APPLIED DNA SCIENCES INC
Form 10-Q
May 10, 2010

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 March 31, 2010

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 | 59-2262718 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 25 Health Sciences Drive, Suite 113 Stony Brook, New York | 11790 |
| (Address of principal executive offices) | (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 | Smaller reporting company x |

(Do not check if a smaller reporting company)

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 May 5, 2010, the registrant had 302,254,790 shares of common stock outstanding.

Applied DNA Sciences, Inc.

Form 10-Q for the Quarter Ended March 31, 2010

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Part I

Item 1 - Financial Statements

APPLIED DNA SCIENCES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

| | March 31, 2010 (unaudited) | September 30, 2009 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $98,929 | $213,307 |
| Accounts receivable | 35,626 | 47,302 |
| Prepaid expenses | 25,085 | 79,436 |
| Total current assets | 159,640 | 340,045 |
| | | |
| Property, plant and equipment-net of accumulated depreciation of $202,875 and $199,119, respectively | 7,987 | 11,743 |
| | | |
| Other assets: | | |
| Deposits | 8,322 | 8,322 |
| Capitalized finance costs-net of accumulated amortization of $726,641 and $615,611, respectively | 75,859 | 146,389 |
| | | |
| Intangible assets: | | |
| Patents, net of accumulated amortization of $34,257 and $34,112, respectively (Note B) | - | 145 |
| Intellectual property, net of accumulated amortization and write off of $8,612,369 and $8,430,474, respectively (Note B) | 818,531 | 1,000,426 |
| | | |
| Total Assets | $1,070,339 | $1,507,070 |
| | | |
| LIABILITIES AND DEFICIENCY IN STOCKHOLDERS' EQUITY | | |
| | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $1,149,808 | $843,491 |
| Advances, related party (Note E) | 600,000 | - |
| Convertible notes payable, net of unamortized discount of $102,533 and $319,589, (Note D) | 2,447,467 | 2,410,411 |
| Total current liabilities | 4,197,275 | 3,253,902 |
| | | |
| Commitments and contingencies (Note H) | - | - |
| | | |
| Deficiency in Stockholders' Equity (Note F) | | |
| Preferred stock, par value $0.001 per share; 10,000,000 shares authorized; -0- issued and outstanding as of March 31, 2010 and September 30, 2009, respectively | - | - |
| Common stock, par value $0.001 per share; 410,000,000 shares authorized; 296,590,906 and 275,204,070 issued and outstanding as of March 31, 2010 and September 30, 2009, respectively | 296,591 | 275,204 |
| Additional paid in capital | 143,205,386 | 141,409,667 |
| Accumulated deficit | (146,628,913) | (143,431,703) |

| | | |
|---|---|---|
| Total deficiency in stockholders' equity | (3,126,936) | (1,746,832) |
| Total Liabilities and Deficiency in Stockholders' Equity | $1,070,339 | $1,507,070 |

See the accompanying notes to the unaudited condensed consolidated financial statements

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

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Sales | $187,275 | $64,670 | $259,990 | $211,245 |
| Cost of sales | (14,036) | (8,594) | (28,470) | (52,335) |
| Gross Profit | 173,239 | 56,076 | 231,520 | 158,910 |
| | | | | |
| Operating expenses: | | | | |
| Selling, general and administrative | 1,262,833 | 1,683,534 | 2,804,968 | 4,447,545 |
| Research and development | 20,654 | 40,860 | 26,802 | 103,389 |
| Depreciation and amortization | 92,350 | 105,645 | 185,796 | 214,627 |
| | | | | |
| Total operating expenses | 1,375,837 | 1,830,039 | 3,017,566 | 4,765,561 |
| | | | | |
| NET LOSS FROM OPERATIONS | (1,202,598) | (1,773,963) | (2,786,046) | (4,606,651) |
| | | | | |
| Other income (Note C) | - | 12,023,888 | - | 12,023,888 |
| Interest expense, net | (186,604) | (212,222) | (410,864) | (695,051) |
| | | | | |
| Net (loss) income before provision for income taxes | (1,389,202) | 10,037,703 | (3,196,910) | 6,722,186 |
| | | | | |
| Income taxes (benefit) | - | - | 300 | 497 |
| | | | | |
| NET (LOSS) INCOME | $(1,389,202) | $10,037,703 | $(3,197,210) | $6,721,689 |
| | | | | |
| Net (loss) income per share-basic | $(0.00) | $0.04 | $(0.01) | $0.03 |
| | | | | |
| Net (loss) income per share-fully diluted | $(0.00) | $0.04 | $(0.01) | $0.02 |
| | | | | |
| Weighted average shares outstanding- | | | | |
| Basic | 285,659,856 | 251,805,934 | 280,374,514 | 237,246,560 |
| | | | | |
| Fully diluted | 285,659,856 | 279,523,227 | 280,374,514 | 279,523,227 |

See the accompanying notes to the unaudited condensed consolidated financial statements

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

| | Six months ended March 31, | |
|---|---|---|
| | 2010 | 2009 |
| Cash flows from operating activities: | | |
| Net (loss) income | $(3,197,210) | $6,721,689 |
| Adjustments to reconcile net (loss) income to net used in operating activities: | | |
| Depreciation and amortization | 185,796 | 214,627 |
| Reversal of accrued penalty charges | - | (12,023,888) |
| Fair value of vested options issued to officers, directors and employees | 587,235 | 2,148,118 |
| Amortization of capitalized financing costs | 111,030 | 102,904 |
| Amortization of debt discount attributable to convertible debentures | 273,502 | 601,048 |
| Equity based compensation | 613,699 | 403,959 |
| Change in assets and liabilities: | | |
| Decrease in accounts receivable | 11,676 | 11,400 |
| Decrease in prepaid expenses and deposits | 54,351 | 146,884 |
| Increase in accounts payable and accrued liabilities | 366,043 | 451,148 |
| Net cash used in operating activities | (993,878) | (1,222,111) |
| | | |
| Cash flows from investing activities: | | |
| Increase in restricted cash held in escrow | - | (150,000) |
| Net cash used in investing activities | - | (150,000) |
| | | |
| Cash flows from financing activities: | | |
| Net proceeds from related party advances | 600,000 | - |
| Net proceeds from issuance of convertible notes | 279,500 | 1,250,000 |
| Net cash provided by financing activities | 879,500 | 1,250,000 |
| | | |
| Net decrease in cash and cash equivalents | (114,378) | (122,111) |
| Cash and cash equivalents at beginning of period | 213,307 | 136,405 |
| Cash and cash equivalents at end of period | $98,929 | $14,294 |
| | | |
| Supplemental Disclosures of Cash Flow Information: | | |
| Cash paid during the period for interest | $- | $- |
| Cash paid during the period for taxes | $- | $- |
| | | |
| Non-cash transactions: | | |
| Common stock issued in exchange for previously incurred debt and accrued interest | $559,726 | $3,630,000 |

See the accompanying notes to the unaudited condensed consolidated financial statements

APPLIED DNA SCIENCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2010
(unaudited)

NOTE A — SUMMARY OF ACCOUNTING POLICIES

General

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q, and therefore, do not include all the information necessary for a fair presentation of financial position, results of operations and cash flows in conformity with generally accepted accounting principles. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six month periods ended March 31, 2010 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2010. The unaudited condensed consolidated financial statements should be read in conjunction with the consolidated September 30, 2009 financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission ("the SEC").

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 March 31, 2010, the Company has accumulated losses of $146,628,913.
The unaudited condensed consolidated financial statements include the accounts of the Company, and its wholly-owned subsidiaries Applied DNA Operations Management, Inc., APDN (B.V.I.), Inc. and Applied DNA Sciences Europe Limited. Significant inter-company transactions have been eliminated in consolidation.

Estimates

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

Revenue Recognition

Revenues are derived from research, development, qualification and production testing for certain commercial products. Revenue from fixed price testing contracts is generally recorded upon completion of the contracts, which are generally short-term, or upon completion of identifiable contractual tasks. At the time the Company enters into a contract that includes multiple tasks, the Company estimates the amount of actual labor and other costs that will be required to complete each task based on historical experience. Revenues are recognized which provide for a profit margin relative to the testing performed. Revenue relative to each task and from contracts which are time and materials based is recorded as effort is expended. Billings in excess of amounts earned are deferred. Any anticipated losses on contracts are charged to income when identified. To the extent management does not accurately forecast the

level of effort required to complete a contract, or individual tasks within a contract, and the Company is unable to negotiate additional billings with a customer for cost over-runs, the Company may incur losses on individual contracts. All selling, general and administrative costs are treated as period costs and expensed as incurred.

APPLIED DNA SCIENCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2010
(unaudited)

NOTE A — SUMMARY OF ACCOUNTING POLICIES (continued)

For revenue from product sales, the Company recognizes revenue in accordance with Accounting Standards Codification subtopic 605-10, Revenue Recognition ("ASC 605-10"). ASC 605-10 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the selling price is fixed and determinable; and (4) collectability is reasonably assured. Determination of criteria (3) and (4) are based on management's judgments regarding the fixed nature of the selling prices of the products delivered and the collectability of those amounts. Provisions for allowances and other adjustments are provided for in the same period the related sales are recorded. The Company defers any revenue for which the product has not been delivered or is subject to refund until such time that the Company and the customer jointly determine that the product has been delivered or no refund will be required. At March 31, 2010 and September 30, 2009, the Company did not record any deferred revenue for the respective periods.

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

Cash Equivalents

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

Accounts Receivable

The Company provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. The Company's estimate is based on historical collection experience and a review of the current status of trade accounts receivable. It is reasonably possible that the Company's estimate of the allowance for doubtful accounts will change. At March 31, 2010 and September 30, 2009, the Company has deemed that no allowance for doubtful accounts was necessary.

Income Taxes

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

APPLIED DNA SCIENCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2010
(unaudited)

NOTE A — SUMMARY OF ACCOUNTING POLICIES (continued)

Property and Equipment

Property and equipment are stated at cost and depreciated over their estimated useful lives of 3 to 5 years using the straight line method. At March 31, 2010 and September 30, 2009, property and equipment consist of:

| | March 31, 2010 (unaudited) | September 30, 2009 |
|---|---|---|
| Computer equipment | $ 27,404 | $ 27,404 |
| Lab equipment | 77,473 | 77,473 |
| Furniture | 105,985 | 105,985 |
| | 210,862 | 210,862 |
| Accumulated depreciation | (202,875) | (199,119) |
| Net | $ 7,987 | $ 11,743 |

Impairment of Long-Lived Assets

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

Segment Information

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

APPLIED DNA SCIENCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2010
(unaudited)

NOTE A — SUMMARY OF ACCOUNTING POLICIES (continued)

Net Loss Per Share

The Company has adopted Accounting Standards Codification subtopic 260-10, Earnings Per Share ("ASC 260-10") which specifies the computation, presentation and disclosure requirements of earnings per share information. Basic earnings per share have been calculated based upon the weighted average number of common shares outstanding. Dilutive common stock equivalents consist of shares issuable upon conversion of convertible notes and the exercise of the Company's stock options and warrants. For the three and six month periods ended March 31, 2010, 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 327,610,424 and 322,325,082 for the three and six month periods ended March 31, 2010.

Stock Based Compensation

Effective for the year beginning January 1, 2006, the Company has adopted Accounting Standards Codification subtopic 718-10, Compensation ("ASC 718-10") which requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro-forma disclosure is no longer an alternative. The Company implemented ASC 718-10 on January 1, 2006 using the modified prospective method. Stock-based compensation expense recognized under ASC 718-10 for the six month periods ended March 31, 2010 and 2009 were $587,235 and $2,148,118, respectively.

As of March 31, 2010, 38,920,000 employee stock options were outstanding with 27,619,274 shares vested and exercisable.

Concentrations

Financial instruments and related items, which potentially subject the Company to concentrations of credit risk, consist primarily of cash, cash equivalents and trade receivables. The Company places its cash and temporary cash investments with high credit quality institutions. At times, such investments may be in excess of the FDIC insurance limit.
The Company's revenues earned from sale of products and services for the six months periods ended March 31, 2010 and 2009 included an aggregate of 73% and 77%, respectively from three customers of the Company's total revenues.

Research and Development

The Company accounts for research and development costs in accordance with the Accounting Standards Codification subtopic 730-10, Research and Development ("ASC 730-10"). Under ASC 730-10, all research and development costs must be charged to expense as incurred. Accordingly, internal research and development costs are expensed as incurred. Third-party research and development costs are expensed when the contracted work has been performed or as milestone results have been achieved. Company-sponsored research and development costs related to both present and future products are expensed in the period incurred. The Company incurred research and development expenses of $20,654 and $40,860 for the three month periods ended March 31, 2010 and 2009, respectively; and $26,802 and $103,389 for the six month periods ended March 31, 2010 and 2009, respectively.

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APPLIED DNA SCIENCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2010
(unaudited)

NOTE A — SUMMARY OF ACCOUNTING POLICIES (continued)

Advertising

The Company follows the policy of charging the costs of advertising to expense as incurred. The Company charged to operations $12,400 and $25,455 for the three and six month periods ended March 31, 2010, respectively, and $21,213 and 35,550 as advertising costs for the three and six month periods March 31, 2009, respectively.

Intangible Assets

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

Fair Value of Financial Instruments

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

Effective October 1, 2008, the Company adopted Accounting Standards Codification subtopic 820-10, Fair Value Measurements and Disclosures (“ASC 820-10”) and Accounting Standards Codification subtopic 825-10, Financial Instruments (“ASC 825-10”), which permits entities to choose to measure many financial instruments and certain other items at fair value. Neither of these statements had an impact on the Company’s unaudited condensed consolidated financial position, results of operations nor cash flows. The carrying value of cash and cash equivalents, accounts payable and short-term borrowings, as reflected in the balance sheets, approximate fair value because of the short-term maturity of these instruments.

Recent Accounting Pronouncements

In February 2010 the FASB issued Update No. 2010-09 “Subsequent Events (Topic 855)” (“2010-09”). 2010-09 clarifies the interaction of Accounting Standards Codification 855 “Subsequent Events” (“Topic 855”) with guidance issued by the SEC as well as the intended breadth of the reissuance disclosure provision related to subsequent events found in paragraph 855-10-50-4 in Topic 855. This update is effective for annual or interim periods ending after June 15, 2010. Management is currently evaluating whether these changes will have any material impact on its financial position, results of operations or cash flows.
In February 2010 the FASB issued Update No. 2010-08 “Technical Corrections to Various Topics” (“2010-08”). 2010-08 represents technical corrections to SEC paragraphs within various sections of the Codification. Management is

currently evaluating whether these changes will have any material impact on its financial position, results of operations or cash flows.

APPLIED DNA SCIENCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2010
(unaudited)

NOTE A — SUMMARY OF ACCOUNTING POLICIES (continued)

Recent Accounting Pronouncements (continued)

In January 2010 the FASB issued Update No. 2010-06 “Fair Value Measurements and Disclosures—Improving Disclosures about Fair Value Measurements” (“2010-06”). 2010-06 requires new disclosures regarding significant transfers between Level 1 and Level 2 fair value measurements, and disclosures regarding purchases, sales, issuances and settlements, on a gross basis, for Level 3 fair value measurements. 2010-06 also calls for further disaggregation of all assets and liabilities based on line items shown in the statement of financial position. This amendment is effective for fiscal years beginning after December 15, 2010 and interim periods within those fiscal years. The Company is currently evaluating whether adoption of this standard will have a material impact on its financial position, results of operations or cash flows.

In January 2010 the FASB issued Update No. 2010-05 “Compensation—Stock Compensation—Escrowed Share Arrangements and Presumption of Compensation” (“2010-05”). 2010-05 re-asserts that the Staff of the SEC has stated the presumption that for certain shareholders escrowed shares represent a compensatory arrangement. 2010-05 further clarifies the criteria required to be met to establish a position different from the SEC Staff’s position. The Company does not believe this pronouncement will have any material impact on its financial position, results of operations or cash flows.

In January 2010 the FASB issued Update No. 2010-04 “Accounting for Various Topics—Technical Corrections to SEC Paragraphs” (“2010-04”). 2010-04 represents technical corrections to SEC paragraphs within various sections of the Codification. Management is currently evaluating whether these changes will have any material impact on its financial position, results of operations or cash flows.

In January 2010 the FASB issued Update No. 2010-02 “Accounting and Reporting for Decreases in Ownership of a Subsidiary—a Scope Clarification” (“2010-02”) an update of ASC 810 “Consolidation.” 2010-02 clarifies the scope of ASC 810 with respect to decreases in ownership in a subsidiary to those of a subsidiary or group of assets that are a business or nonprofit, a subsidiary that is transferred to an equity method investee or joint venture, and an exchange of a group of assets that constitutes a business or nonprofit activity to a non-controlling interest including an equity method investee or a joint venture. Management does not expect adoption of this standard to have any material impact on its financial position, results of operations or operating cash flows. Management does not intend to decrease its ownership in any of its wholly-owned subsidiaries.

In January 2010 the FASB issued Update No. 2010-01 “Accounting for Distributions to Shareholders with Components of Stock and Cash—a consensus of the FASB Emerging Issues Task Force” (“2010-03”) an update of ASC 505 “Equity.” 2010-03 clarifies the treatment of stock distributions as dividends to shareholders and their affect on the computation of earnings per shares. Management does not expect adoption of this standard to have any material impact on its financial position, results of operations or operating cash flows.

APPLIED DNA SCIENCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2010
(unaudited)

NOTE B - ACQUISITION OF INTANGIBLE ASSETS

The identifiable intangible assets acquired and their carrying values at March 31, 2010 and September 30, 2009, respectively, are as follows:

| | March 31, 2010 (unaudited) | September 30, 2009 |
|---|---|---|
| Trade secrets and developed technologies (Weighted average life of 7 years) | $ 9,430,900 | $ 9,430,900 |
| Patents (Weighted average life of 5 years) | 34,257 | 34,257 |
| Total Amortized identifiable intangible assets- Gross carrying value: | 9,465,157 | 9,465,157 |
| Less: Accumulated Amortization | (2,991,615) | (2,809,575) |
| Impairment (See below) | (5,655,011) | (5,655,011) |
| Net: | $ 818,531 | $ 1,000,571 |
| Residual value: | $ 0 | $ 0 |

Total amortization expense charged to operations for the three and six months ended March 31, 2010 was $90,947 and $182,040, respectively. Total amortization expense charged to operations for the three and six months ended March 31, 2009 was $91,672 and $183,638, respectively.

NOTE C – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at March 31, 2010 and September 30, 2009 are as follows:

| | March 31, 2010 (unaudited) | September 30, 2009 |
|---|---|---|
| Accounts payable | $ 827,841 | $ 593,025 |
| Accrued consulting fees | 102,500 | 102,500 |

| | | |
|---|---|---|
| Accrued interest payable | 188,403 | 110,767 |
| Accrued salaries payable | 31,064 | 37,199 |
| Total | $ 1,149,808 | $ 843,491 |

APPLIED DNA SCIENCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2010
(unaudited)

NOTE C – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES (continued)

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. During the six month period ended March 31, 2009, the Company concluded that the payment of liquidated damages under these commitments was not probable. Accordingly, the Company reversed the accrued expenses for the potential liquidated damages of $12,023,888 as other income in the statement of operations during the six month period ended March 31, 2009.

NOTE D – PRIVATE PLACEMENT OF CONVERTIBLE NOTES

Convertible notes payable as of March 31, 2010 and September 30, 2009:

| | March 31, 2010 | September 30, 2009 |
|---|---|---|
| Secured Convertible Note Payable dated October 21, 2008, net of unamortized debt discount of $14,591 (Matured October 21, 2008) | $ - | $ 485,409 |
| Secured Convertible Note Payable dated January 29, 2009, net of unamortized debt discount of $-0- and $23,693, respectively (Matured January 29, 2010) | 150,000 | 126,307 |
| Secured Convertible Note Payable dated February 27, 2009, net of unamortized debt discount of $-0- and $22,975, respectively (Matured February 28, 2010) | 200,000 | 177,025 |
| Secured Convertible Note Payable dated March 30, 2009, net of unamortized debt discount of $-0- and $48,054, respectively (Matured March 30, 2010) | 250,000 | 201,946 |
| Secured Convertible Note Payable dated April 14, 2009, net of unamortized debt discount of $4,756 and $66,581, respectively (see below) | 295,244 | 233,419 |
| Secured Convertible Note Payable dated June 22, 2009, net of unamortized debt discount of $10,166 and $32,457, respectively (see below) | 239,834 | 217,543 |
| Secured Convertible Note Payable dated June 30, 2009, net of unamortized debt discount of $6,080 and $18,374, respectively (see below) | 143,920 | 131,626 |
| Secured Convertible Note Payable dated August 21, 2009, net of unamortized debt discount of $25,960 and $59,000, respectively (see below) | 404,040 | 371,000 |
| Secured Convertible Note Payable dated September 30, 2009, net of unamortized debt discount of $8,466 and $16,932, respectively (see below) | 241,534 | 233,068 |
| | 241,534 | 233,068 |

| | | |
|---|---|---|
| Secured Convertible Note Payable dated September 30, 2009, net of unamortized debt discount of $8,466 and $16,932, respectively (see below) | | |
| Secured Convertible Note Payable dated October 14, 2009, net of unamortized debt discount of $11,519 (see below) | 258,481 | - |
| Secured Convertible Note Payable dated January 7, 2010, net of unamortized debt discount of $27,120 (see below) | 22,880 | - |
| | 2,447,467 | 2,410,411 |
| Less: current portion | (2,447,467) | (2,410,411) |
| | $ - | $ - |

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

10% Secured Convertible Promissory Note dated October 21, 2008

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

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

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

The Company recorded the intrinsic value of the embedded beneficial conversion feature ($279,188) and warrants ($34,104) to debt discount, aggregating $313,292, which will be amortized to interest expense over the term of the note. Amortization of $14,591was recorded for six month periods ended March 31, 2010, and $77,250 and $141,625 was recorded for the three and six month periods ended March 31, 2009, respectively.

On February 15, 2010, the Company issued 21,386,836 shares of common stock in settlement of the convertible note and related interest.

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.

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

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

The Company recorded the intrinsic value of the embedded beneficial conversion feature ($61,974) and warrants ($9,498) to debt discount, aggregating $71,472, which will be amortized to interest expense over the term of the note. Amortization of $5,679 and $23,693 was recorded for the three and six month periods ended March 31, 2010, respectively, and $11,945 was recorded for the three and six month periods ended March 31, 2009.

10% Secured Convertible Promissory Note dated February 27, 2009

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

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

The Company recorded the intrinsic value of the embedded beneficial conversion feature ($55,905) to debt discount which will be amortized to interest expense over the term of the note. Amortization of $8,884 and $22,975 was recorded for the three and six month periods ended March 31, 2010, respectively, and $4,901 was recorded for the

three and six month periods ended March 31, 2009.

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

The Company recorded the intrinsic value of the embedded beneficial conversion feature ($96,905) to debt discount which will be amortized to interest expense over the term of the note. Amortization of $23,629 and $48,054 was recorded for the three and six month periods ended March 31, 2010, respectively and $265 was recorded for the three and six month periods ended March 31, 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 ASC 470-20, the Company recognized an embedded beneficial conversion feature present in the note. The Company allocated a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital. The Company recognized and measured an aggregate of $123,990 of the proceeds, which is equal to the intrinsic value of the embedded beneficial conversion feature, to additional paid-in capital and a discount against the note. The debt discount attributed to the beneficial conversion feature is amortized over the note's maturity period (one year) as interest expense.

The Company recorded the intrinsic value of the embedded beneficial conversion feature ($123,990) will be amortized to interest expense over the term of the Notes. Amortization of $30,573 and $61,825 was recorded for the three and

six month periods ended March 31, 2010, 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 June 22, 2009

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

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

The Company recorded the intrinsic value of the embedded beneficial conversion feature ($44,705) to debt discount which will be amortized to interest expense over the term of the note. Amortization of $11,023 and $22,291 was recorded for the three and six month periods ended March 31, 2010, respectively.

10% Secured Convertible Promissory Note dated June 30, 2009

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

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

The Company recorded the intrinsic value of the embedded beneficial conversion feature ($24,657) to debt discount which will be amortized to interest expense over the term of the note. Amortization of $6,080 and $12,295 was recorded for the three and six month periods ended March 31, 2010, respectively.

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

10% Secured Convertible Promissory Notes dated August 21, 2009

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

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

The Company recorded the intrinsic value of the embedded beneficial conversion feature ($66,262) to debt discount which will be amortized to interest expense over the term of the notes. Amortization of $16,339 and $33,040 was recorded for the three and six month periods ended March 31, 2010, respectively.

10% Secured Convertible Promissory Notes dated September 30, 2009

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

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

The Company recorded the intrinsic value of the embedded beneficial conversion feature ($16,978) to debt discount which will be amortized to interest expense over the term of the notes. Amortization of $4,186 and $8,466 was

recorded for the three and six month periods ended March 31, 2010, respectively.

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

10% Secured Convertible Promissory Note dated September 30, 2009

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

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

The Company recorded the intrinsic value of the embedded beneficial conversion feature ($16,978) to debt discount which will be amortized to interest expense over the term of the note. Amortization of $4,186 and $8,466 was recorded for the three and six month periods ended March 31, 2010, respectively.

10% Secured Convertible Promissory Notes dated October 14, 2009

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

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

The Company recorded the intrinsic value of the embedded beneficial conversion feature ($21,343) to debt discount which will be amortized to interest expense over the term of the notes. Amortization of $5,263 and $9,824 was

recorded for the three and six month periods ended March 31, 2010, respectively.

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NOTE D — PRIVATE PLACEMENT OF CONVERTIBLE NOTES (continued)

10% Secured Convertible Promissory Notes dated January 7, 2010

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

In accordance with ASC 470-20, the Company recognized an embedded beneficial conversion feature present in the note. The Company allocated a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital. The Company recognized and measured an aggregate of $35,103 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 ($35,103) to debt discount which will be amortized to interest expense over the term of the note. Amortization of $7,982 was recorded for the three and six month periods ended March 31, 2010.

NOTE E - RELATED PARTY TRANSACTIONS

The Company's current and former officers and shareholders have advanced funds to the Company for travel related and working capital purposes. The Company has not entered into any agreement on the repayment terms for these advances. As of March 31, 2010 and September 30, 2009, there were $600,000 and $-0- advances outstanding, respectively.

During the six months ended March 31, 2010, the Company issued 21,386,836 shares of common stock in exchange for settlement of the $500,000 related party convertible promissory note dated October 21, 2008 and accrued interest of $59,726.

NOTE F - CAPITAL STOCK

The Company is authorized to issue 410,000,000 shares of common stock, with a $0.001 par value per share as the result of a shareholder meeting conducted on May 16, 2007. In addition, the Company is authorized to issue 10,000,000 shares of preferred stock with a $0.001 par value per share. As of March 31, 2010, there were 296,590,906 shares of common stock issued and outstanding.

NOTE G - STOCK OPTIONS AND WARRANTS

Warrants

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

APPLIED DNA SCIENCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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NOTE G — STOCK OPTIONS AND WARRANTS (continued)

| Exercise Prices | Number Outstanding | Warrants Outstanding Remaining Contractual Life (Years) | Weighted Average Exercise Price | Weighted Average Exercisable | Exercisable Weighted Average Exercise Price |
|---|---|---|---|---|---|
| $ 0.06 | 2,000,000 | 3.89 | $ 0.06 | 2,000,000 | $ 0.06 |
| $ 0.07 | 200,000 | 1.96 | $ 0.07 | 200,000 | $ 0.07 |
| $ 0.09 | 16,400,000 | 1.42 | $ 0.09 | 16,400,000 | $ 0.09 |
| $ 0.10 | 1,500,000 | 2.99 | $ 0.10 | 1,500,000 | $ 0.10 |
| $ 0.50 | 27,100,000 | 1.62 | $ 0.50 | 27,100,000 | $ 0.50 |
| | 47,200,000 | | | 47,200,000 | |

Transactions involving warrants are summarized as follows:

| | Number of Shares | Weighted Average Price Per Share |
|---|---|---|
| Balance, September 30, 2008 | 63,980,964 | $ 0.46 |
| Granted | 5,000,000 | 0.20 |
| Exercised | — | |
| Canceled or expired | (4,160,464) | (0.69) |
| Outstanding at September 30, 2009 | 64,820,500 | $ 0.43 |
| Granted | — | — |
| Exercised | — | — |
| Canceled or expired | (17,620,500) | (0.73) |
| Balance, March 31, 2010 | 47,200,000 | $ 0.32 |

Aggregate intrinsic value of warrants outstanding and exercisable at March 31, 2010 was $20,000. Aggregate intrinsic value represents the difference between the Company's closing price on the last trading day of the fiscal period, which was $0.07 as of March 31, 2010, and the exercise price multiplied by the number of warrants outstanding.

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

Employee Stock Options

On January 26, 2005, the Board of Directors, and on February 15, 2005, the holders of a majority of the outstanding common stock of the Company approved the 2005 Incentive Stock Plan and authorized the issuance of 16,000,000 shares of common stock as stock awards and stock options thereunder. On May 16, 2007, at the annual meeting of stockholders, the holders of a majority of the outstanding common stock of the Company approved an increase in the number of shares subject to the 2005 Incentive Stock Plan to 20,000,000 shares of common stock. On June 17, 2008, the Board of Directors unanimously adopted an amendment to the 2005 Incentive Stock Plan that increased 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, which was approved by our stockholders at the 2008 annual meeting of stockholders held on December 16, 2008. In connection with the share increase amendment, the Board of Directors granted and we issued 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. 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 vest ratably each anniversary thereafter until fully vested on the third anniversary of the date of grant.

The 2005 Incentive Stock Plan is designed to retain directors, executives, and selected employees and consultants by rewarding them for making contributions to our success with an award of options to purchase shares of our common stock. As of March 31, 2010 a total of 8,550,000 shares have been issued and options to purchase 38,920,000 shares have been granted under the 2005 Incentive Stock Plan.

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

| Options Outstanding | | | | Options Exercisable | |
|---|---|---|---|---|---|
| Exercise Prices | Number Outstanding | Weighted Average Remaining Contractual Life (Years) | Weighted Average Exercise Price | Number Exercisable | Weighted Average Exercise Price |
| $ 0.07 | 1,000,000 | 4.40 | $ 0.07 | 250,000 | $ 0.07 |
| 0.09 | 1,500,000 | 1.92 | 0.09 | 1,500,000 | 0.09 |
| 0.11 | 36,420,000 | 3.72 | 0.11 | 18,210,000 | 0.11 |
| | 38,920,000 | | $ 0.11 | 19,960,000 | $ 0.11 |

APPLIED DNA SCIENCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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NOTE G — STOCK OPTIONS AND WARRANTS (continued)

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

| | Number of Shares | Weighted Average Exercise Price Per Share |
|---|---|---|
| Outstanding at October 1, 2008 | 5,660,000 | $ 0.47 |
| Granted | 38,670,000 | 0.11 |
| Exercised | (1,125,000) | 0.10 |
| Cancelled or expired | (4,285,000) | 0.60 |
| Outstanding at September 30, 2009 | 38,920,000 | $ 0.11 |
| Granted | - | |
| Exercised | - | |
| Canceled or expired | - | |
| Outstanding at March 31, 2010 | 38,920,000 | $ 0.11 |

Aggregate intrinsic value of options outstanding and exercisable at March 31, 2010 was $-0-. Aggregate intrinsic value represents the difference between the Company's closing price on the last trading day of the fiscal period, which was $0.07 as of March 31 2010, and the exercise price multiplied by the number of options outstanding.

The Company recorded $290,391 and $587,235 as stock compensation expense for the three and six month periods ended March 31, 2010 for the vesting portion of all employee options outstanding, respectively.

NOTE H- COMMITMENTS AND CONTINGENCIES

The Company leases office space under operating lease in Stony Brook, New York for its corporate use, expiring in October 2010. In November 2005, the Company vacated the Los Angeles facility to relocate to the Stony Brook, New York facility.

At March 31, 2010, the minimum future lease payments for the Company's office space under its non-cancelable operating lease is $47,300.

Total lease rental expense for the three and six month periods ended on March 31, 2010 was $20,275 and $40,550, respectively.

Total lease rental expense for the three and six month periods ended on March 31, 2009 was $21,366 and $40,004, respectively.

APPLIED DNA SCIENCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2010
(unaudited)

NOTE H- COMMITMENTS AND CONTINGENCIES (continued)

Employment and Consulting Agreements

The Company has a consulting agreement with an outside contractor, who is also a Company stockholder. The agreement is generally month to month. The Company recorded $50,000 of consulting expenses for the six month period ended March 31, 2010 related to this agreement.

Litigation

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

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

Intervex, Inc., or Intervex, the plaintiff, filed a complaint on or about April 23, 2008 related to a claim for breach of contract. In March 2005, the Company entered into a consulting agreement with Intervex, which provided for, among other things, a payment of $6,000 per month for a period of 24 months, or an aggregate of $144,000. In addition, the consulting agreement provided for the issuance by the Company to Intervex of a five-year warrant to purchase 250,000 shares of the Company’s common stock with an exercise price of $.75. Intervex asserts that the Company owes them 17 payments of $6,000, or an aggregate of $102,000, plus accrued interest thereon, and a warrant to purchase 250,000 shares of the Company’s common stock. The Company has counterclaimed for compensatory and punitive damages, restitution, attorneys’ fees and costs, interest and other relief the court deems proper. The Company filed a motion for summary judgment and Intervex filed a cross-motion for summary judgment. The court denied both motions on April 19, 2010. This matter is in the early stages of discovery. We intend to vigorously defend against the claims asserted against us.

APPLIED DNA SCIENCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2010
(unaudited)

NOTE H- COMMITMENTS AND CONTINGENCIES (continued)

Matters Voluntarily Reported to the SEC and Securities Act Violations

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

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

APPLIED DNA SCIENCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2010
(unaudited)

NOTE I —FAIR VALUE MEASUREMENT

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

APPLIED DNA SCIENCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2010
(unaudited)

NOTE J - GOING CONCERN

The accompanying unaudited condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the accompanying unaudited condensed consolidated financial statements during the six month period ended March 31, 2010, the Company incurred a net loss of $3,197,210. Additionally, the Company has a negative working capital of $4,037,635 and $2,913,857 as of March 31, 2010 and September 30, 2009, respectively. These factors among others may indicate that the Company will be unable to continue as a going concern for a reasonable period of time.
The Company's existence is dependent upon management's ability to develop profitable operations. Management is devoting substantially all of its efforts to developing DNA embedded biotechnology security solutions in the United States and Europe and there can be no assurance that the Company's efforts will be successful and no assurance can be given that management's actions will result in profitable operations or the resolution of its liquidity problems. The accompanying unaudited condensed consolidated financial statements do not include any adjustments that might result should the Company be unable to continue as a going concern.

In order to improve the Company's liquidity, the Company has entered into an engagement letter with an investment bank to pursue additional convertible debt financing. There can be no assurance the Company will be successful in its effort to secure such financing.

NOTE K – SUBSEQUENT EVENTS

In accordance with FASB ASC 855, "Subsequent Events," the Company has evaluated subsequent events through the date of filing, May 10, 2010.

In April 2010, the Company issued an aggregate of 4,663,884 shares of common stock in settlement of $300,000 of convertible notes and related interest.

In May 2010, the Company issued 1,000,000 shares of common stock for services rendered.

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

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

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

We believe it is important to communicate our expectations. However, forward looking statements involve risks and uncertainties and our actual results and the timing of certain events could differ materially from those discussed in forward-looking statements as a result of certain factors, including, but not limited to, the risk factors contained or referenced herein and in our other reports filed with the SEC pursuant to the Securities Exchange Act of 1934, as amended, including Item 1 "Business" and Item 1A "Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended September 30, 2009. All forward-looking statements and risk factors included in this document are made as of the date hereof, based on information available to us as of the date thereof, and we assume no obligations to update any forward-looking statement or risk factor, unless we are required to do so by law.

Introduction

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

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

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

trade groups and government agencies.

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

Plan of Operations

General

To date, our operations have produced insignificant revenues. We have continued to incur expenses and have limited sources of liquidity. We expect to generate revenues principally from sales of our SigNature Program and BioMaterial Genotyping. We are currently attempting to develop business in the following target markets: cash-in-transit, textile and apparel authentication, secure documents, pharmaceuticals, consumer products, fine wine, art and collectibles, and digital and recording media. We intend to pursue both domestic and international sales opportunities in each of these vertical markets. We currently have sufficient funds to conduct our operations until approximately July 2010. We entered into an engagement letter with an investment bank to pursue additional convertible debt financing. There can be no assurance the Company will be successful in its efforts to secure such financing.

Critical Accounting Policies

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

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

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

Revenue Recognition

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

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

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

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

Allowance for Uncollectible Receivables

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

Fair Value of Intangible Assets

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

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

assets to be disposed of be reported at the lower of the carrying amount or the fair value less costs to sell.

Use of Estimates

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

Comparison of Results of Operations for the Three Months Ended March 31, 2010 and 2009

Revenues

For the three months ended March 31, 2010, we generated $187,275 in revenues from operations, principally from the sales of Authentication Services and sales of our Signature DNA, and our cost of sales for the three months ended March 31, 2010 was $14,036, netting us a gross profit of $173,239. For the three months ended March 31, 2009, we generated $64,670 in revenues from operations, principally from the sales of our now discontinued BioActive Ingredients, and our cost of sales for the three months ended March 31, 2009 was $8,594, netting us a gross profit of $56,076. The increase in sales for the three months ended March 31, 2010, compared to the three months ended March 31, 2009, was primarily caused by increased volume and added customers in 2010.

Costs and Expenses

Selling, General and Administrative

Selling, general and administrative expenses decreased from $1,683,534 for the three months ended March 31, 2009 to $1,262,833 for the three months ended March 31, 2010. The decrease of $420,701, or 25%, is primarily attributable to the fair value of vested options granted to officers and employees in 2009, as compared to 2010.

Research and Development

Research and development expenses decreased from $40,860 for the three months ended March 31, 2009 to $20,654 for the three months ended March 31, 2010. The decrease of $20,206 is attributed to less research and development activity needed with current operations.

Depreciation and Amortization

In the three months ended March 31, 2010, depreciation and amortization decreased by $13,295 from $105,645 for the three months ended March 31, 2009 to $92,350 for the three months ended March 31, 2010. The decrease is attributable to the aging of our property and equipment.

Total Operating Expenses

Total operating expenses decreased to $1,375,837 for the three months ended March 31, 2010 from $1,830,039 for the three months ended March 31, 2009, or a decrease of $454,202, primarily attributable to the fair value of vested options granted to officers and employees in 2009 and less research and development expenditures.

Other Income/Loss

During the three months ended March 31, 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 as compared to $-0- for 2010.

Interest Expenses

Interest expense for the three months ended March 31, 2010 decreased by $25,618 to $186,604 from $212,222 for the three months ended March 31, 2009. The decrease in interest expense was due to the conversion into common stock in 2010 of the convertible notes issued in connection with financings completed in 2009.

Net income (loss)

Net loss for the three months ended March 31, 2010 was $1,389,202 as compared to net income of $10,037,703 for the three months ended March 31, 2009, primarily attributable to our accrual adjustment for liquidated damages in 2009 as described in other income/expense above.

Comparison of Results of Operations for the Six Months Ended March 31, 2010 and 2009

Revenues

For the six months ended March 31, 2010, we generated $259,990 in revenues from operations, principally from the sales of Authentication Services and sales of our Signature DNA, and our cost of sales for the six months ended March 31, 2010 was $28,470, netting us a gross profit of $231,520. For the six months ended March 31, 2009, we generated $211,245 in revenues from operations, principally from the sales of our now discontinued BioActive Ingredients, and our cost of sales for the six months ended March 31, 2009 was $52,335, netting us a gross profit of $158,910. The increase in sales for the six months ended March 31, 2010, compared to the six months ended March 31, 2009, was primarily caused by increased volume and added customers in 2010.

Costs and Expenses

Selling, General and Administrative

Selling, general and administrative expenses decreased from $4,447,545 for the six months ended March 31, 2009 to $2,804,968 for the six months ended March 31, 2010. The decrease of $1,642,577, or 37%, is primarily attributable to the fair value of vested options granted to officers and employees in 2009 as compared to 2010.

Research and Development

Research and development expenses decreased from $103,389 for the six months ended March 31, 2009 to $26,802 for the six months ended March 31, 2010. The decrease of $76,587 is attributed to less research and development activity related to the recent development and feasibility study agreements.

Depreciation and Amortization

In the six months ended March 31, 2010, depreciation and amortization decreased by $28,831 from $214,627 for the six months ended March 31, 2009 to $185,796 for the six months ended March 31, 2010. The decrease is attributable to the reduced depreciation/additions to our property and equipment.

Total Operating Expenses

Total operating expenses decreased to $3,017,566 for the six months ended March 31, 2010 from $4,765,561 for the six months ended March 31, 2009, or a decrease of $1,747,995, primarily attributable to equity based payments in the six months ended March 31, 2009 as compared to the same period in 2010.

Other Income/Loss

During the six months ended March 31, 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 as compared to $-0- for 2010.

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Interest Expenses

Interest expense for the six months ended March 31, 2010 decreased by $284,187 to $410,864 from $695,051 for the six months ended March 31, 2009. The decrease in interest expense was due to the conversion into common stock in 2010 of the convertible notes issued in connection with financings completed in 2009.

Net income (loss)

Net loss for the six months ended March 31, 2010 was $3,197,210 as compared to net income of $6,721,689 in the prior period primarily attributable to our other income adjustment described above.

Liquidity and Capital Resources

Our liquidity needs consist of our working capital requirements, indebtedness payments and research and development expenditure funding. Historically, we have financed our operations through the sale of equity and convertible debt as well as borrowings from various credit sources. In fiscal 2009, and in prior fiscal years, we have been relying in part on cash infusions from our President, Chairman and Chief Executive Officer, James A. Hayward, in order to fund our operations. During the six months ended March 31, 2010 and fiscal year ended September 30, 2009, Dr. Hayward provided $600,000 and $1,500,000, respectively, in new loans. Curtailment of cash investments by Dr. Hayward could harm our cash availability and our ability to fund our operations, including our ability to meet our payroll and accounts payable obligations.

As of March 31, 2010, we had a working capital deficit of $4,037,635. For the six months ended March 31, 2010, we generated a net cash flow deficit from operating activities of $993,878 consisting primarily of year to date loss of $3,197,210. Non cash adjustments included $570,328 in depreciation and amortization charges and $1,200,934 for equity based compensation. Additionally, we had a net decrease in assets of $66,027 and a net increase in current liabilities of $366,043. Cash provided by financing activities for the six months ended March 31, 2010 totaled $879,500 consisting of proceeds from the issuance of convertible debt and related party advances, net of the capitalized financing costs and related party payments.

We expect capital expenditures to be less than $50,000 in fiscal 2010. Our primary investments will be in laboratory equipment to support prototyping and our authentication services.
Exploitation of potential revenue sources will be financed primarily through the sale of securities and convertible debt, exercise of outstanding warrants, issuance of notes payable and other debt or a combination thereof, depending upon the transaction size, market conditions and other factors.

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

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

Our registered independent certified public accountants have stated in their report dated December 23, 2009, that we have incurred operating losses in the last two years, and that we are dependent upon management’s ability to develop

profitable operations and raise additional capital. These factors among others may raise substantial doubt about our ability to continue as a going concern.

Recent Debt and Equity Financing Transactions

Fiscal 2009

During the year ended September 30, 2009, we issued and sold an aggregate principal amount of $1,500,000 in secured convertible promissory notes bearing interest at 10% per annum and warrants to purchase an aggregate of 1,300,000 shares of our common stock to James A. Hayward, our President, Chairman, Chief Executive Officer and a director.

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

Fiscal 2010 (through January 31, 2010)

Since October 1, 2009, we issued and sold an aggregate principal amount of $320,000 in secured convertible promissory notes bearing interest at 10% per annum to "accredited investors," as defined in regulations promulgated under the Securities Act of 1933, as amended. The promissory notes and accrued but unpaid interest thereon automatically convert one year after issuance at a conversion price equal to a discount to the average volume, weighted average price of our common stock for the ten trading days prior to issuance, and are convertible into shares of our common stock at the option of the holder at any time prior to such automatic conversion at a price equal to the greater of (i) 50% of the average price of our common stock for the ten trading days prior to the date of the notice of conversion and (ii) the automatic conversion price. In addition, any time prior to conversion, we have the irrevocable right to repay the unpaid principal and accrued but unpaid interest under the notes on three days notice. The promissory notes bear interest at the rate of 10% per annum and are due and payable in full on the one year anniversary of their issuance.

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

We need to seek additional capital to sustain or expand our prototype and sample manufacturing, and sales and marketing activities, and to otherwise continue our business operations beyond July 2010. We have no commitments

for any future funding, and may not be able to obtain additional financing or grants on terms acceptable to us, if at all, in the future. If we are unable to obtain additional capital this would restrict our ability to grow and may require us to curtail or discontinue our business operations. Additionally, while a reduction in our business operations may prolong our ability to operate, that reduction would harm our ability to implement our business strategy. If we can obtain any equity financing, it may involve substantial dilution to our then existing stockholders.

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

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

Product Research and Development

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

Acquisition of Plant and Equipment and Other Assets

We do not anticipate the sale of any material property, plant or equipment during the next 12 months. We do anticipate spending approximately $15,000 on the acquisition of leasehold improvements during the next 12 months. We believe our current leased space as well as the facility from which we lease space has adequate capacity to manage our growth, if any, over the next 2 to 3 years.

Number of Employees

We currently have 10 full-time employees and two part-time employees, including two in management, six in operations, three in sales and marketing and one in investor relations. We expect to increase our staffing dedicated to sales, product prototyping, manufacturing of DNA markers and forensic authentication services. Expenses related to travel, marketing, salaries, and general overhead will be increased as necessary to support our growth in revenue. In order for us to attract and retain quality personnel, we anticipate we will have to offer competitive salaries to future employees. We anticipate that it may become desirable to add additional full and or part time employees to discharge certain critical functions during the next 12 months. This projected increase in personnel is dependent upon our ability to generate revenues and obtain sources of financing. There is no guarantee that we will be successful in raising the funds required or generating revenues sufficient to fund the projected increase in the number of employees. As we continue to expand, we will incur additional costs for personnel.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Inflation

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

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 March 31, 2010, 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.

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Part II - Other Information

Item 1 - Legal Proceedings

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

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

Intervex, Inc., or Intervex, the plaintiff, filed a complaint on or about April 23, 2008 related to a claim for breach of contract. In March 2005, we entered into a consulting agreement with Intervex, which provided for, among other things, a payment of $6,000 per month for a period of 24 months, or an aggregate of $144,000. In addition, the consulting agreement provided for the issuance by us to Intervex of a five-year warrant to purchase 250,000 shares of our common stock with an exercise price of $.75. Intervex asserts that we owe it 17 payments of $6,000, or an aggregate of $102,000, plus accrued interest thereon, and a warrant to purchase 250,000 shares of our common stock. We have counterclaimed for compensatory and punitive damages, restitution, attorneys' fees and costs, interest and other relief the court deems proper. We filed a motion for summary judgment and Intervex filed a cross-motion for summary judgment. The court denied both motions on April 19, 2010. This matter is in the early stages of discovery. We intend to vigorously defend against the claims asserted against us.

Item 1A - Risk Factors

None.

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

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

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

Item 3 - Defaults on Senior Securities

None.

Item 4 – Removed and Reserved

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)

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: May 10, 2010

/s/ James A. Hayward, Ph. D.
James A. Hayward, Ph. D.
Chief Executive Officer