| \$0.10          | 1,500,000          | 3.24  | \$ 0.10                         | 1,500,000                    | \$ 0.10                                     |
| \$0.50          | 27,100,000         | 1.83  | \$ 0.50                         | 27,100,000                   | \$ 0.50                                     |
| \$0.75          | 14,797,000         | 0.10  | \$ 0.75                         | 14,797,000                   | \$ 0.75                                     |
|                 | 61,997,000         |   |                                 | 61,997,000                   |   |

Transactions involving warrants are summarized as follows:

|                                   | Number of Shares | Weighted Average Price Per Share |
|-----------------------------------|------------------|----------------------------------|
| Balance, September 30, 2008       | 63,980,964       | \$ 0.46                          |
| Granted                           | 5,000,000        | 0.20                             |
| Exercised                         | —                | —                                |
| Canceled or expired               | (4,160,464)      | (0.69)                           |
| Outstanding at September 30, 2009 | 64,820,500       | \$ 0.43                          |
| Granted                           | —                | —                                |
| Exercised                         | —                | —                                |
| Canceled or expired               | (2,823,500)      | (0.60)                           |
| Balance, December 31, 2009        | 61,997,000       | \$ 0.43                          |

Aggregate intrinsic value of warrants outstanding and exercisable at December 31, 2009 was \$-0-. Aggregate intrinsic value represents the difference between the Company's closing price on the last trading day of the fiscal period, which was \$0.06 as of December 31, 2009, and the exercise price multiplied by the number of warrants outstanding.

## Employee Stock Options

On January 26, 2005, the Board of Directors, and on February 15, 2005, the holders of a majority of the outstanding common stock of the Company approved the 2005 Incentive Stock Plan and authorized the issuance of 16,000,000 shares of common stock as stock awards and stock options thereunder. The 2005 Incentive Stock Plan is designed to retain directors, executives, and selected employees and consultants by rewarding them for making contributions to our success with an award of options to purchase shares of our common stock.



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## NOTE G — STOCK OPTIONS AND WARRANTS (continued)

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

| Options Outstanding |                    |   | Options Exercisable             |                    |                                 |
|---------------------|--------------------|---|---------------------------------|--------------------|---------------------------------|
| Exercise Prices     | Number Outstanding | Weighted Average Remaining Contractual Life (Years) | Weighted Average Exercise Price | Number Exercisable | Weighted Average Exercise Price |
| \$ 0.07             | 1,000,000          | 4.40  | \$ 0.07                         | —                  | \$ 0.07                         |
| 0.09                | 1,500,000          | 1.92  | 0.09                            | 1,500,000          | 0.09                            |
| 0.11                | 36,420,000         | 3.72  | 0.11                            | 18,210,000         | 0.11                            |
|                     | 38,920,000         |   | \$ 0.11                         | 19,710,000         | \$ 0.11                         |

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

|                                   | Number of Shares | Weighted Average Exercise Price Per Share |
|-----------------------------------|------------------|---|
| Outstanding at October 1, 2008    | 5,660,000        | \$ 0.47                                   |
| Granted                           | 38,670,000       | 0.11                                      |
| Exercised                         | (1,125,000)      | 0.10                                      |
| Cancelled or expired              | (4,285,000)      | 0.60                                      |
| Outstanding at September 30, 2009 | 38,920,000       | \$ 0.11                                   |
| Granted                           | -                | -   |
| Exercised                         | -                | -   |
| Canceled or expired               | -                | -   |
| Outstanding at December 31, 2009  | 38,920,000       | \$ 0.11                                   |

Aggregate intrinsic value of options outstanding and exercisable at December 31, 2009 was \$-0-. Aggregate intrinsic value represents the difference between the Company's closing price on the last trading day of the fiscal period, which was \$0.06 as of December 31, 2009, and the exercise price multiplied by the number of options outstanding.

The Company recorded \$296,844 as stock compensation expense for the three month period ended December 31, 2009 for the vesting portion of all employee options outstanding.



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NOTE H- COMMITMENTS AND CONTINGENCIES

The Company leases office space under operating lease in Stony Brook, New York for its corporate use, expiring in October 2010. In November 2005, the Company vacated the Los Angeles facility to relocated to the new Stony Brook New York address. Total lease rental expenses for the three month periods ended December 31, 2009 and 2008, was \$20,275 and \$18,638, respectively.

Employment and Consulting Agreements

The Company has consulting agreement with an outside contractor, who is also a Company stockholder. The agreement is generally month to month. The Company recorded \$25,000 of consulting expenses for the three month period ended December 31, 2009 related to this agreement.

Litigation

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

Intervex, Inc. v. Applied DNA Sciences, Inc. (Supreme Court of the State of New York Index No.08-601219):

Intervex, Inc., or Intervex, the plaintiff, filed a complaint on or about April 23, 2008 related to a claim for breach of contract. In March 2005, the Company entered into a consulting agreement with Intervex, which provided for, among other things, a payment of \$6,000 per month for a period of 24 months, or an aggregate of \$144,000. In addition, the consulting agreement provided for the issuance by the Company to Intervex of a five-year warrant to purchase 250,000 shares of the Company's common stock with an exercise price of \$.75. Intervex asserts that the Company owes them 17 payments of \$6,000, or an aggregate of \$102,000, plus accrued interest thereon, and a warrant to purchase 250,000 shares of the Company's common stock. The Company has counterclaimed for compensatory and punitive damages, restitution, attorneys' fees and costs, interest and other relief the court deems proper. The Company filed a motion for summary judgment and Intervex filed a cross-motion for summary judgment. Oral arguments were heard on January 28, 2010 on both motions. This matter is in the early stages of discovery. We intend to vigorously defend against the claims asserted against us.



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NOTE H- COMMITMENTS AND CONTINGENCIES (continued)

Matters Voluntarily Reported to the SEC and Securities Act Violations

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

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

NOTE I - FAIR VALUE MEASUREMENT

The Company adopted the provisions of ASC 825-10 on October 1, 2008. ASC 825-10 defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of nonperformance. ASC 825-10 establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 825-10 establishes three levels of inputs that may be used to measure fair value:

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NOTE I —FAIR VALUE MEASUREMENT (continued)

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs to the valuation methodology that are significant to the measurement of fair value of assets or liabilities.

To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement is disclosed and is determined based on the lowest level input that is significant to the fair value measurement.

Upon adoption of ASC 825-10, there was no cumulative effect adjustment to the beginning retained earnings and no impact on the consolidated financial statements.

The carrying value of the Company's cash and cash equivalents, accounts receivable, accounts payable, short-term borrowings (including convertible notes payable), and other current assets and liabilities approximate fair value because of their short-term maturity. All other significant financial assets, financial liabilities and equity instruments of the Company are either recognized or disclosed in the consolidated financial statements together with other information relevant for making a reasonable assessment of future cash flows, interest rate risk and credit risk. Where practicable the fair values of financial assets and financial liabilities have been determined and disclosed; otherwise only available information pertinent to fair value has been disclosed.

The following table sets forth the Company's short and long-term investments as of December 31, 2009 which are measured at fair value on a recurring basis by level within the fair value hierarchy. As required by ASC 825-10, these are classified based on the lowest level of input that is significant to the fair value measurement:

|         | Quoted<br>Prices in<br>Active<br>Markets<br>for<br>Identical<br>Instruments<br>Level 1 | Significant<br>Other<br>Observable<br>Inputs<br>Level 2 | Significant<br>Unobservable<br>Inputs<br>Level 3 | Assets and<br>liabilities at<br>fair Value |
|---------|--|---|--|--|
| Assets: |  |   |  |  |
| Cash    | \$ 6,022   | \$ -  | \$ -   | \$ 6,022                                   |

Liabilities:

|                           |    |   |             |    |   |              |
|---------------------------|----|---|-------------|----|---|--------------|
| Convertible notes payable | \$ | - | \$2,808,747 | \$ | - | \$ 2,808,747 |
|---------------------------|----|---|-------------|----|---|--------------|

APPLIED DNA SCIENCES, INC.  
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NOTE J - GOING CONCERN

The accompanying unaudited condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the accompanying unaudited condensed consolidated financial statements during the three month period ended December 31, 2009, the Company incurred a loss of \$1,808,008. Additionally, the Company has a negative working capital of \$3,943,075 and \$2,913,857 as of December 31, 2009 and September 30, 2009, respectively. These factors among others may indicate that the Company will be unable to continue as a going concern for a reasonable period of time.

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

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

NOTE K – SUBSEQUENT EVENTS

In accordance with FASB ASC 855, "Subsequent Events," the Company has evaluated subsequent events through the date of filing, February 11, 2010.

10% Secured Convertible Promissory Notes dated January 7, 2010

On January 7, 2010, the Company issued a \$50,000 convertible promissory note due January 7, 2011 with interest at 10% per annum due upon maturity. The note is convertible at any time prior to maturity, at the holder's option, into shares of our common stock at a price equal to the greater of (i) 50% of the average price of our common stock for the ten trading days prior to the date of the notice of conversion or (ii) at \$0.052877384 per share, which is equal to a 20% discount to the average volume, weighted average price of our common stock for the ten trading days prior to issuance. At maturity, the note, including any accrued and unpaid interest, is automatically convertible at \$0.052877384 per share. The Company has granted the noteholder a security interest in all the Company's assets.

Item 2. - Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with our unaudited Condensed Consolidated Financial Statements and Notes thereto, included elsewhere within this report. The Quarterly Report contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act, including statements using terminology such as “can”, “may”, “believe”, “designated to”, “will”, “expect”, “plan”, “anticipate”, “potential” or “continue”, or the negative thereof or other comparable terminology regarding beliefs, plans, expectations or intentions regarding the future. You should read statements that contain these words carefully because they:

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

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

#### Introduction

We are a provider of botanical-DNA based security and authentication solutions that can help protect products, brands and intellectual property of companies, governments and consumers from theft, counterfeiting, fraud and diversion. SigNature® DNA and BioMaterial™ Genotyping, our principal anti-counterfeiting and product authentication solutions, can be used in numerous industries, including cash-in-transit (transport and storage of banknotes), textiles and apparel, identity cards and other secure documents, pharmaceuticals, wine, and luxury consumer goods.

**SigNature DNA.** We use the DNA of plants to manufacture highly customized and encrypted botanical DNA markers, or SigNature DNA Markers, which we believe are virtually impossible to replicate. We have embedded SigNature DNA Markers into a range of our customers' products, including various inks, dyes, textile treatments, thermal ribbon, thread, varnishes and adhesives. These items can then be tested for the presence of SigNature DNA Markers through an instant field detection or a forensic level authentication. Our SigNature DNA solution provides a secure, accurate and cost-effective means for users to incorporate our SigNature DNA Markers in, and then quickly and reliably authenticate and identify, a broad range of items, such as recovered banknotes, branded textiles and apparel products, pharmaceuticals and cosmetic products, identity cards and other secure documents, digital media, artwork and collectibles and fine wine. 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.

**BioMaterial GenoTyping.** Our BioMaterial GenoTyping solution refers to the development of genetic assays to distinguish between varieties or strains of biomaterials, such as cotton, wool, tobacco, fermented beverages, natural drugs and foods, that contain their own source DNA. We have developed two proprietary genetic tests (FiberTyping™ and PimaTyping™) to track American Pima cotton from the field to finished garments. These genetic assays provide the cotton industry with what we believe to be the first authentication tools that can be applied throughout the U.S. and worldwide cotton industry from cotton growers, mills, wholesalers, distributors, manufacturers and retailers through trade groups and government agencies.



In 2009, we discontinued our BioActive Ingredients program, which we began in 2007. We developed BioActive Ingredients for personal care products, such as skin care products, based on the biofermentation expertise developed during the manufacturing of DNA for our SigNature DNA and BioMaterial Genotyping solutions, and we have decided to focus our business on these security and authentication solutions.

## Plan of Operations

### General

To date, our operations have produced insignificant revenues. We have continued to incur expenses and have limited sources of liquidity. We expect to generate revenues principally from sales of our SigNature Program, and BioMaterial Genotyping. We are currently attempting to develop business in the following target markets: cash-in-transit, textile and apparel authentication, secure documents, pharmaceuticals, consumer products, fine wine, art and collectibles, and digital and recording media. We intend to pursue both domestic and international sales opportunities in each of these vertical markets. We currently have sufficient funds to conduct our operations until approximately March 2010.

### Critical Accounting Policies

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

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

The accounting policies identified as critical are as follows:

- Revenue recognition;
- Allowance for doubtful accounts; and
- Fair value of intangible asset.

## Revenue Recognition

Revenues are derived from research, development, qualification and production testing for certain commercial products.

Revenue from fixed price testing contracts is generally recorded upon completion of the contracts, which are generally short-term, or upon completion of identifiable contractual tasks. At the time we enter into a contract that includes multiple tasks, we estimate the amount of actual labor and other costs that will be required to complete each task based on historical experience. Revenues are recognized which provide for a profit margin relative to the testing performed. Revenue relative to each task and from contracts which are time and materials based is recorded as effort is expended. Billings in excess of amounts earned are deferred. Any anticipated losses on contracts are charged to income when identified. To the extent management does not accurately forecast the level of effort required to complete a contract, or individual tasks within a contract, and we are unable to negotiate additional billings with a customer for cost over-runs, we may incur losses on individual contracts. All selling, general and administrative costs are treated as period costs and expensed as incurred.

For revenue from product sales, we recognize revenue in accordance with Accounting Standards Codification subtopic 605-10, Revenue Recognition (“ASC 605-10”). ASC 605-10 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the selling price is fixed and determinable; and (4) collectability is reasonably assured. Determination of criteria (3) and (4) are based on management’s judgments regarding the fixed nature of the selling prices of the products delivered and the collectability of those amounts. Provisions for discounts and rebates to customers, estimated returns and allowances, and other adjustments are provided for in the same period the related sales are recorded. We defer any revenue for which the product has not been delivered or is subject to refund until such time that we and the customer jointly determine that the product has been delivered or no refund will be required.

ASC 605-10 incorporates Accounting Standards Codification subtopic 605-25, Multiple-Element Arrangements (“ASC 605-25”). ASC 605-25 addresses accounting for arrangements that may involve the delivery or performance of multiple products, services and/or rights to use assets. The effect of implementing ASC 605-25 on our financial position and results of operations was not significant.

## Allowance for Uncollectible Receivables

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of customers to make required payments. We use a combination of write-off history, aging analysis and any specific known troubled accounts in determining the allowance. If the financial condition of customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances could be required.

## Fair Value of Intangible Assets

We have adopted Accounting Standards Codification subtopic 360-10, Property, Plant and Equipment (“ASC 360-10”). The Statement requires that long-lived assets and certain identifiable intangibles held and used by us be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Events relating to recoverability may include significant unfavorable changes in business conditions, recurring losses, or a forecasted inability to achieve break-even operating results over an extended period.



We evaluate the recoverability of long-lived assets annually or more often if events and circumstances warrant. Should impairment in value be indicated, the carrying value of intangible assets will be adjusted, based on estimates of future discounted cash flows resulting from the use and ultimate disposition of the asset. ASC 360-10 also requires assets to be disposed of be reported at the lower of the carrying amount or the fair value less costs to sell.

#### Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenue and expenses during the reporting period. Actual results could differ from those estimates.

#### Comparison of Results of Operations for the Three Months Ended December 31, 2009 and 2008

##### Revenues

For the three months ended December 31, 2009, we generated \$72,715 in revenues from operations, principally from the sales of Authentication Services and sales of our Signature DNA, and our cost of sales for the three months ended December 31, 2009 was \$14,434, netting us a gross profit of \$58,281. For the three months ended December 31, 2008, we generated \$146,575 in revenues from operations and our cost of sales for the three months ended December 31, 2009 was \$43,741, netting us a gross profit of \$102,834. The decrease in sales for the three months ended December 31, 2009 compared to the three months ended December 31, 2009, was primarily caused by the general economic slowdown, especially in the BioActive ingredients market.

##### Costs and Expenses

##### Selling, General and Administrative

Selling, general and administrative expenses decreased from \$2,764,009 for the three months ended December 31, 2008 to \$1,542,135 for the three months ended December 31, 2009. The decrease of \$1,221,874, or 44.2%, is primarily attributable to the fair value of vested options granted to officers and employees in 2008, net with a decrease in cost incurred in connection with professional services.

##### Research and Development

Research and development expenses decreased from \$62,529 for the three months ended December 31, 2008 to \$6,148 for the three months ended December 31, 2009. The decrease of \$56,381 is attributed to less research and development activity needed with current operations.

##### Depreciation and Amortization

In the three months ended December 31, 2009, depreciation and amortization decreased by \$15,538 from \$108,984 for the three months ended December 31, 2008 to \$93,446 for the three months ended December 31, 2009. The decrease is attributable to the aging of our property and equipment.

#### Total Operating Expenses

Total operating expenses decreased to \$1,641,729 for the three months ended December 31, 2009 from \$2,935,522 for the three months ended December 31, 2008, or a decrease of \$1,293,793 primarily attributable to the fair value of vested options granted to officers and employees in 2008 and less R&D expenditures, net with a decrease in costs incurred in connection with professional services.

#### Interest Expenses

Interest expense for the three months ended December 31, 2009 decreased by \$258,569 to \$224,260 from \$482,829 for the three months ended December 31, 2008. The decrease in interest expense was due to lower borrowing costs during the year 2009.

#### Net Income (Loss)

Net loss for the three months ended December 31, 2009 decreased to \$1,808,008 from a net loss of \$3,316,014 or the three months ended December 31, 2008 primarily attributable to factors described above.

## Liquidity and Capital Resources

Our liquidity needs consist of our working capital requirements, indebtedness payments and research and development expenditure funding. Historically, we have financed our operations through the sale of equity and convertible debt as well as borrowings from various credit sources. In fiscal 2009, and in prior fiscal years, we have been relying in part on cash infusions from our President, Chairman and Chief Executive Officer, James A. Hayward, in order to fund our operations. During fiscal 2009, Dr. Hayward provided \$1,500,000 in new loans. Curtailment of cash investments by Dr. Hayward could harm our cash availability and our ability to fund our operations, including our ability to meet our payroll and accounts payable obligations.

As of December 31, 2009, we had a working capital deficit of \$3,943,075. For the three months ended December 31, 2009, we generated a net cash flow deficit from operating activities of \$586,785 consisting primarily of year to date loss of \$1,808,008. Non cash adjustments included \$297,905 in depreciation and amortization charges and \$649,721 for equity based compensation. Additionally, we had a net decrease in assets of \$58,770 and a net increase in current liabilities of \$214,827. Cash provided by financing activities for the three months ended December 31, 2009 totaled \$379,500 consisting of proceeds from the issuance of convertible debt, net of the capitalized financing costs and related party advances.

We expect capital expenditures to be less than \$200,000 in fiscal 2010. Our primary investments will be in laboratory equipment to support prototyping and our authentication services.

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

While we have raised capital to meet our working capital and financing needs in the past, additional financing is required within the next three months in order to meet our current and projected cash flow deficits from operations and development. We have sufficient funds to conduct our operations until approximately March 2010. There can be no assurance that financing will be available in amounts or on terms acceptable to us, if at all.

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

Our registered independent certified public accountants have stated in their report dated December 23, 2009, that we have incurred operating losses in the last two years, and that we are dependent upon management's ability to develop profitable operations and raise additional capital. These factors among others may raise substantial doubt about our ability to continue as a going concern.

## Recent Debt and Equity Financing Transactions

### Fiscal 2009

During the year ended September 30, 2009, we issued and sold an aggregate principal amount of \$1,500,000 in secured convertible promissory notes bearing interest at 10% per annum and warrants to purchase an aggregate of 1,300,000 shares of our common stock to James A. Hayward, our President, Chairman, Chief Executive Officer and a director. For more information related to the secured convertible promissory notes and notes issued and sold to Dr. Hayward, please see “Item 13—Certain Relationships and Related Transactions, and Director Independence.”

In addition, during the year ended September 30, 2009, we sold an aggregate principal amount of \$1,230,000 in secured convertible promissory notes bearing interest at 10% per annum to “accredited investors,” as defined in regulations promulgated under the Securities Act. The promissory notes and accrued but unpaid interest thereon automatically convert one year after issuance at a conversion price equal to a discount to the average volume, weighted average price of our common stock for the ten trading days prior to issuance, and are convertible into shares of our common stock at the option of the holder at any time prior to such automatic conversion at a price equal to the greater of (i) 50% of the average price of our common stock for the ten trading days prior to the date of the notice of conversion and (ii) the automatic conversion price. In addition, any time prior to conversion, we have the irrevocable right to repay the unpaid principal and accrued but unpaid interest under the notes on three days notice. The promissory notes bear interest at the rate of 10% per annum and are due and payable in full on the one year anniversary of their issuance. The warrants are exercisable for cash or on a cashless basis for a period of four years commencing one year after issuance at a price of \$0.50 per share. Each warrant may be redeemed at our option at a redemption price of \$0.01 upon the earlier of (i) three years after the issuance, and (ii) the date our common stock has traded on The Over the Counter Bulletin Board at or above \$1.00 per share for 20 consecutive trading days.

### Fiscal 2010 (through January 31, 2010)

Since October 1, 2009, we issued and sold an aggregate principal amount of \$320,000 in secured convertible promissory notes bearing interest at 10% per annum to “accredited investors,” as defined in regulations promulgated under the Securities Act. The promissory notes and accrued but unpaid interest thereon automatically convert one year after issuance at a conversion price equal to a discount to the average volume, weighted average price of our common stock for the ten trading days prior to issuance, and are convertible into shares of our common stock at the option of the holder at any time prior to such automatic conversion at a price equal to the greater of (i) 50% of the average price of our common stock for the ten trading days prior to the date of the notice of conversion and (ii) the automatic conversion price. In addition, any time prior to conversion, we have the irrevocable right to repay the unpaid principal and accrued but unpaid interest under the notes on three days notice. The promissory notes bear interest at the rate of 10% per annum and are due and payable in full on the one year anniversary of their issuance.

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

We need to seek additional capital to sustain or expand our prototype and sample manufacturing, and sales and marketing activities, and to otherwise continue our business operations beyond February 2010. We have no commitments for any future funding, and may not be able to obtain additional financing or grants on terms acceptable to us, if at all, in the future. If we are unable to obtain additional capital this would restrict our ability to grow and may require us to curtail or discontinue our business operations. Additionally, while a reduction in our business operations may prolong our ability to operate, that reduction would harm our ability to implement our business strategy. If we can obtain any equity financing, it may involve substantial dilution to our then existing stockholders.

Additional investments are being sought, but we cannot guarantee that we will be able to obtain such investments. Financing transactions may include the issuance of equity or debt securities, obtaining credit facilities, or other financing mechanisms. However, the trading price of our common stock and the downturn in the U.S. stock and debt markets have made it more difficult to obtain financing through the issuance of equity or debt securities. In addition, we may not have sufficient authorized shares of Common Stock under our certificate of incorporation to raise additional funds through the issuance of equity or convertible debt securities. Even if we are able to raise the funds required, it is possible that we could incur unexpected costs and expenses, fail to collect significant amounts owed to us, or experience unexpected cash requirements that would force us to seek alternative financing. Further, if we issue additional equity or debt securities, stockholders may experience additional dilution or the new equity securities may have rights, preferences or privileges senior to those of existing holders of our common stock. If additional financing is not available or is not available on acceptable terms, we will have to curtail our operations.

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

#### Product Research and Development

We anticipate spending approximately \$150,000 for product research and development activities during the next twelve months.

#### Acquisition of Plant and Equipment and Other Assets

We do not anticipate the sale of any material property, plant or equipment during the next 12 months. We do anticipate spending approximately \$50,000 on the acquisition of leasehold improvements during the next 12 months. We believe our current leased space as well as the facility from which we lease space has adequate capacity to manage our growth, if any, over the next 2 to 3 years.

#### Number of Employees

We currently have 13 full-time employees and two part-time employees, including two in management, nine in operations, three in sales and marketing and one in investor relations. We expect to increase its staffing dedicated to sales, product prototyping, manufacturing of DNA markers and forensic authentication services. Expenses related to travel, marketing, salaries, and general overhead will be increased as necessary to support our growth in revenue. In order for us to attract and retain quality personnel, we anticipate we will have to offer competitive salaries to future employees. We anticipate that it may become desirable to add additional full and or part time employees to discharge certain critical functions during the next 12 months. This projected increase in personnel is dependent upon our ability to generate revenues and obtain sources of financing. There is no guarantee that we will be successful in raising the funds required or generating revenues sufficient to fund the projected increase in the number of employees. As we continue to expand, we will incur additional costs for personnel.

#### Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

#### Inflation

The effect of inflation on our revenue and operating results was not significant.

#### Going Concern

The accompanying unaudited condensed consolidated financial statements included in this filing have been prepared in conformity with generally accepted accounting principles in the United States of America that contemplate our continuance as a going concern. Our auditors, in their report dated December 23, 2009, have expressed substantial doubt about our ability to continue as going concern. Our cash position may be inadequate to pay all of the costs associated with the testing, production and marketing of our products. Management intends to use borrowings and the sale of equity or convertible debt to mitigate the effects of its cash position, however no assurance can be given that debt or equity financing, if and when required will be available. The accompanying unaudited condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets and classification of liabilities that might be necessary should we be unable to continue existence.

#### Item 3. - Quantitative and Qualitative Disclosures About Market Risk.

The Company is a smaller reporting company as defined by Rule 12b-2 under the Exchange Act and is not required to provide the information required under this item.

#### Item 4T. - Controls and Procedures.

##### Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q, we conducted an evaluation, under the supervision and with the participation of our management, including our principal executive and principal financial officers, of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on the evaluation of these disclosure controls and procedures, and in light of the material weaknesses previously found in our internal controls, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective.



## Changes in Internal Control over Financial Reporting

During the fiscal quarter ended December 31, 2009, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## Part II - Other Information

### Item 1 - Legal Proceedings

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

*Intervex, Inc. v. Applied DNA Sciences, Inc.* (Supreme Court of the State of New York Index No.08-601219):

Intervex, Inc., or Intervex, the plaintiff, filed a complaint on or about April 23, 2008 related to a claim for breach of contract. In March 2005, we entered into a consulting agreement with Intervex, which provided for, among other things, a payment of \$6,000 per month for a period of 24 months, or an aggregate of \$144,000. In addition, the consulting agreement provided for the issuance by us to Intervex of a five-year warrant to purchase 250,000 shares of our common stock with an exercise price of \$.75. Intervex asserts that we owe it 17 payments of \$6,000, or an aggregate of \$102,000, plus accrued interest thereon, and a warrant to purchase 250,000 shares of our common stock. We have counterclaimed for compensatory and punitive damages, restitution, attorneys' fees and costs, interest and other relief the court deems proper. We filed a motion for summary judgment and Intervex filed a cross-motion for summary judgment. Oral arguments were heard on January 28, 2010 on both motions. This matter is in the early stages of discovery. We intend to vigorously defend against the claims asserted against us.

### Item 1A - Risk Factors

There are many risks and uncertainties that can affect our future business, financial performance or share price. In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended September 30, 2009. Below are new or updated risk factors from those appearing in our Annual Report on Form 10-K. In addition to the other information set forth in this report, you should carefully consider the following factors, which could materially affect our business, financial condition or future results. The risks described below are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.



## Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds

On October 14, 2009, we issued and sold an aggregate of \$270,000 principal amount secured promissory notes bearing interest at a rate of 10% per annum to “accredited investors,” as defined in regulations promulgated under the Securities Act of 1933, as amended. The promissory notes and accrued but unpaid interest thereon shall automatically convert into shares of our common stock on October 14, 2010 at a conversion price of \$0.092674218 per share, which is equal to a 20% discount to the average volume, weighted average price of our common stock for the ten trading days prior to issuance, and are convertible into shares of our common stock at the option of the noteholders at any time prior to such automatic conversion at a price equal to the greater of (i) 50% of the average price of our common stock for the ten trading days prior to the date of the notice of conversion and (ii) the Automatic Conversion Price. In addition, any time prior to conversion, we have the irrevocable right to repay the unpaid principal and accrued but unpaid interest under the promissory notes on three days written notice (during which period the holders can elect to convert the promissory notes). The promissory notes bear interest at the rate of 10% per annum and are due and payable in full on October 14, 2010. Until the principal and accrued but unpaid interest under the promissory notes are paid in full, or converted into shares of our common stock, the promissory notes will be secured by a security interest in all of our assets. Arjent Services LLC, a registered broker dealer firm, (the “Placement Agent”), acted as our placement agent. In connection with the sale of promissory notes, we paid the Placement Agent commissions and discounts aggregating \$40,500. We claim an exemption from the registration requirements of the Securities Act, for the private placement of the promissory notes pursuant to Regulation D of the Securities Act because each of the promissory notes was made in a sale by the issuer not involving a public offering.

On January 7, 2010, we issued and sold a \$50,000 principal amount secured promissory note bearing interest at a rate of 10% per annum to Glenn A. Little. The promissory note and accrued but unpaid interest thereon shall automatically convert into shares of our common stock on January 7, 2011 at a conversion price of \$0.052877384 per share, which is equal to a 20% discount to the average volume, weighted average price of our common stock for the ten trading days prior to issuance, and is convertible into shares of our common stock at the option of the noteholder at any time prior to such automatic conversion at a price equal to the greater of (i) 50% of the average price of our common stock for the ten trading days prior to the date of the notice of conversion and (ii) the automatic conversion price. In addition, any time prior to conversion, we have the irrevocable right to repay the unpaid principal and accrued but unpaid interest under the notes on three days written notice (during which period the holder can elect to convert the note). The promissory note bears interest at the rate of 10% per annum and is due and payable in full on January 7, 2011. Until the principal and accrued but unpaid interest under the promissory note are paid in full, or converted into shares of our common stock, the promissory note will be secured by a security interest in all of our assets. We issued the securities to Glenn A. Little in a private placement exempt from registration pursuant to Regulation D of the Securities Act of 1933, as amended.

For additional information concerning our sales of unregistered securities during the period covered by this report and subsequent to the period covered by this report, please refer to Note D and Note K, respectively, to our Unaudited Condensed Consolidated Financial Statements in Part I, Item 1 of this report, which are incorporated herein by reference.

## Item 3 - Defaults on Senior Securities

None.

## Item 4 - Submission of Matters to a Vote of Security Holders

As a company that reports under Section 15(d) of the Securities Exchange Act, we are not subject to the proxy rules of Section 14. In accordance with Delaware law and pursuant to our bylaws, we sought the approval of the matters

described below through the solicitation of proxies. Our annual meeting of stockholders was held on December 14, 2009. At the meeting, the stockholders:

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- (1) voted to reelect the existing members of the board of directors, James A. Hayward, Yacov Shamash, and Sanford R. Simon, each for a one-year term or until their successors are duly elected and qualified;
- (2) to ratify the appointment of RBSM LLP as our independent registered public accounting firm for the fiscal year ending September 30, 2009.

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

| MATTER  | FOR         | AGAINST/<br>WITHHELD | ABSTAINED |
|---|-------------|----------------------|-----------|
| (1) Election of Directors:<br>James A. Hayward;<br>Yacov Shamash; and<br>Sanford R. Simon.  | 189,642,040 | 1,305,170            |           |
|   | 189,470,236 | 1,476,974            |           |
|   | 189,419,657 | 1,527,563            |           |
| (2) Ratification of the appointment of RBSM LLP as our independent registered public accounting firm for the fiscal year ending September 30, 2009. | 189,805,651 | 1,044,273            | 97,286    |

Item 5 - Other Information

None

Item 6 – Exhibits

- 10.1\*# Authentication Mark Agreement, dated December 14, 2009 by and between Applied DNA Sciences, Inc. and Nissha Printing Co., Ltd.
- 10.2\*# Authentication Mark Agreement, dated December 21, 2009 by and between Applied DNA Sciences, Inc. and \*\*\*
- 31.1\* Certification of Chief Executive Officer pursuant to Rule 13a-14 and Rule 15d-14(a), promulgated under the Securities and Exchange Act of 1934, as amended
- 31.2\* Certification of Chief Financial Officer pursuant to Rule 13a-14 and Rule 15d 14(a), promulgated under the Securities and Exchange Act of 1934, as amended
- 32.1\* Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer)
- 32.2\* Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Financial Officer)

\* Filed herewith.

# A request for confidentiality has been filed for certain portions of the indicated document. Confidential portions have been omitted and filed separately with the Securities and Exchange Commission as required by Rule 24b-2 promulgated under the Securities Exchange Act of 1934.

Signatures

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

Applied DNA Sciences, Inc.

Dated: February 11, 2010

/s/ James A. Hayward, Ph. D.  
James A. Hayward, Ph. D.  
Chief Executive Officer  
(Duly authorized officer)

Dated: February 11, 2010

/s/ Kurt H. Jensen  
Kurt H. Jensen  
Chief Financial Officer  
(Duly authorized officer and  
principal financial officer)