

APPLIED DNA SCIENCES INC
Form 424B3
August 26, 2009

Filed Pursuant to Rule 424(b)(3) and 424(c)
Registration No. 333-158796

PROSPECTUS SUPPLEMENT NO. 4
(To prospectus dated May 12, 2009
and supplemented May 29, 2009, July 1, 2009 and July 9, 2009)

APPLIED DNA SCIENCES, INC.
3,000,000 SHARES OF
COMMON STOCK

We are supplementing our Prospectus dated May 12, 2009, and supplemented May 29, 2009, July 1, 2009 and July 9, 2009, relating to the resale by a certain selling stockholder of up to 3,000,000 shares of common stock (the "Prospectus"), to provide information contained in our Quarterly Report on Form 10-Q filed with the Commission on August 14, 2009 and our Current Report on Form 8-K filed with the Commission on August 25, 2009, copies of which are attached hereto and incorporated herein by reference.

You should read this Prospectus Supplement No. 4 in conjunction with the Prospectus which is required to be delivered with all supplements thereto. This Prospectus Supplement No. 4 is qualified by reference to the Prospectus, except to the extent the information in this supplement updates or supersedes the information contained in the Prospectus.

The purchase of the securities offered through this prospectus involves a high degree of risk. See section entitled "Risk Factors" beginning on page 4 of the Prospectus and page 39 of the Form 10-Q attached hereto.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The Date of This Prospectus Supplement Is August 26, 2009.

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

FORM 10-Q

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

For the quarterly period ended June 30, 2009

OR

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

For the transition period from to

Commission File Number: 33-17387

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

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

11790
(Zip Code)

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

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

Yes No

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

Yes No

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

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

Large accelerated filer
Non-accelerated filer
(Do not check if a smaller reporting
company)

Accelerated filer
Smaller reporting company

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

Yes No

As of 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

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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.

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.

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.

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:

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	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 07-1 in 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.

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

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.

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APPLIED DNA SCIENCES, INC.
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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.

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.
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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.

APPLIED DNA SCIENCES, INC.
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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.
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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.

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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	

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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:

Exercise Prices	Options Outstanding Number Outstanding	Weighted Average Remaining Contractual	Options Exercisable
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