APPLIED DNA SCIENCES INC
Form 10-Q
August 14, 2009

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

FORM 10-Q

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

For the quarterly period ended June 30, 2009

OR

o 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.

x Yes o 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).

o Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or 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 o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

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

o Yes x No

As of August 13, 2009, the registrant had 274,891,570 shares of common stock outstanding.

Applied DNA Sciences, Inc.

Form 10-Q for the Quarter Ended June 30, 2009

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Part I

Item 1 - Financial Statements

APPLIED DNA SCIENCES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2009 (unaudited)	September 30, 2008
ASSETS		
Current assets:		
Cash	$ 17,372	$ 136,405
Restricted Cash	—	—
Accounts Receivable	16,425	75,150
Prepaid expenses	322,800	83,333
Total current assets	356,597	294,888
Property, plant and equipment-net of accumulated depreciation of $191,645 and $147,132, respectively	19,217	63,730
Other assets:		
Deposits	8,322	8,322
Capitalized finance costs-net of accumulated amortization of $585,940 and $464,274, respectively	74,060	113,226
Intangible assets:		
Patents, net of accumulated amortization of $33,851 and $31,762, respectively (Note B)	406	2,494
Intellectual property, net of accumulated amortization and write off of $8,339,526 and $8,066,682, respectively (Note B)	1,091,374	1,364,217
Total Assets	$ 1,549,976	$ 1,846,877
LIABILITIES AND DEFICIENCY IN STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities (Note C)	$ 940,692	$ 12,821,171
Convertible notes payable, net of unamortized discount of $420,720 and $486,726, respectively (Note D)	1,529,280	3,063,274
Total current liabilities	2,469,972	15,884,445
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- and 60,000 issued and outstanding as of June 30, 2009 and September 30, 2008	—	—
Common stock, par value $0.001 per share; 410,000,000 shares authorized; 261,888,747 and 205,359,605 issued and outstanding as of June 30, 2009 and	261,889	205,359

September 30, 2008, respectively		
Additional paid in capital	140,803,386	133,133,354
Accumulated deficit	(141,985,271)	(147,376,281)
Total deficiency in stockholders' equity	(919,996)	(14,037,568)
Total Liabilities and Deficiency in Stockholders' Equity	$ 1,549,976	$ 1,846,877

See the accompanying notes to the unaudited condensed consolidated financial statements

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2009	2008	2009	2008
Sales	$ 22,925	$ 252,691	$ 234,170	$ 583,595
Cost of sales	(2,521)	(50,489)	(54,856)	(124,493)
Gross Profit	20,404	202,202	179,314	459,102
Operating expenses:				
Selling, general and administrative	982,945	951,828	5,430,490	3,365,880
Research and development	28,306	19,816	131,695	112,042
Depreciation and amortization	104,818	109,555	319,445	324,603
Total operating expenses	1,116,069	1,081,199	5,881,630	3,802,525
NET LOSS FROM OPERATIONS	(1,095,665)	(878,997)	(5,702,316)	(3,343,423)
Other income (Note C)	—	—	12,023,888	—
Interest expense, net	(234,940)	(649,722)	(929,991)	(1,643,727)
Net income (loss) before provision for income taxes	(1,330,605)	(1,528,719)	5,391,581	(4,987,150)
Income taxes (benefit)	75	—	572	—
NET INCOME (LOSS)	$ (1,330,680)	$ (1,528,719)	$ 5,391,009	$ (4,987,150)
Net income (loss) per share-basic	$ (0.01)	$ (0.01)	$ 0.02	$ (0.03)
Net income (loss) per share-diluted	$ (0.01)	$ (0.01)	$ 0.02	$ (0.03)
Weighted average shares outstanding-				
Basic	261,343,763	192,749,058	245,162,159	188,818,049
Diluted	261,343,763	192,749,058	291,705,369	188,818,049

See the accompanying notes to the unaudited condensed consolidated financial statements

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

	Nine months ended June 30, 2009	2008
Cash flows from operating activities:		
Net income (loss)	$ 5,391,009	$ (4,987,150)
Adjustments to reconcile net loss to net used in operating activities:		
Depreciation and amortization	319,445	324,603
Reversal of accrued penalty charges	(12,023,888)	—
Fair value of vested options issued to officers, directors and employees	2,451,677	—
Fair value of warrants issued in exchange for services rendered	217,865	—
Amortization of capitalized financing costs	121,666	321,587
Amortization of debt discount attributable to convertible debentures	796,932	1,375,876
Common stock issued in exchange for services rendered	186,094	1,040,000
Change in assets and liabilities:		
Decrease (increase) in accounts receivable	58,725	(89,483)
Decrease (increase) in prepaid expenses and deposits	160,533	(8,083)
Increase (decrease) in accounts payable and accrued liabilities	483,408	(387,383)
Increase in deferred expenses	—	60,000
Net cash used in operating activities	(1,836,533)	(2,350,033)
Cash flows from investing activities:		
Decrease in restricted cash held in escrow	—	399,920
Acquisition (disposal) of property and equipment, net	—	(22,500)
Net cash provided by (used in) investing activities	—	377,420
Cash flows from financing activities:		
Net proceeds from issuance of convertible notes	1,717,500	2,532,580
Net cash provided by financing activities	1,717,500	2,532,580
Net (decrease) increase in cash and cash equivalents	(119,033)	559,967
Cash and cash equivalents at beginning of period	136,405	25,185
Cash and cash equivalents at end of period	$ 17,372	$ 585,152
Supplemental Disclosures of Cash Flow Information:		
Cash paid during period for interest	$ —	$ —
Cash paid during period for taxes	$ —	$ —
Non-cash transactions:		
Fair value of vested options issued to officers, directors and employees	$ 2,451,677	$ —
Fair value of warrants issued for services	$ 217,865	$ —
Common stock issued for services	$ 586,094	$ 1,040,000
Common stock issued in exchange for previously incurred debt	$ 3,740,000	$ 600,275

See the accompanying notes to the unaudited condensed consolidated financial statements

APPLIED DNA SCIENCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009
(unaudited)

NOTE A — SUMMARY OF ACCOUNTING POLICIES

General

The accompanying interim condensed consolidated balance sheet as of June 30, 2009, the condensed consolidated statements of losses for the three months and six months ended June 30, 2009 and 2008, and the condensed consolidated statements of cash flows for the six months ended June 30, 2009 and 2008 are unaudited and have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and applicable rules and regulations of the SEC for interim financial reporting. Accordingly, certain information and footnote disclosures have been condensed or omitted pursuant to SEC rules that would ordinarily be required by GAAP for complete financial statements.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine month periods ended June 30, 2009 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2009. The unaudited interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto for the year ended September 30, 2008 included in the Company's Annual Report on Form 10-K filed with the SEC on December 16, 2008.

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 June 30, 2009, the Company has accumulated losses of $141,985,271.

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

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.

Cash Equivalents

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

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APPLIED DNA SCIENCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009
(unaudited)

NOTE A — SUMMARY OF ACCOUNTING POLICIES (continued)

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 June 30, 2009, the Company has deemed that no allowance for doubtful accounts was necessary.

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.

For revenue from product sales, the Company recognizes revenue in accordance with Staff Accounting Bulletin No. 104, REVENUE RECOGNITION ("SAB104"), which superseded Staff Accounting Bulletin No. 101, REVENUE RECOGNITION IN FINANCIAL STATEMENTS ("SAB101"). SAB 101 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the selling price is fixed and determinable; and (4) 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. The Company defers any revenue for which the product has not been delivered or is subject to refund until such time that the Company and the customer jointly determine that the product has been delivered or no refund will be required. At June 30, 2009, the Company's deferred revenue was $-0-.

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

APPLIED DNA SCIENCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009
(unaudited)

NOTE A — SUMMARY OF ACCOUNTING POLICIES (continued)

Income Taxes

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

In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109 (“FIN 48”). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, treatment of interest and penalties, and disclosure of such positions. Effective October 1, 2007, the Company adopted the provisions of FIN 48, as required. As a result of implementing FIN 48, there has been no adjustment to the Company’s consolidated financial statements and the adoption of FIN 48 did not have a material effect on the Company’s consolidated financial statements for the nine month period ended June 30, 2009.

Property and Equipment

Property and equipment are stated at cost and depreciated over their estimated useful lives of 3 to 5 years using the straight line method. At June 30, 2009 and September 30, 2008 property and equipment consist of:

	June 30, 2009 (unaudited)	September 30, 2008
Computer equipment	$ 27,404	$ 27,404
Lab equipment	77,473	77,473
Furniture	105,985	105,985
	210,862	210,862
Accumulated Depreciation	(191,645)	(147,132)
Net	$ 19,217	$ 63,730

Impairment of Long-Lived Assets

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

APPLIED DNA SCIENCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009
(unaudited)

NOTE A — SUMMARY OF ACCOUNTING POLICIES (continued)

Comprehensive Income

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

Segment Information

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

Net loss per share

In accordance with SFAS No. 128, "Earnings per Share", the basic loss per share is computed by dividing loss available to common shareholders by the weighted average number of common shares outstanding. Diluted loss per share is computed similar to basic loss per share except that the denominator is increased to include the number of additional common shares that would have been outstanding as if the potential common shares had been issued and if the additional common shares were dilutive. For the three months and nine months ended June 30, 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 346,727,437 and 291,705,369 for the three months ended June 30, 2009, respectively and 258,132,892 and 254,201,883 for the three and nine months ended June 30, 2008, respectively.

Stock Based Compensation

On December 16, 2004, the FASB issued SFAS No. 123(R) (revised 2004), "Share-Based Payment" which is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation". SFAS No. 123(R) supersedes APB opinion No. 25, "Accounting for Stock Issued to Employees", and amends SFAS No. 95, "Statement of Cash Flows". Generally, the approach in SFAS No. 123(R) is similar to the approach described in SFAS No. 123. However, SFAS No. 123(R) 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 effective date for our application of SFAS No. 123(R) is September 1, 2006. Management elected to apply SFAS No. 123(R) commencing on that date.

As more fully described in Note G below, the Company granted an aggregate of 38,670,000 and -0- stock options during the nine month periods ended June 30, 2009 and 2008, respectively to employees and directors of the Company under a non-qualified employee stock option plan.

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APPLIED DNA SCIENCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009
(unaudited)

NOTE A — SUMMARY OF ACCOUNTING POLICIES (continued)

As of June 30, 2009, 44,330,000 non-qualified employee stock options were outstanding with 24,495,000 shares vested and exercisable.

Concentrations of Credit Risk

Financial instruments and related items, which potentially subject the Company to concentrations of credit risk, consist primarily of cash, cash equivalents and trade receivables. The Company places its cash and temporary cash investments with high credit quality institutions. At times, such investments may be in excess of the FDIC insurance limit. The Company periodically reviews its trade receivables in determining its allowance for doubtful accounts. At June 30, 2009, allowance for doubtful receivable was $0.

Research and Development

The Company accounts for research and development costs in accordance with the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 2 ("SFAS 2"), "Accounting for Research and Development Costs. Under SFAS 2, all research and development costs must be charged to expense as incurred. Accordingly, internal research and development costs are expensed as incurred. Third-party research and 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 $28,306 and $131,695 for the three and nine month periods ended June 30, 2009, respectively and $19,816 and $112,042 for the three and nine month periods ended June 30, 2008, respectively.

Reclassifications

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

Advertising

The Company follows the policy of charging the costs of advertising to expense as incurred. The Company charged to operations $797 and $36,347 for the three and nine month periods ended June 30, 2009, respectively and $35,643 and $47,007 as advertising costs for the three and nine month periods ended June 30, 2008, respectively.

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.

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APPLIED DNA SCIENCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009
(unaudited)

NOTE A — SUMMARY OF ACCOUNTING POLICIES (continued)

Fair Values

In the first quarter of fiscal year 2008, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements" (SFAS No. 157) as amended by FASB Statement of Position (FSP) FAS 157-1 and FSP FAS 157-2. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and enhances fair value measurement disclosure. FSP FAS 157-2 delays, until the first quarter of fiscal year 2009, the effective date for SFAS 157 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). SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company adopted SFAS No. 157 effective January 1, 2008 for all financial assets and liabilities as required.

SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. SFAS 157 also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels.

There are three general valuation techniques that may be used to measure fair value, as described below:

Market approach – Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Prices may be indicated by pricing guides, sale transactions, market trades, or other sources;

Cost approach – Based on the amount that currently would be required to replace the service capacity of an asset (replacement cost); and

Income approach – Uses valuation techniques to convert future amounts to a single present amount based on current market expectations about the future amounts (includes present value techniques and option-pricing models). Net present value is an income approach where a stream of expected cash flows is discounted at an appropriate market interest rate.

Financial assets and liabilities are valued using either level 1 inputs based on unadjusted quoted market prices within active markets or using level 2 inputs based primarily on quoted prices for similar assets or liabilities in active or inactive markets. For certain debt, fair value is based on present value techniques using inputs derived principally or corroborated from market data. Using level 3 inputs using management's assumptions about the assumptions market participants would utilize in pricing the asset or liability. In the Company's case, this entailed assumptions used in pricing models for note discounts. Valuation techniques utilized to determine fair value are consistently applied.

The following table sets forth the Company's assets and liabilities as of June 30, 2009 and September 30, 2008 which are measured at fair value on a recurring basis by level within the fair value hierarchy. As required by SFAS No. 157, these are classified based on the lowest level of input that is significant to the fair value measurement:

	Level 1	Level 2	Level 3	Assets at fair value
Convertible notes payable-net, June 30, 2009	$ —	$ 1,529,280	$ —	$ 1,529,280
Convertible notes payable-net, September 30, 2008	$ —	$ 3,063,274	$ —	$ 3,063,274

APPLIED DNA SCIENCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009
(unaudited)

NOTE A — SUMMARY OF ACCOUNTING POLICIES (continued)

Recent accounting pronouncements

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB No. 51" ("SFAS No. 160"), which will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity within the consolidated balance sheets. SFAS No. 160 is effective as of the beginning of the first fiscal year beginning on or after December 15, 2008. Earlier adoption is prohibited. The Company does not expect the adoption of SFAS No. 160 in 2009 will have a material effect on its consolidated financial position, results of operations or cash flows.

In December 2007, the FASB ratified the consensus in Emerging Issues Task Force (EITF) Issue No. 07-1, "Accounting for Collaborative Arrangements" (EITF 07-1). EITF 07-1 defines collaborative arrangements and requires collaborators to present the result of activities for which they act as the principal on a gross basis and report any payments received from (made to) the other collaborators based on other applicable authoritative accounting literature, and in the absence of other applicable authoritative literature, on a reasonable, rational and consistent accounting policy is to be elected. EITF 07-1 also provides for disclosures regarding the nature and purpose of the arrangement, the entity's rights and obligations, the accounting policy for the arrangement and the income statement classification and amounts arising from the agreement.

EITF 07-1 will be effective for fiscal years beginning after December 15, 2008, which will be the Company's fiscal year 2009, and will be applied as a change in accounting principle retrospectively for all collaborative arrangements existing as of the effective date. The Company does not expect the adoption of EITF 07-1in 2009 will have a material effect on its consolidated financial position, results of operations or cash flows.

In June 2008, the FASB ratified the consensus on Emerging Issues Task Force (EITF) Issue 07-5, "Determining whether an Instrument (or Embedded Feature) is indexed to an Entity's Own Stock." This issue addresses whether an instrument (or an embedded feature) is indexed to an entity's own stock, which is the first part of the scope exception in paragraph 11(a) of SFAS No. 133, for purposes of determining whether the instrument should be classified as an equity instrument or accounted for as a derivative instrument. The provisions of EITF Issue No. 07-5 are effective for financial statements issued for fiscal years beginning after December 15, 2008 and will be applied retrospectively through a cumulative effect adjustment to retained earnings for outstanding instruments as of that date. The Company is assessing the potential effect of the adoption of EITF 07-05 on its consolidated financial position, results of operations or cash flows.

In March 2008, the FASB" issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities - an amendment to FASB Statement No. 133" ("SFAS No. 161"). SFAS No. 161 is intended to improve financial standards for derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. Entities are required to provide enhanced disclosures about: (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations; and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. It is effective for financial statements issued for fiscal years beginning after November 15, 2008, with early adoption encouraged. The Company does not expect the adoption of SFAS No. 161 will have a material effect

on its consolidated financial position, results of operations or cash flows.

APPLIED DNA SCIENCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009
(unaudited)

NOTE A — SUMMARY OF ACCOUNTING POLICIES (continued)

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles" ("SFAS No. 162"). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (the GAAP hierarchy). SFAS No. 162 will become effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles." The Company does not expect the adoption of SFAS No. 162 will have a material effect on its consolidated financial position, results of operations or cash flows.

In May 2008, the FASB issued FSP Accounting Principles Board ("APB") 14-1 "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)" ("FSP APB 14-1"). FSP APB 14-1 requires the issuer of certain convertible debt instruments that may be settled in cash (or other assets) on conversion to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer's non-convertible debt borrowing rate. FSP APB 14-1 is effective for fiscal years beginning after December 15, 2008 on a retroactive basis. The Company does not expect the adoption of FSP APB 14-1 will have a material effect on its consolidated financial position, results of operations or cash flows.

In May 2008, the FASB issued FASB Statement No. 163, "Accounting for Financial Guarantee Insurance Contracts", which clarifies how FASB Statement No. 60, "Accounting and Reporting by Insurance Enterprises", applies to financial guarantee insurance contracts issued by insurance enterprises. The standard is effective for financial statements issued for fiscal years beginning after December 15, 2008, including interim periods in that year. The Company does not expect the adoption of SFAS 163 will have a material effect on its consolidated financial position, results of operations or cash flows.

In June 2008, the FASB issued FSP Emerging Issues Task Force (EITF) No. 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities." Under the FSP, unvested share-based payment awards that contain rights to receive non-forfeitable dividends (whether paid or unpaid) are participating securities, and should be included in the two-class method of computing EPS. The FSP is effective for fiscal years beginning after December 15, 2008, and interim periods within those years. The Company does not expect the adoption of FSP EITF No. 03-6-1 will have a material effect on its consolidated financial position, results of operations or cash flows.

In October 2008, the FASB issued FSP SFAS No. 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active." This position clarifies the application of SFAS No. 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. It also reaffirms the notion of fair value as an exit price as of the measurement date. This position was effective upon issuance, including prior periods for which financial statements have not been issued. The adoption had no impact on the Company's consolidated financial statements.

APPLIED DNA SCIENCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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NOTE A — SUMMARY OF ACCOUNTING POLICIES (continued)

In December 2008, the FASB issued FSP 132(R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets", which is effective for fiscal years ending after December 15, 2009. FSP 132(R)-1 requires disclosures about fair value measurements of plan assets that would be similar to the disclosures about fair value measurements required by SFAS 157. The Company is assessing the potential effect of the adoption of FSP 132(R)-1 on its consolidated financial position or results of operations.

In December 2008, the FASB issued FSP SFAS 140-4 and FIN 46(R)-8, "Disclosures about Transfers of Financial Assets and Interests in Variable Interest Entities." The FSP requires extensive additional disclosure by public entities with continuing involvement in transfers of financial assets to special-purpose entities and with variable interest entities (VIEs), including sponsors that have a variable interest in a VIE. This FSP became effective for the first reporting period ending after December 15, 2008. The Company does not expect the adoption will have a material impact on the Company's consolidated financial statements.

In January 2009, the FASB issued Financial Statement of Position ("FSP") Issue No. EITF 99-20-1, "Amendments to the Impairment Guidance of EITF Issue No. 99-20" ("FSP EITF No. 99-20-1"). FSP EITF No. 99-20-1 amends the impairment guidance in EITF Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests that Continue to be Held by a Transferor in Securitized Financial Assets" to achieve more consistent determination of whether an other-than-temporary impairment has occurred. The Company adopted FSP EITF No. 99-20-1 and it did not have a material impact on the consolidated financial statements.

In April 2009, the Financial Accounting Standards Board ("FASB") issued the following new accounting standards:

FASB Staff Position FAS No. 157-4, Determining Whether a Market Is Not Active and a Transaction Is Not Distressed, ("FSP FAS No. 157-4") provides guidelines for making fair value measurements more consistent with the principles presented in SFAS No. 157. FSP FAS No. 157-4 provides additional authoritative guidance in determining whether a market is active or inactive and whether a transaction is distressed. It is applicable to all assets and liabilities (i.e., financial and non-financial) and will require enhanced disclosures.

FASB Staff Positions FAS No. 115-2, FAS 124-2, and EITF No. 99-20-2, Recognition and Presentation of Other-Than-Temporary Impairments, ("FSP FAS No. 115-2, FAS No. 124-2, and EITF No. 99-20-2") provides additional guidance to provide greater clarity about the credit and noncredit component of another-than-temporary impairment event and to more effectively communicate when an other-than-temporary impairment event has occurred. This FSP applies to debt securities.

FASB Staff Position FAS No. 107-1 and APB No. 28-1, Interim Disclosures about Fair Value of Financial Instruments, ("FSP FAS No. 107-1 and APB No. 28-1") amends FASB Statement No. 107, Disclosures about Fair Value of Financial Instruments, to require disclosures about fair value of financial instruments in interim as well as in annual financial statements. This FSP also amends APB Opinion No. 28, Interim Financial Reporting, to require those disclosures in all interim financial statements.

These standards are effective for periods ending after June 15, 2009. The Company is evaluating the impact that these standards will have on its consolidated financial statements.

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APPLIED DNA SCIENCES, INC.
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NOTE A — SUMMARY OF ACCOUNTING POLICIES (continued)

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the AICPA, and the SEC did not, or are not believed by management to, have a material impact on the Company's present or future consolidated financial statements.

NOTE B - ACQUISITION OF INTANGIBLE ASSETS

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

The identifiable intangible assets acquired and their carrying value at June 30, 2009 is:

Trade secrets and developed technologies (Weighted average life of 7 years)	$ 9,430,900
Patents (Weighted average life of 5 years)	34,257
Total Amortized identifiable intangible assets-Gross carrying value:	$ 9,465,157
Less:	
Accumulated Amortization	(2,718,366)
Impairment (See below)	(5,655,011)
Net:	$ 1,091,780
Residual value:	$ 0

During the year ended September 30, 2006 the Company's 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 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 and nine months ended June 30, 2009 was $91,294 and $274,932, respectively; $93,482 and $277,787 for the three and nine months ended June 30, 2008, respectively.

APPLIED DNA SCIENCES, INC.
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NOTE C – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2009 are as follows:

Accounts payable	$ 751,605
Accrued consulting fees	102,500
Accrued interest payable	74,411
Accrued salaries payable	12,176
Total	$ 940,692

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 June 30, 2009, the Company concluded that the payment of liquidated damages under these commitments were 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 nine months ended June 30, 2009.

NOTE D – PRIVATE PLACEMENT OF CONVERTIBLE NOTES

Convertible notes payable as of June 30, 2009 are as follows:

Secured Convertible Note Payable dated July 31, 2008, net of unamortized debt discount of $9,761 (see below)	140,239
Secured Convertible Note Payable dated October 21, 2008, net of unamortized debt discount of $93,558 (see below)	406,442
Secured Convertible Note Payable dated January 29, 2009, net of unamortized debt discount of $41,708 (see below)	108,292
Secured Convertible Note Payable dated February 27, 2009, net of unamortized debt discount of $37,066 (see below)	162,934
Secured Convertible Note Payable dated March 30, 2009, net of unamortized debt discount of $72,480 (see below)	177,520
Secured Convertible Note Payable dated April 14, 2009, net of unamortized debt discount of $97,833 (see	202,167

below)	
Secured Convertible Note Payable dated June 22, 2009, net of unamortized debt discount of $43,725 (see below)	206,275
Secured Convertible Note Payable dated June 30, 2009, net of unamortized debt discount of $24,589 (see below)	125,411
	1,529,280
Less current portion	(1,529,280)
	$ —

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

10% Secured Convertible Promissory Note dated July 31, 2008

On July 31, 2008, the Company issued a $150,000 convertible promissory note due July 31, 2009 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 $0.0549483 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 $0.0549483 per share. The Company has granted the noteholder a security interest in all the Company's assets.

In accordance with Emerging Issues Task Force Issue 98-5, Accounting for Convertible Securities with a Beneficial Conversion Features or Contingently Adjustable Conversion Ratios ("EITF 98-5"), the Company recognized an embedded beneficial conversion feature present in the 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 $91,655 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 Emerging Issues Task Force Issue 00-27, Application of Issue No. 98-5 to Certain Convertible Instruments ("EITF – 0027"), the Company recognized the value attributable to the warrants in the amount of $23,268 to additional paid in capital and a discount against the note. The Company valued the warrants in accordance with EITF 00-27 using the Black-Scholes pricing model and the following assumptions: contractual terms of 5 years, an average risk free interest rate of 3.259%, a dividend yield of 0%, and volatility of 152.00%. 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 ($91,655) and warrants ($23,268) to debt discount, aggregating $114,923, which will be amortized to interest expense over the term of the Notes. Amortization of $28,652 and $85,956 was recorded for the three and nine month periods ended June 30, 2009, respectively.

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 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.

APPLIED DNA SCIENCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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NOTE D – PRIVATE PLACEMENT OF CONVERTIBLE NOTES (continued)

In accordance with Emerging Issues Task Force Issue 98-5, Accounting for Convertible Securities with a Beneficial Conversion Features or Contingently Adjustable Conversion Ratios ("EITF 98-5"), the Company recognized an embedded beneficial conversion feature present in the 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.

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 Emerging Issues Task Force Issue 00-27, Application of Issue No. 98-5 to Certain Convertible Instruments ("EITF – 0027"), the Company recognized the value attributable to the warrants in the amount of $34,104 to additional paid in capital and a discount against the note. The Company valued the warrants in accordance with EITF 00-27 using the Black-Scholes pricing model and the following assumptions: contractual terms of 5 years, an average risk free interest rate of 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 $78,108 and $219,733 was recorded for the three and nine month periods ended June 30, 2009, 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 Emerging Issues Task Force Issue 98-5, Accounting for Convertible Securities with a Beneficial Conversion Features or Contingently Adjustable Conversion Ratios ("EITF 98-5"), the Company recognized an embedded beneficial conversion feature present in the 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.

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APPLIED DNA SCIENCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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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 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 Emerging Issues Task Force Issue 00-27, Application of Issue No. 98-5 to Certain Convertible Instruments ("EITF – 0027"), the Company recognized the value attributable to the warrants in the amount of $9,498 to additional paid in capital and a discount against the note. The Company valued the warrants in accordance with EITF 00-27 using the Black-Scholes pricing model and the following assumptions: contractual terms of 5 years, an average risk free interest rate of 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 $17,819 and $29,764 was recorded for the three and nine month periods ended June 30, 2009, respectively.

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 Emerging Issues Task Force Issue 98-5, Accounting for Convertible Securities with a Beneficial Conversion Features or Contingently Adjustable Conversion Ratios ("EITF 98-5"), the Company recognized an embedded beneficial conversion feature present in the 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 $13,938 and $18,839 was recorded for the three and nine month periods ended June 30, 2009, respectively.

APPLIED DNA SCIENCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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NOTE D – PRIVATE PLACEMENT OF CONVERTIBLE NOTES (continued)

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 Emerging Issues Task Force Issue 98-5, Accounting for Convertible Securities with a Beneficial Conversion Features or Contingently Adjustable Conversion Ratios ("EITF 98-5"), the Company recognized an embedded beneficial conversion feature present in the 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 $24,160 and $24,425 was recorded for the three and nine month periods ended June 30, 2009, respectively.

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 Emerging Issues Task Force Issue 98-5, Accounting for Convertible Securities with a Beneficial Conversion Features or Contingently Adjustable Conversion Ratios ("EITF 98-5"), the Company recognized an embedded beneficial conversion feature present in the 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.

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APPLIED DNA SCIENCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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NOTE D – PRIVATE PLACEMENT OF CONVERTIBLE NOTES (continued)

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 $26,157 was recorded for the three and nine month periods ended June 30, 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 Emerging Issues Task Force Issue 98-5, Accounting for Convertible Securities with a Beneficial Conversion Features or Contingently Adjustable Conversion Ratios ("EITF 98-5"), the Company recognized an embedded beneficial conversion feature present in the 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 $980 was recorded for the three and nine month periods ended June 30, 2009.

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.

APPLIED DNA SCIENCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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NOTE D – PRIVATE PLACEMENT OF CONVERTIBLE NOTES (continued)

In accordance with Emerging Issues Task Force Issue 98-5, Accounting for Convertible Securities with a Beneficial Conversion Features or Contingently Adjustable Conversion Ratios ("EITF 98-5"), the Company recognized an embedded beneficial conversion feature present in the 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 $68 was recorded for the three and nine month periods ended June 30, 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. No formal repayment terms or arrangements existed. There were no advances due at June 30, 2009.

During the nine months ended June 30, 2009, the Company's Chief Executive Officer, or entities controlled by the Company's Chief Executive Officer, had advanced funds to the Company in the amount of $1,250,000 in the form of convertible promissory notes for working capital purposes (see Note D).

During the three and nine month periods ended June 30, 2009, the Company had sales of $-0- and $5,000 (or 0% and 2.4% of total sales), respectively, to an entity of which the Company's Chief Executive Officer is the President.

During the three and nine month periods ended June 30, 2008, the Company had sales of $-0-, respectively, to an entity of which the Company's Chief Executive Officer is the President.

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. In addition, the Company is authorized to issue 10,000,000 shares of preferred stock with a $0.001 par value per share.

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

Preferred and Common Stock Transactions During the Nine Months Ended June 30, 2009:

During the nine months ended June 30, 2009, the Company issued 43,427,574 shares of common stock in exchange for convertible notes and accrued interest.

In January 2009, the Company issued 10,000,000 shares of common stock for consulting services. The Company valued the shares issued at approximately $0.04 per share, which represents the fair value of the shares at the date of issuance.

In February 2009, the Company issued 101,568 shares of common stock in pursuant to a settlement agreement. The Company valued the shares issued at approximately $0.06 per share or $6,094, which represents the fair value of the shares at the date of issuance.

In March 2009, the Company issued 3,000,000 shares of common stock in settlement of litigation. The Company valued the shares issued at approximately $0.06 per share or $180,000, which represents the fair value of the shares at the date of issuance.

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.

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	4.64	$ 0.06	2,000,000	$ 0.06
$ 0.07	200,000	0.71	$ 0.07	200,000	$ 0.07
$ 0.09	16,400,000	2.17	$ 0.09	16,400,000	$ 0.09
$ 0.10	1,605,464	3.50	$ 0.10	1,605,464	$ 0.10
$ 0.50	27,150,000	2.36	$ 0.50	24,850,000	$ 0.50
$ 0.60	6,623,500	.21	$ 0.60	6,623,500	$ 0.60
$ 0.75	14,797,000	0.60	$ 0.75	14,797,000	$ 0.75
	68,775,964			66,475,964	

APPLIED DNA SCIENCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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NOTE H- COMMITMENTS AND CONTINGENCIES

Transactions involving warrants are summarized as follows:

	Number of Shares	Weighted Average Price Per Share
Balance, September 30, 2007	82,434,464	$ 0.43
Granted	7,200,000	0.50
Exercised	(2,500,000)	(0.09)
Canceled or expired	(23,153,500)	(0.41)
Outstanding at September 30, 2008	63,980,964	$ 0.46
Granted	5,000,000	0.20
Exercised	—	—
Canceled or expired	(205,000)	(0.69)
Balance, June 30, 2009	68,775,964	$ 0.44

During the nine month period ended June 30, 2009, the Company issued an aggregate of 1,300,000 warrants in conjunction with convertible debt (see Note D).

On February 20, 2009, the Company issued warrants to purchase 2,000,000 shares of its common stock at $0.06 per share for four years in consideration for services. The fair value of $121,303 was charged to current period operations. The fair value of the warrants were determined using the Black-Scholes Option Pricing method based on the following assumptions: Dividend yield: -0-%; volatility: 203.14%; risk free rate: 1.81%, expected term: 4 years.

On March 16, 2009, the Company issued warrants to purchase 200,000 shares of its common stock at $0.07 per share for three years in consideration for services. The fair value of $6,464 was charged to current period operations. The fair value of the warrants were determined using the Black-Scholes Option Pricing method based on the following assumptions: Dividend yield: -0-%; volatility: 170.72%; risk free rate: 0.69%, expected term: 3 years.

On March 27, 2009, the Company issued a warrant to purchase 1,500,000 shares of its common stock at $0.10 per share for four years in settlement of litigation. The fair value of $90,098 was charged to current period operations. The fair value of the warrants were determined using the Black-Scholes Option Pricing method based on the following assumptions: Dividend yield: -0-%; volatility: 207.01%; risk free rate: 1.79%, expected term: 4 years.

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NOTE H- COMMITMENTS AND CONTINGENCIES (continued)

Employee Stock Options

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

Options Outstanding			Options Exercisable		
Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 0.68	3,660,000	0.25	$ 0.68	3,660,000	$ 0.68
0.07	1,000,000	4.65	0.07	—	0.07
0.09	2,000,000	2.17	0.09	2,000,000	0.09
0.11	37,670,000	3.97	0.11	18,835,000	0.11
	44,330,000		$ 0.16	24,495,000	$ 0.13

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

	Number of Shares	Weighted Average Exercise Price Per Share
Outstanding at October 1, 2007	5,660,000	$ 0.47
Granted	—	—
Exercised	—	—
Cancelled or expired	—	—
Outstanding at September 30, 2008	5,660,000	$ 0.47
Granted	38,670,000	0.11
Exercised	—	—
Canceled or expired	—	—
Outstanding at June 30, 2009	44,330,000	$ 0.16

Amendment to the 2005 Incentive Stock Plan and Recent Equity Award Grants

On June 17, 2008, the Board of Directors adopted an amendment to the 2005 Incentive Stock Plan that will increase the total number of shares of common stock issuable pursuant to the 2005 Incentive Stock Plan from a total of

20,000,000 shares to a total of 100,000,000 shares, subsequently approved by the stockholders at the 2008 annual meeting of stockholders in December 2008. In connection with the share increase amendment, the Board of Directors granted options to purchase a total of 37,670,000 shares to certain key employees and non-employee directors under the 2005 Incentive Stock Plan, including 17,000,000, 5,000,000 and 7,000,000 to James A. Hayward, Kurt H. Jensen and Ming-Hwa Liang, respectively, and 500,000 to each of Yacov Shamash and Sanford R. Simon. The options granted to our key employees and non-employee directors vested with respect to 25% of the underlying shares on the date of grant and the remaining will vest ratably each anniversary thereafter until fully vested on the third anniversary of the date of grant. The fair value was determined using the Black Scholes Option Pricing Model, with the following assumptions utilized: Dividend yield: -0-%, volatility: 208.48%; risk free rate: 3.66%; expected life: 5 years.

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NOTE H- COMMITMENTS AND CONTINGENCIES (continued)

On February 27, 2009, the Company granted 1,000,000 options to purchase its common stock at $0.07 over five years with vesting at 25% per year beginning at the first anniversary. The fair value, determined using the Black Scholes Option Pricing Model with the following assumptions utilized: Dividend yield: -0-%, volatility: 205.19%; risk free rate: 1.84%; expected life: 5 years.

The Company recorded $303,559 and $2,451,677 as stock compensation expense for the three and nine month periods ended June 30, 2009 for the vesting portion of all employee options outstanding.

Operating Lease Commitments

The Company leases office space under an operating lease in Stony Brook, New York for its corporate use, expiring in October 2009. In November 2005, the Company vacated the Los Angeles facility to relocate to the Stony Brook, New York address.

Total lease rental expense for the three and nine month periods ended on June 30, 2009 was $20,275 and $60,279, respectively.

Total lease rental expense for the three and nine month periods ended on June 30, 2008 was $20,387 and $57,808, respectively.

Employment and Consulting Agreements

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

Litigation

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.

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NOTE H- COMMITMENTS AND CONTINGENCIES (continued)

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 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 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 intend to vigorously defend against the claims asserted against us.

Matters Voluntarily Reported to the SEC and Securities Act Violations

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

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

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

NOTE I - 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 nine month period ended June 30, 2009, the Company incurred a net loss from operations of $5,702,316. 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 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 J – SUBSEQUENT EVENTS

On July 30, 2009, the Company issued 10,000,000 shares of its common stock in connection with consulting services.

On July 31, 2009, the Company issued an aggregate of 3,002,823 in settlement of convertible debentures and accrued interest.

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

The following discussion should be read in conjunction with our Consolidated Financial Statements and Notes thereto, included elsewhere within this report. This 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", "estimate", "potential" or "continue", 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 use the DNA of plants and innovative technologies to provide anti-counterfeiting and product authentication solutions and to manufacture ingredients for personal care products and textiles. SigNature® DNA and BioMaterial™ Genotyping, our principal anti-counterfeiting and product authentication solutions, allow users to accurately and effectively protect branded products, artwork and collectibles, fine wine, digital media, financial instruments, identity cards and other official documents. Our BioActive™ Ingredients, which are being used by our customers in personal care products, such as skin care products, and in textiles, such as intimate apparel, are custom-manufactured to address a customer's specific need.

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, 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 branded products, artwork and collectibles, cash-in-transit, fine wine, digital media, financial instruments, identity cards and other official documents. Having the ability to reliably authenticate and identify counterfeit versions of such items enables companies and governments to detect, deter, interdict and prosecute counterfeiting enterprises and individuals.

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 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.

BioActive Ingredients. Our BioActive Ingredients program began in 2007, based on the biofermentation expertise developed from our experience with the manufacture of DNA for our SigNature DNA and BioMaterial Genotyping solutions. We initially targeted potential customers in the personal care products, industry, and we developed DermalRx Hydroseal, which has been incorporated into the fabric of a new line of intimate apparel currently being test marketed by a global marketer of intimate apparel. In addition, we developed DermalRx SRC, Skin Resurfacing Complex, an ingredient designed to promote smoother more radiant skin by stimulating the skin's own exfoliation process.

Plan of Operations

General

We expect to generate revenues principally from sales of our SigNature Program, BioMaterial Genotyping and BioActive Ingredients. We are currently attempting to develop business in the following target markets: art and collectibles, cash-in-transit, fine wine, consumer products, digital recording media, pharmaceuticals, and homeland security driven programs. We intend to pursue both domestic and international sales opportunities in each of these vertical markets.

We believe that our existing capital resources will enable us to fund our operations until approximately October 2009. We believe we will be required 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 that date. 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.

Product Research and Development

We anticipate spending approximately $50,000 for product research and development activities during the next 12 months.

Acquisition of Plant and Equipment and Other Assets

We do not anticipate the sale of any material property, plant or equipment during the next 12 months. We do anticipate spending approximately $30,000 on the acquisition of leasehold improvements during the next 12 months. We believe our current leased space is adequate 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. The company expects 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.

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:

- Equity issued with registration rights;
- Revenue recognition;
- Allowance for doubtful accounts;
- Fair value of intangible assets; and
- Use of estimates.

Equity Issued with Registration Rights

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

In September 2007, we exchanged our common stock for the remaining Secured Convertible Promissory Note that contained embedded derivatives such as certain conversion features, variable interest features, call options and default provisions.

We had an accumulative accrual of $12,023,888 in liquidating damages in relationship to the previously outstanding convertible promissory notes and related warrants. During the nine months ended June 30, 2009, we determined that it was not probable that we would be obligated to pay these damages and accordingly adjusted the accrual to other income.

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.

For revenue from product sales, the Company recognizes revenue in accordance with Staff Accounting Bulletin No. 104, Revenue Recognition (“SAB104”), and Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements (“SAB101”). SAB 101 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the selling price is fixed and determinable; and (4) 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. 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.

SAB 104 incorporates Emerging Issues Task Force 00-21 (“EITF 00-21”), Multiple Deliverable Revenue Arrangements. EITF 00-21 addresses accounting for arrangements that may involve the delivery or performance of multiple products, services and/or rights to use assets. The effect of implementing EITF 00-21 on the Company’s financial position and results of operations was not significant.

Allowance for Uncollectible Receivables

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of customers to make required payments. The Company uses 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

The Company has adopted Statement of Financial Accounting Standards No. 144 (SFAS No. 144). The Statement requires that long-lived assets and certain identifiable intangibles held and used by the Company be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Events relating to recoverability may include significant unfavorable changes in business conditions, recurring losses, or a forecasted inability to achieve break-even operating results over an extended period.

The Company evaluates the recoverability of long-lived assets based upon forecasted 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. SFAS No. 144 also requires assets to be disposed of be reported at the lower of the carrying amount or the fair value less costs to sell.

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 June 30, 2009 and 2008

Revenues

For the three months ended June 30, 2009, we generated $22,925 in revenues from operations from the sales of BioMaterial Genotyping and Authentication Services, and our cost of sales for the three months ended June 30, 2009 was $2,521, netting us a gross profit of $20,404. For the three months ended June 30, 2008, we generated $252,691 in revenues from operations and our cost of sales for the three months ended June 30, 2008 was $50,489, netting us a gross profit of $202,202. The decrease in gross revenue from the three months ended June 30, 2008 to the three months ended June 30, 2009 of $229,766, or 91%, was primarily attributable to a slowdown in the economy.

Costs and Expenses

Selling, General and Administrative

Selling, general and administrative expenses increased from $951,828 for the three months ended June 30, 2008 to $982,945 for the three months ended June 30, 2009. The increase of $31,117, or 32.7%, is primarily attributable to the fair value of vested options granted to officers and employees, warrants and common stock issued in settlement of litigation and as compensation for services.

Research and Development

Research and development expenses increased from $19,816 for the three months ended June 30, 2008 to $28,306 for the three months ended June 30, 2009. The increase of $8,490 is attributed to more research and development activity related to the recent development and feasibility study agreements.

Depreciation and Amortization

In the three months ended June 30, 2009, depreciation and amortization decreased by $4,737 from $109,555 for the three months ended June 30, 2008 to $104,818 for the three months ended June 30, 2009. The decrease is attributable to the reduced depreciation/additions to our property and equipment.

Total Operating Expenses

Total operating expenses increased to $1,116,069 for the three months ended June 30, 2009 from $1,081,199 for the three months ended June 30, 2008, or an increase of $34,870, primarily attributable to equity based payments in the three months ended June 30, 2009 as compared to the same period last year.

Interest Expenses

Interest expense for the three months ended June 30, 2009 decreased by $414,782 to $234,940 from $649,722 in the same period of 2008. The decrease in interest expense was due to the conversion into common stock in 2009 of the convertible notes issued in connection with financings completed in 2008.

Net Loss

Net loss for the three months ended June 30, 2009 was $1,330,680 as compared to a net loss of $1,528,719 in the prior period primarily attributable to the factors described above, net with our increase in operating expenses.

Comparison of Results of Operations for the Nine Months Ended June 30, 2009 and 2008

Revenues

For the nine months ended June 30, 2009, we generated $234,170 in revenues from operations, principally from the sales of BioActive Ingredients, and our cost of sales for the nine months ended June 30, 2009 was $54,856, netting us a gross profit of $179,314. For the nine months ended June 30, 2008, we generated $583,595 in revenues from operations and our cost of sales for the nine months ended June 30, 2008 was $124,493, netting us a gross profit of $459,102. The decrease in gross revenue of $349,425, or 60%, was primarily attributable to a slowdown in the economy.

Costs and Expenses

Selling, General and Administrative

Selling, general and administrative expenses increased from $3,365,880 for the nine months ended June 30, 2008 to $5,430,490 for the nine months ended June 30, 2009. The increase of $2,064,610, or 61%, is primarily attributable to the fair value of vested options granted to officers and employees, warrants and common stock issued in settlement of litigation and as compensation for services.

Research and Development

Research and development expenses increased from $112,042 for the nine months ended June 30, 2008 to $131,695 for the nine months ended June 30, 2009. The increase of $19,653 is attributed to more research and development activity related to the recent development and feasibility study agreements.

Depreciation and Amortization

In the nine months ended June 30, 2009, depreciation and amortization decreased by $5,158 from $324,603 for the nine months ended June 30, 2008 to $319,445 for the nine months ended June 30, 2009. The decrease is attributable to the reduced depreciation/additions to our property and equipment.

Total Operating Expenses

Total operating expenses increased to $5,881,630 for the nine months ended June 30, 2009 from $3,802,525 for the nine months ended June 30, 2008, or an increase of $2,079,105, primarily attributable to equity based payments in the nine months ended June 30, 2009 as compared to the same period last year.

Other Income/Loss

During the nine months ended June 30, 2009, we determined that future payments of liquidated damages on previously issued notes were not probable, therefore we adjusted our accrual from $12,023,888 to $-0- resulting in a gain of $12,023,888.

Interest Expenses

Interest expense for the nine months ended June 30, 2009 decreased by $713,736 to $929,991 from $1,643,727 in the same period of 2008. The decrease in interest expense was due to the conversion into common stock in 2009 of the convertible notes issued in connection with financings completed in 2008.

Net Income (Loss)

Net income for the nine months ended June 30, 2009 was $5,391,009 as compared to a net loss of $4,987,150 in the prior period primarily attributable to our other income adjustment described above, net with our increase in operating expenses.

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.

Our registered independent certified public accountants have stated in their report dated December 15, 2008, 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.

As of June 30, 2009, we had a working capital deficit of $2,113,375. For the nine-month period ended June 30, 2009, we generated a net cash flow deficit from operating activities of $1,836,533. Net cash flow deficit from operations consist primarily of year to date income of $5,391,009, net, with a non cash accrual reduction (see other income above) of $12,023,888. Other non-cash adjustments included $1,238,043 in depreciation and amortization charges and $2,855,636 for equity based payments and compensation. Additionally, we had a net decrease in current assets of $219,258 and a net increase in current liabilities of $483,408. Cash used in investing activities was $0 for the nine months ended June 30, 2009. Cash provided by financing activities for the nine-month period ended June 30, 2009 totaled $1,717,500 consisting of proceeds from issuance of convertible debt.

Without the other income adjustment, we would have incurred a net loss of $6,632,879 in the nine months ended June 30, 2009.

We expect capital expenditures to be less than $50,000 in fiscal 2009. Our primary investments will be in laboratory equipment to support prototyping and our authentication services.

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Exploitation of potential revenue sources will be financed primarily through the sale of securities and convertible debt, 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 two 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 October 2009. From time to time, and as needed to meet accounts payable and other obligations, James A. Hayward, our Chairman, President and Chief Executive Officer, has invested in convertible promissory notes of the Company and warrants to purchase our common stock on terms similar to those offered to accredited investors at the time of his investment. 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.

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 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 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 Unites States.

We believe we may be required 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 that date. 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 could make it more difficult to obtain financing through the issuance of equity or debt securities. Even if we are able to raise the funds required, it is possible that we could incur unexpected costs and expenses, fail to collect significant amounts owed to us, or experience unexpected cash requirements that would force us to seek alternative financing. Further, if we issue additional equity or debt securities, stockholders may experience additional dilution or the new equity securities may have rights, preferences or privileges senior to those of existing holders of our common stock. If additional financing is not available or is not available on acceptable terms, we will have to curtail our operations.

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

Recent Debt and Equity Financing Transactions

Fiscal 2008

During the year ended September 30, 2008, we sold an aggregate of thirty-six units at a price of $100,000 per unit for sale to "accredited investors," as defined in regulations promulgated under the Securities Act, for aggregate gross proceeds of $3,600,000. Each unit consists of (i) a $100,000 Principal Amount 10% Secured Convertible Promissory Note and (ii) a warrant to purchase 200,000 shares of our common stock. 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 2009

On October 21, 2008, we issued and sold to James A. Hayward, our Chairman, President and Chief Executive Officer, a $500,000 principal amount secured promissory note ("October Note") bearing interest at a rate of 10% per annum and a warrant ("October Warrant") to purchase 1,000,000 shares of our common stock. The October Note and accrued but unpaid interest thereon shall automatically convert on October 21, 2009 at a conversion price of $0.026171520 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 any time prior to conversion, we have the right to prepay the October Note and accrued but unpaid interest thereon upon 3 days prior written notice (during which period the holder can elect to convert the note). The October Warrant is exercisable for a four-year period commencing on October 21, 2009, and expiring on October 20, 2013, at a price of $0.50 per share. The October Warrant may be redeemed at our option at a redemption price of $0.01 upon the earlier of (i) October 20, 2011, 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.

On January 29, 2009, we issued and sold to James A. Hayward, our Chairman, President and Chief Executive Officer, a $150,000 principal amount secured promissory note ("Hayward January Note") bearing interest at a rate of 10% per annum and a warrant ("January Warrant") to purchase 300,000 shares of our common stock. The Hayward January Note and accrued but unpaid interest thereon shall automatically convert on January 29, 2010 at a conversion price of $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, and are 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 Hayward January Note on three days written notice (during which period the holder can elect to convert the note). The Hayward January Note bears interest at the rate of 10% per annum and is due and payable in full on January 29, 2010. Until the principal and accrued but unpaid interest under the Hayward January Note are paid in full, or converted into our common stock, the Hayward January Note will be secured by a security interest in all of our assets. The Hayward January Warrant is exercisable for a four-year period

commencing on January 29, 2010, and expiring on January 28, 2014, at a price of $0.50 per share. The Hayward January Warrant may be redeemed at our option at a redemption price of $0.01 upon the earlier of (i) January 29, 2012, and (ii) the date our common stock has been quoted on The Over the Counter Bulletin Board at or above $1.00 per share for 20 consecutive trading days.

On February 27, 2009, we issued and sold a $200,000 principal amount secured promissory note ("Hayward February Note") bearing interest at a rate of 10% per annum to James A. Hayward, our Chairman, President and Chief Executive Officer. The Hayward February Note and accrued but unpaid interest thereon shall automatically convert into shares of our common stock on February 27, 2010 at a conversion price of $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, 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 Hayward February Note on three days written notice (during which period the holder can elect to convert the Hayward February Note). The Hayward February Note bears interest at the rate of 10% per annum and is due and payable in full on February 27, 2010. Until the principal and accrued but unpaid interest under the Hayward February Note are paid in full, or converted into shares of our common stock, the Hayward February Note will be secured by a security interest in all of our assets.

On March 30, 2009, we issued and sold a $250,000 principal amount secured promissory note ("Hayward March Note") bearing interest at a rate of 10% per annum to James A. Hayward, our Chairman, President and Chief Executive Officer. The Hayward March Note and accrued but unpaid interest thereon shall automatically convert into shares of our common stock on March 30, 2010 at a conversion price of $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, 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 Hayward March Note on three days written notice (during which period the holder can elect to convert the Hayward March Note). The Hayward March Note bears interest at the rate of 10% per annum and is due and payable in full on March 30, 2010. Until the principal and accrued but unpaid interest under the Hayward March Note are paid in full, or converted into shares of our common stock, the Hayward March Note will be secured by a security interest in all of our assets.

On April 14, 2009, we issued and sold an aggregate of $300,000 principal amount secured promissory notes ("April Notes") bearing interest at a rate of 10% per annum to certain accredited investors. The April Notes and accrued but unpaid interest thereon shall automatically convert into shares of our common stock on April 14, 2010 at a conversion price of $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, and is 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 April Notes on three days written notice (during which period the holders can elect to convert the April Notes). The April Notes bear interest at the rate of 10% per annum and are due and payable in full on April 14, 2010. Until the principal and accrued but unpaid interest under the April Notes are paid in full, or converted into shares of our common stock, the April Notes will be secured by a security interest in all of our assets.

On June 22, 2009, we issued and sold an aggregate of $250,000 principal amount secured promissory notes ("June Notes") bearing interest at a rate of 10% per annum to certain accredited investors. The June Notes and accrued but unpaid interest thereon shall automatically convert into shares of our common stock on June 22, 2010 at a conversion price of $0.110279774 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 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 June Notes on three days written notice (during which period the holders can elect to convert the June Notes). The June Notes bear interest at the rate of 10% per annum and are due and payable in full on June 22, 2010. Until the principal and accrued but unpaid interest under the June Notes are paid in full, or converted into shares of our common stock, the June Notes will be secured by a security interest in all of our assets.

On June 30, 2009, we issued and sold a $150,000 principal amount secured promissory note ("Hayward June Note") bearing interest at a rate of 10% per annum to James A. Hayward, our Chairman, President and Chief Executive Officer. The Hayward June Note and accrued but unpaid interest thereon shall automatically convert into shares of our common stock on June 30, 2010 at a conversion price of $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, 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 Hayward June Note on three days written notice (during which period the holder can elect to convert the Hayward June Note). The Hayward June Note bears interest at the rate of 10% per annum and is due and payable in full on June 30, 2010. Until the principal and accrued but unpaid interest under the Hayward June Note are paid in full, or converted into shares of our common stock, the Hayward June Note will be secured by a security interest in all of our assets.

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 financial statements included in this filing have been prepared in conformity with generally accepted accounting principles that contemplate our continuance as a going concern. Our registered independent certified public accountants have stated in their report dated December 15, 2008, 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. Our cash position may be inadequate to pay all of the costs associated with the testing, production and marketing of our products. Management intends to use borrowings and the sale of equity or convertible debt to mitigate the effects of its cash position, however no assurance can be given that debt or equity financing, if and when required will be available. The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets and classification of liabilities that might be necessary should we be unable to continue existence.

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 June 30, 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 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, 2008. 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.

We have a history of losses which may continue, and which may harm our ability to obtain financing and continue our operations.

We incurred net losses of $4.2 million for the year ended September 30, 2008 and $5.7 million from operations for the nine-month period ended June 30, 2009. These net losses have principally been the result of the various costs associated with our selling, general and administrative expenses as we commenced operations, acquired, developed and validated technologies, began marketing activities, and incurred interest expense on notes and warrants we issued to obtain financing. Our operations are subject to the risks and competition inherent in a company that moved from the development stage to an operating company. We may not generate sufficient revenues from operations to achieve or sustain profitability on a quarterly, annual or any other basis in the future. Our revenues and profits, if any, will depend upon various factors, including whether our existing products and services or any new products and services we develop will achieve any level of market acceptance. If we continue to incur losses, our accumulated deficit will continue to increase, which might significantly impair our ability to obtain additional financing. As a result, our business, results of operations and financial condition would be significantly harmed, and we may be required to reduce or terminate our operations.

If we are unable to obtain additional financing our business operations will be harmed or discontinued, and if we do obtain additional financing our stockholders may suffer substantial dilution.

We believe that our existing capital resources will enable us to fund our operations until approximately October 2009. We believe we will be required 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 that date. 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.

There are a large number of shares underlying our options and warrants that may be available for future sale and the sale of these shares may depress the market price of our common stock and will cause immediate and substantial dilution to our existing stockholders.

As of August 4, 2009, we had 274,891,570 shares of common stock issued and outstanding and outstanding options and warrants to purchase 113,105,964 shares of common stock. The sale of these shares may adversely affect the market price of our common stock. The issuance of shares upon exercise of options and warrants will cause immediate and substantial dilution to the interests of other stockholders since the selling stockholders may convert and sell the full amount issuable on exercise.

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

On April 14, 2009, we issued and sold an aggregate of $300,000 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 April 14, 2010 at a conversion price of $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, 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 April 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 $45,000. We claim an exemption from the registration requirements of the Securities Act for the private placement of the promissory notes pursuant to Section 4(2) of the Securities Act because the promissory notes were sold by the issuer not involving a public offering.

On June 22, 2009, we issued and sold an aggregate of $250,000 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 June 22, 2010 at a conversion price of $0.110279774 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 June 22, 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 $37,500. We claim an exemption from the registration requirements of the Securities Act for the private placement of the promissory notes pursuant to Section 4(2) of the Securities Act because the promissory notes were sold by the issuer not involving a public offering.

On June 30, 2009, we issued and sold a $150,000 principal amount secured promissory note ("Hayward June Note") bearing interest at a rate of 10% per annum to James A. Hayward, our Chairman, President and Chief Executive Officer. The Hayward June Note and accrued but unpaid interest thereon shall automatically convert into shares of our common stock on June 30, 2010 at a conversion price of $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, 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 Hayward June Note on three days written notice (during which period the holder can elect to convert the Hayward June Note). The Hayward June Note bears interest at the rate of 10% per annum and is due and payable in full on June 30, 2010. Until the principal and accrued but unpaid interest under the Hayward March Note are paid in full, or converted into shares of our common stock, the Hayward June Note will be secured by a security interest in all of our assets.

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 J, respectively, to our 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

None.

Item 5 - Other Information

None

Item 6 – Exhibits

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.

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: August 14, 2009	/s/ James A. Hayward, Ph. D. James A. Hayward, Ph. D. Chief Executive Officer (Duly authorized officer)
Dated: August 14, 2009	/s/ Kurt H. Jensen Kurt H. Jensen Chief Financial Officer (Duly authorized officer and principal financial officer)