APPLIED DNA SCIENCES INC
Form 10-K
December 09, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended September 30, 2011

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 002-90539

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 215 Stony Brook, New York (Address of principal executive offices)	11790 (Zip Code)	(631) 444-6862 (Registrant's telephone number, including area code)

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
o Yes x No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
o Yes x No

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).

x Yes o No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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.

Large accelerated filer o Accelerated filer o Non-accelerated filer o Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). o Yes x No

The aggregate market value of the Registrant's common stock held by non-affiliates of the Registrant, based upon the last sale price of the common stock quoted on the OTC Bulletin Board as of the last business day of the Registrant's most recently completed second fiscal quarter (March 31, 2011), was approximately $14.0 million. Shares of the Registrant's common stock held by each executive officer and director and by each entity or person that, to the Registrant's knowledge, owned 5% or more of the Registrant's outstanding common stock as of March 31, 2011 have been excluded in that such persons may be deemed to be affiliates of the Registrant. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of December 8, 2011, the Registrant had outstanding 513,233,108 shares of Common Stock, par value $0.001 per share.

TABLE OF CONTENTS

		Page
PART I		
ITEM 1.	BUSINESS	1
ITEM 1A.	RISK FACTORS	18
ITEM 1B.	UNRESOLVED STAFF COMMENTS	26
ITEM 2.	PROPERTIES	26
ITEM 3.	LEGAL PROCEEDINGS	26
ITEM 4.	(REMOVED AND RESERVED)	27
PART II		
ITEM 5.	MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES	27
ITEM 6.	SELECTED FINANCIAL DATA	27
ITEM 7.	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	28
ITEM 7A.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	36
ITEM 8.	FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA	36
ITEM 9.	CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	36
ITEM 9A.	CONTROLS AND PROCEDURES	36
ITEM 9B.	OTHER INFORMATION	38
PART III		
ITEM 10.	DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE	38
ITEM 11.	EXECUTIVE COMPENSATION	45
ITEM 12.	SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS	49
ITEM 13.	CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE	52
ITEM 14.	PRINCIPAL ACCOUNTING FEES AND SERVICES	54
PART IV		
ITEM 15.	EXHIBITS AND FINANCIAL STATEMENT SCHEDULES	55

PART I

Forward-looking Information

This Annual Report on Form 10-K (including the section regarding Management's Discussion and Analysis of Financial Condition and Results of Operations) contains forward-looking statements including statements using terminology such as "can", "may", "believe", "designated to", "will", "expect", "plan", "anticipate", "estimate", "potential" o the negative thereof or other comparable terminology regarding beliefs, plans, expectations or intentions regarding the future. You should read statements that contain these words carefully because they:

discuss our future expectations;

contain projections of our future results of operations or of our financial condition; and

state other "forward-looking" information.

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

ITEM 1. BUSINESS.

Overview

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, Cashield™, DNANet™, SmartDNA™ and BioMaterial Genotyping, our principal anti-counterfeiting and product authentication solutions, are used in numerous industries, including cash-in-transit (transport and storage of banknotes), homeland security, textiles and apparel, identity cards and other secure documents, law enforcement, 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.

Cashield. Cashield is a family of cash degradation inks that permanently stain banknotes stolen from cash-handling or ATM systems. Cashield extends our offering beyond our prior singular product, AzSure®, to a family of security inks that include Red, Violet, Green, Teal, Indigo, and the original AzSure® Blue. Current degradation dyes suffer from a critical technical weakness, as the dyes may be removed by the use of solvents. We initiated the development of

Cashield in response to demand for a more effective carrier for our SigNature DNA markers. Cashield has been certified for use in the European Union by the Laboratoire National de Métrologie et d'Essais (LNE) and passed all 47 individual dye penetration and wash-out-resistance tests. Additionally, a CViT study presented by the University of Leeds cited Cashield AzSure Blue ink as having improved performance versus staining inks from other suppliers. In this study, the AzSure blue ink was tested across a range of currencies, including British pounds, Euros, and U.S. dollars. The evaluation involved exposure to numerous industrial solvents. Final analysis of the results concluded that the AzSure blue ink was bound strongly in five seconds or less to a variety of banknotes, and could not be removed with any solvent.

1

DNANet. We have recently developed DNANet tactical DNA products for law enforcement, in the form of DNA-marked sprays and liquids. These products, being marketed to global police forces were created to help link criminals to crimes. DNANet is a tactical forensic system providing unique DNA codes for covert operations that require absolute proof of authentication.

SmartDNA. SmartDNA is a unique and patented security system based on botanical DNA, a new and effective crime protection system for stores, warehouses, banks, pharmacies, ATMs and the protection of valuables. The system contains a water-based, non-toxic spray which may be triggered during a crime, marking the perpetrator and remaining on their person for weeks after the crime. Each SmartDNA product is designed to be unique to each store, warehouse or sting operation allowing the police and prosecutors to link criminals to the crimes.

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 textile industry with what we believe to be the first authentication tools that can be applied throughout the U.S. and worldwide textile 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.

Corporate History

We are a Delaware corporation, which was initially formed in 1983 under the laws of the State of Florida as Datalink Systems, Inc. In 1998, we reincorporated in Nevada, and in 2002, we changed our name to our current name, Applied DNA Sciences, Inc. In December 2008, we completed our reincorporation from Nevada to the State of Delaware.

In November 2005, our corporate headquarters were relocated from Los Angeles, California to the Long Island High Technology Incubator at Stony Brook University in Stony Brook, New York, where we established laboratories for the manufacture of DNA markers and product prototypes, and DNA authentication. The address of our corporate headquarters is 25 Health Sciences Drive, Suite 215, Stony Brook, New York 11790, and our telephone number is (631) 444-6370. We maintain a website at www.adnas.com where general information about us is available.

Industry Background

The Company is focusing its efforts on the cash-in-transit business and the general anti-counterfeiting industry.

Cash-in-transit businesses transport and store cash and ATM cassettes. In the U.K. alone, there is an estimated £500 billion being transported each year, or £1.4 billion per day. The nature of this business makes cash-in-transit an attractive target for criminals, and as a result the industry invests in excess of £100 million per year in security equipment and devices. Currently, a system of cash degradation, using a smoke or liquid dye to permanently mark and essentially destroy stolen cash, is used.

Counterfeiting, product diversion, piracy, forgery, identity theft, and unauthorized intrusion into physical locations and databases create significant and growing problems to companies in a wide range of industries as well as governments and individuals worldwide. The International Anticounterfeiting Coalition (IACC) reports that counterfeiting and piracy cost the U.S. economy between $200-$500 billion per year, or an estimated 750,000 American jobs, and pose a real threat to consumer health and safety. The IACC also estimates that the loss associated with counterfeiting has increased 10,000 percent in the past twenty years, to well over $600 billion globally. Additionally, the ICC (International Chamber of Commerce) in February 2011 issued an updated report on counterfeiting and piracy that states that the global economic and social impacts of counterfeiting and piracy will reach $1.7 trillion by 2015 and put 2.5 million legitimate jobs at risk each year.

According to IACC and ICC:

- The Food and Drug Administration estimates that counterfeit drugs account for 10% of all drugs sold in the United States.
- The Federal Aviation Administration estimates that 2% of the 26 million airline parts installed each year are counterfeit, which equals approximately 520,000 parts.
- Digitally pirated music, movies and software accounts for between $30 billion and $75 billion.
- In 2011, the Motor and Equipment Manufacturers Association (MEMA) stated that worldwide sales of counterfeit motor vehicle parts are estimated to reach $45 billion this year. Previously MEMA has cited safety violations due to counterfeit auto parts: brake linings made of compressed grass, sawdust or cardboard; transmission fluid made of cheap oil that is dyed; and oil filters that use rags for the filter element.

Governments are increasingly vulnerable to counterfeiting, terrorism and other security threats at least in part because currencies, identity and security cards and other official documents can be counterfeited with relative ease. For instance, Havocscope reports that the value of counterfeit identification and passports is currently $100 million. Governments must also enforce the various anti-counterfeiting and anti-piracy regimes of their respective jurisdictions which becomes increasingly difficult with the continued expansion of global trade.

The pharmaceutical industry also faces major problems relative to counterfeit, diluted, or falsely labeled drugs that make their way through healthcare systems worldwide, posing a health threat to patients and a financial threat to drugmakers and distributors. Counterfeit prescription pharmaceuticals are a growing trend, widely recognized as a public health risk and a serious concern to public health officials, private companies, and consumers. In some countries, counterfeit prescription drugs comprise as much as 70 percent of the drug supply and have been responsible for thousands of deaths in some of the world's most impoverished nations, according to the World Health Organization (WHO). Counterfeit pharmaceuticals are estimated to be a billion-dollar industry, though some estimate it to be much larger. The Center for Medicine in the Public Interest estimates that in 2010, activities related to counterfeit drugs generated $75 billion, based on information obtained from government organizations. This is expected to grow by 20 percent annually in the coming years. In 2010, the WHO reported that in over 50% of cases, medicines purchased over the Internet from illegal sites that conceal their physical address have been found to be counterfeit. According to the WHO, counterfeiting can apply to both branded and generic products and counterfeit pharmaceuticals may include products with the correct ingredients but fake packaging, with the wrong ingredients, without active ingredients or with insufficient active ingredients. The challenges presented by traditional counterfeiters have recently been supplemented by the many websites, from direct retailers to auction sites, that offer counterfeit prescription drugs online. As a result, the pharmaceutical industry and regulators are examining emerging anti-counterfeit technologies, including radio-frequency identification tags and electronic product codes, known as EPCs, to help stem the wave of counterfeit drugs and better track legitimate drugs from manufacturing through the supply chain.

The digital and recording media industry, including the segment that records computer software on compact discs, has long been a victim of piracy, or the production of illegal copies of genuine media or software, and the counterfeiting and distribution of imitation media or software. Compact discs, DVDs, videotapes, computer software and other digital and recording media that appears identical to genuine products are sold at substantial discounts by vendors at street and night markets, via mail order catalogs and on the internet at direct retail websites or at auction sites. In 2011, the Business Software Alliance (“BSA”) reported that the rate of global software piracy was 42% percent in 2010, the second highest rate in the study’s history The BSA also reported the commercial value of unlicensed software put into the market in 2010 totaled $59 billion,nearly doubling since 2003.

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

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

Our Offerings

SigNature DNA

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

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

We Believe Our SigNature DNA Markers Are Virtually Impossible to Copy

In creating unique SigNature DNA Markers, we use DNA segments from one or more botanical sources, rearrange them into unique encrypted sequences, and then implement one or more layers of anti-counterfeit techniques. Because the portion of DNA in a SigNature DNA Marker used to identify the marker is so minute, it cannot be detected unless it is replicated billions of times over, or amplified. This amplification can only be achieved by applying matching strands of DNA, or a primer, and polymerase chain reaction (PCR) techniques to the SigNature DNA Marker. The sequence of the relevant DNA in a SigNature DNA Marker must be known in order to manufacture the primer for that DNA. As a result, we believe the effort required to find, amplify, select and clone the relevant DNA in a SigNature DNA Marker would involve such enormous effort and expense that SigNature DNA Markers are virtually impossible to copy without our proprietary systems.

Simple and Rapid Authentication

We offer rapid readers capable of instantly testing for the presence or absence of any of our SigNature DNA Markers. In addition, when a forensic level of authentication is necessary, we offer in-house forensic DNA authentication that will confirm authentication sequences in approximately 2 to 4 hours.

Low Cost and High Accuracy

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

Easily Integrated with Other Anti-Counterfeit Technologies

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

Broad Applicability and Ingestible

Our SigNature DNA Markers can be embedded into almost any consumer product, and virtually any other item. For instance, we believe the indelible SigNature DNA Ink we produce is safe to consume and can be used in pharmaceutical drug tablets and capsules. Use of our SigNature DNA in ingestible products and drugs may require approval of the U.S. Food and Drug Administration.

Cashield

Cashield is a family of cash degradation inks that permanently stain banknotes stolen from cash-handling or ATM systems. Cashield extends our offering beyond our prior singular product, AzSure®, to a family of security inks that include Red, Violet, Green, Teal, Indigo, and the original AzSure Blue. Current degradation dyes suffer from a critical technical weakness, as the dyes may be removed by the use of solvents. We initiated the development of Cashield in response to demand for a more effective carrier for our SigNature DNA markers. Cashield has been certified for use in the EU by the Laboratoire National de Métrologie et d'Essais (LNE) and passed all 47 individual dye penetration and wash-out-resistance tests. Additionally, a CViT study presented by the University of Leeds cited Cashield AzSure Blue ink as having improved performance versus staining inks from other suppliers. In this study, the AzSure blue ink was tested across a range of currencies, including British pounds, Euros, and U.S. dollars. The evaluation involved exposure to numerous industrial solvents. Final analysis of the results concluded that the AzSure blue ink was bound strongly in five seconds or less to a variety of banknotes, and could not be removed with any solvent.

DNANet

In 2010, we developed DNANet tactical DNA products for law enforcement, in the form of DNA-marked fixative sprays and liquids as well as transferable grease. These products, being marketed to global police forces were created to help link criminals to crimes. DNANet is a tactical forensic system providing unique DNA codes for covert operations that require absolute proof of authentication.

SmartDNA

Introduced in 2011, SmartDNA is a unique and patented security system based on botanical DNA, a new and effective crime protection system for stores, warehouses, banks, pharmacies, ATMs and the protection of valuables. The system contains a water-based, non-toxic spray which may be triggered during a crime, marking the perpetrator and remaining on their person for weeks after the crime. Each SmartDNA product is designed to be unique to each store, warehouse or sting operation allowing the police and prosecutors to link criminals to the crimes.

BioMaterial Genotyping

We believe our BioMaterial Genotyping solution offers a unique means for determining the authenticity of biomaterials, such as cotton, wool, tobacco, fermented beverages, natural drugs and foods. Just as a person's DNA specifies all of their unique qualities, biomaterials typically contain genomic DNA or fragments thereof that can be utilized to authenticate originality. We have initially developed two proprietary genetic-based assays and protocols to identify DNA markers that are endogenous (internal) to a particular product in order to differentiate between biological strains. In a process we call Fibertyping™, we are able to differentiate between Pima cotton (G. barbadense) and upland cotton (G. hirsutum). Our FiberTyping offering enables our customers and potential clients to cost-effectively give assurance to manufacturers, suppliers, distributors, retailers and end-users that their products are authentic, that they are made from the fibers and textiles as labeled. In a process we call Pimatyping™, we are able to differentiate between Pima cotton grown in different regions of the world. Cotton classification and the authentication of cotton geographic origin are issues of global significance, important to brand owners and to governments that must regulate international cotton trade. Similar offerings are currently being developed for use in biomaterials other than cotton. Biomaterials can now be tracked from field to final purchase guaranteeing the authenticity of the item. As we are testing for innate genomic DNA, we believe these assays cannot be counterfeited.

We believe our BioMaterial Genotyping allows us to:

Identify U.S. produced Pima cotton;

Establish an authentication protocol for cotton and other biomaterials; and

Deter counterfeits and protect the integrity of brands.

We believe our two genetic assays accurately distinguish between:

Pima cotton (G. barbadense) and upland cotton (G. hirsutum) (cultivars in mature cotton fibers and in cotton fabrics (Fibertyping); and

American Pima and Extra Long Staple (ELS) Pima cotton (Pimatyping),

We believe that our new DNA extraction protocol and methodologies are more effective than existing forensic systems. We believe that the combination of our SigNature DNA and BioMaterial Genotyping solutions covers the total authentication market, is applicable to multiple industry verticals, and can mark physical products on the front end and authenticate forensic DNA sequences on the back end.

Discontinued BioActive Ingredients Program

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, Cashield, DNANet, SmartDNA and BioMaterial Genotyping solutions, and we have decided to focus our business on these security and authentication solutions.

Our Strategy

We have begun to generate revenues principally from sales of our SigNature DNA, Cashield, DNANet, SmartDNA and BioMaterial Genotyping offerings. Key aspects of our strategy include:

Customize and Refine our Solutions to Meet Potential Customers' Needs

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

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

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

Target Potential High-Volume Markets

We will continue to focus our efforts on target vertical markets that are characterized by a high level of vulnerability to counterfeiting, product diversion, piracy, fraud, identity theft, and unauthorized intrusion into physical locations and databases. Today our target markets include art and collectibles, cash-in-transit, fine wine, consumer products, homeland security, digital and recording media, law enforcement, pharmaceuticals, textile and apparel authentication and secure documents/homeland security. If and when we have significantly penetrated these markets, we intend to expand into additional related high volume markets.

Pursue Strategic Acquisitions and Alliances

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

Target Markets

We have begun offering our products and services in Europe and the United States and are targeting the following principal markets:

Cash-in-Transit

Cash-in-transit businesses transport and store bank notes and ATM cassettes. In the U.K. alone, there is an estimated £500 billion being transported each year, or £1.4 billion per day. The nature of this business makes cash-in-transit an attractive target for criminals, and as a result the industry invests in excess of £100 million per year in security equipment and devices. Currently, a system of cash degradation, using a smoke or liquid dye to permanently mark and essentially destroy stolen bank notes, is used. The UK boasts the highest levels of cash-in-transit crime in Europe.

We are able to incorporate our SigNature DNA Markers in cash degradation inks, including our Cashield degradation inks, that are used in the cash-in-transit industry. This solvent-based ink marks bank notes if the cash box is compromised and has the ability to penetrate the bank notes rapidly and permanently. We believe our SigNature DNA Markers are more resilient and detectable than other competing products. We believe that our Cashield degradation inks have exhibited superior penetration, binding, fluorescence and wash resistant properties than other competing products.

Textile and Apparel Authentication

Cotton classification and the authentication of cotton geographic origin are issues of global significance, important to brand owners and to governments that must regulate international cotton trade. We believe that our SigNature DNA and BioMaterial Genotyping solutions could have significant potential applications for the enforcement of cotton trade quotas in the U.S. and across the globe, and for legislated quality improvement within the industry. We believe that similar issues face the wool and other natural product industries which is the next area we plan to target.

Secure Documents

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

passports;

lawful permanent resident, or “green” cards;

visas;

drivers’ licenses;

Social Security cards;

military identification cards;

national transportation cards;

security cards for access to sensitive physical locations; and

other important identity cards, official documents and security-related cards.

Homeland Security

The U.S. military is facing the challenge of the increasing intrusion of counterfeit electronics and other parts into its supply lines. This problem isn’t limited to electronics. Foreign suppliers using substandard materials could be producing rivets, bolts and screws that hold together everything from missile casings to ship ladders. The explosion of counterfeit parts is being driven by an expanding global economy and an emphasis on low-price contracting — both of which come as the Pentagon is relying more heavily on older platforms, with parts that are becoming obsolete. In 2010, the US military purchased 59,000 counterfeit microchips from China. Senate hearings in November 2011 revealed the discovery of over 1,800 incidents, totaling over 1 million parts, of counterfeit electronic parts in the defense supply chain. According to the semiconductor industry, counterfeiting results in a $7.5 billion loss in revenue annually as well as a loss of 11,000 U.S. jobs Our SigNature DNA solution can provide secure, forensic, and cost-effective anti-counterfeiting, anti-piracy and identification solutions to military organizations globally in need of securing their supply chains.

Pharmaceuticals

The pharmaceutical industry also faces major problems relative to counterfeit, diluted, or falsely labeled drugs that make their way through healthcare systems worldwide, posing a health threat to patients and a financial threat to drugmakers and distributors. As a result, the pharmaceutical industry and regulators are examining emerging anti-counterfeit technologies, including RFID tags and EPCs to help stem the wave of counterfeit drugs and better track legitimate drugs from manufacturing through the supply chain. Our SigNature DNA Markers can easily be

embedded directly into pharmaceutical packaging or into RFID tags or EPCs attached to packaging, and since they are ingestible, may be applied as part of a unit dose. According to the IACC, approximately 10% of pharmaceuticals worldwide are counterfeit. In some developing countries this figure rises to 70%.

Consumer Products

Counterfeit items are a significant and growing problem with all kinds of consumer packaged goods, especially in the retail and apparel industries. According to the International Trademark Association, up to 22% of all branded apparel and footwear sold worldwide is counterfeit and Havocscope values the counterfeit clothing market at $12 billion. We have developed and are currently marketing a number of solutions aimed at brand protection and authentication for the retail and apparel industries, including the clothing, accessories, fragrances and cosmetics segments. Our SigNature DNA solution can be used by manufacturers in these industries to combat counterfeiting and piracy of primary, secondary and tertiary packaging, as well as the product itself, and to track products that have been lost in transit, whether misplaced or stolen.

Fine Wine

Vintners and purveyors of fine wine are also vulnerable to counterfeiting or product diversion. We believe our SigNature and BioMaterial Genotyping solutions can provide vintners, purveyors of fine wines and organizations within the wine community several benefits:

Verifed authenticity increases potential customers' confidence in the product and their purchase decision;

For the vintner, the SigNature and BioMaterial Genotyping solutions can strengthen brand support and recognition, and offers the potential for improved marketability and sales; and

SigNature DNA Markers can be embedded in bottles, labels, or both at the winery, and easily authenticated at the location of the wine distributor or auctioneer; BioMaterial Genotyping allows the identification of wine based on the varietal of grape and the region it is grown in.

Law Enforcement

Law enforcement organizations are always looking for a system they can use which will provide absolute proof of authentication. Specifically developed for covert operations, DNANet products form an invisible coating when applied to skin, plastics, metals, glass, wood and fabric. We believe that DNANet enhances law enforcement effectiveness by providing forensic quality evidence.

Art and Collectibles

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

A signed certificate or statement of authenticity from a respected authority or expert on the artist;

An exhibition or gallery sticker attached to the art or collectible;

An original sales receipt;

A film or recording of the artist talking about the art or collectible;

An appraisal from a recognized authority or expert on the art or collectible; and

Letters or papers from recognized experts or authorities discussing the art or collectible.

Digital and Recording Media

The digital and recording media industry, including the segment that records computer software on compact discs, faces significant threats from piracy and the counterfeiting and distribution of imitation media or software. In 2010 the Business Software Alliance ("BSA") reported that in 2010, the United States software industry lost $9.5 billion as a result of software piracy, an increase of $11 billion over the previous year. An independent study conducted by IDC for the BSA reported that 20 percent of software in the United States is unlicensed. Our SigNature DNA Markers can be embedded onto digital and recording media products, such as CDs, DVDs, videotapes and computer software, as well as the packaging of these products.

Our Technology

Every living organism has a unique DNA code that determines the character and composition of its cells. The core technologies of our business allow us to use the DNA of everyday plants to mark objects in a unique manner that we believe cannot be replicated, and then identify these objects by detecting the absence or presence of the DNA. Our scientific team was able to develop genetic based assays and protocols to identify DNA markers that are endogenous to a particular plant in order to differentiate between biological strains of cotton and we are now employing the same methodology in wool, wine and other natural products. In addition, in the case of Pima cotton, we have developed proprietary technologies to differentiate between Pima (G. barbadense) and Non-Pima (G. hirsutum) cotton with absolute certainty. In the process, we were also able to develop an approach to attach an exogenous DNA marker to a finished textile product. Cotton classification and the authentication of cotton geographic origin are issues of global significance, important to brand owners and to governments that must regulate the international cotton trade. The use of DNA to identify the cotton fiber content of finished textiles is a significant opportunity for license holders to control their brand and for governments to improve their ability to enforce compliance with trade agreements between nations. In addition to the global cotton trade, the markets for BioMaterial Genotyping include biotherapeutics, nutraceuticals, natural foods, wines and fermented alcohols and other natural textiles.

SigNature DNA Encryption

Our patent pending encryption system allows us to isolate strands of botanical DNA and then fragment and reconstitute them to form unique "DNA chimers", or encrypted DNA segments, whose sequences are known only to us.

SigNature DNA Encapsulation

Our patented encapsulation system allows us to apply a protective coating to encrypted DNA chimers, creating a SigNature DNA Marker that is resistant to heat, organic solvents, chemicals and UV radiation, and so can be identified for hundreds of years after being embedded directly, or into media applied or attached to the item to be marked.

SigNature DNA Embedment

Our patented embedment system allows us to incorporate our SigNature DNA Markers into a broad variety of media, such as inks, dyes, textile treatments, thermal ribbon thread, laminates, glues, threads, varnishes, adhesives and, petroleum and petroleum derivatives.

SigNature DNA Authentication

Our patent pending forensic level authentication methods allow us to unlock the encrypted DNA chimers by using PCR techniques and proprietary primers that were specifically designed by us to detect the DNA sequences we encrypted and embedded into the product or other item. Detection of the DNA chimers unique to a particular item or series of items allows us to authenticate its or their origin.

Products and Services

Our SigNature DNA solution consists of three steps: creating and encapsulating a specific encrypted DNA segment, applying it to a product or other item, and detecting the presence or absence of the specific segment. We plan for the first two steps to be controlled exclusively by us and our certified agents to ensure the security of SigNature DNA Markers. Once applied, the presence of any of our SigNature DNA Markers can be detected by us or a customer in a simple spot test, or a sample taken from the product or other item can be analyzed forensically to obtain definitive proof of the presence or absence of a specific type of SigNature DNA Marker (e.g., one designed to mark a particular product).

Creating a Customer or Product-Specific SigNature DNA Marker

Our SigNature DNA Markers are botanical DNA segments custom manufactured by us to identify a particular class of or individual products or items. During this manufacturing process, we scramble and encrypt a naturally occurring botanical DNA code segment or segments, and then encapsulate the resulting DNA segment utilizing our proprietary SigNature DNA Encapsulation system. We then record and store the sequence of the DNA segment in a secure database in order that we can later detect it.

Embedding the SigNature DNA Marker

Our SigNature DNA Markers may be directly embedded in products or other items, or otherwise attached by embedding them into media that is incorporated in or attached to the product or item. For example, we can embed SigNature DNA Markers directly in paper, metal, plastics, stone, ceramic, and other materials. Media in which we can embed SigNature DNA Markers include:

SigNature DNA Ink: Our SigNature DNA Ink can be applied directly or on a label that is then affixed to the product or item. SigNature DNA Ink is highly durable and degradation resistant. SigNature DNA Ink can be visible (colored) or invisible. This makes it possible to mark products with a visible, or overt, and/or invisible, or covert, SigNature DNA Marker on any tangible surface such as a label. The location of covert Signature DNA Markers on a product are recorded and stored in a secure database. Similar media like varnish and paints can also be used instead of ink. Examples of where our SigNature DNA Inks can be used include:

- artwork and collectibles (paintings, artifacts, antiques, stamps, coins, documents, collectibles and memorabilia);
- corporate documents (confidential, date and time dependent documents or security clearance documents);
- financial instruments (currency, stock certificates, checks, bonds and debentures);
- retail items (event tickets, VIP tickets, clothing labels, luxury products);
- pharmaceuticals (tablet, capsule and pill surface printing); and
- other miscellaneous items (lottery tickets, inspection stamps, custom seals, passports and visas, etc.).

We have also developed a portfolio of SigNature DNA containing thermal transfer ribbons. These products will allow retailers to protect at the point-of-sale by printing price labels, hang tags, event tickets and even credentials with

customized SigNature markers. We are also able to mark cartridges of laser printers with SigNature DNA.

SigNature DNA Thread: Our SigNature DNA Thread, which can consist of any fabric from cotton to wool, is embedded with SigNature DNA Markers and can be used to mark and authenticate products and other items incorporating textiles. For example, SigNature DNA Thread can be incorporated in a finished garment, bag, purse, shoe or other product or item. SigNature DNA Thread can help textile vendors, clothing and accessory manufacturers and governments authenticate thread, yarn and fabric at any stage in the supply chain. We can also embed our SigNature DNA Markers into raw cotton fiber before manufacture of a finished cotton textile product (e.g., a t-shirt) and authenticate a finished cotton product. We have completed our feasibility studies with the Textile Centre of Excellence consortium of companies (Leeds, UK) to demonstrate how our SigNature DNA can be used to authenticate textiles at all points of the supply chain through to the end user. In addition, we have demonstrated the integration of SigNature DNA with existing manufacturing processes to produce threads, labels and fabrics manufactured by Yorkshire-based companies and are beginning to work on commercial projects with these companies.

Cashield™ Security Ink: In 2010, we developed a new product line, Cashield™, which is a family of cash degradation inks that permanently stain bank notes stolen from cash-handling or ATM systems. Cashield extends our offering beyond our prior singular product, AzSure®, to a family of security inks that include Red, Violet, Green, Teal, Indigo, and the original AzSure® Blue. Current degradation dyes suffer from a critical technical weakness, as the dyes may be removed by the use of solvents. We initiated the development of Cashield in response to demand for a more effective carrier for our SigNature DNA markers. Cashield has been certified for use in the EU by the Laboratoire National de Métrologie et d'Essais (LNE) and passed all 47 individual dye penetration and wash-out-resistance tests. Additionally, a CViT study presented by the University of Leeds cited Cashield AzSure Blue ink as having improved performance versus staining inks from other suppliers. In this study, the AzSure blue ink was tested across a range of currencies, including British pounds, Euros, and U.S. dollars. The evaluation involved exposure to numerous industrial solvents. Final analysis of the results concluded that the AzSure blue ink was bound strongly in five seconds or less to a variety of banknotes, and could not be removed with any solvent.

DNANet: In 2010, we developed DNANet tactical DNA products for law enforcement, in the form of DNA-marked fixative sprays and liquids as well as transferable grease. These products, being marketed to global police forces were created to help link criminals to crimes. DNANet is a tactical forensic system providing unique DNA codes for covert operations that require absolute proof of authentication.

SmartDNA: In 2011, we introduced SmartDNA is a unique and patented security system based on botanical DNA, a new and effective crime protection system for stores, warehouses, banks, pharmacies, ATMs and the protection of valuables. The system contains a water-based, non-toxic spray which may be triggered during a crime, marking the perpetrator and remaining on their person for weeks after the crime. Each SmartDNA product is designed to be unique to each store, warehouse or sting operation allowing the police and prosecutors to link criminals to the crimes.

Other Security Devices: Our SigNature DNA Markers can also be embedded onto printed barcodes, RFID tags, optical memory strips, holograms, tamper proof labels and other security devices incorporated into products and other items for various security-related purposes.

SigNature DNA Detection and Product Authentication

We now offer a full range of detection options from instant rapid screening to more detailed forensic level authentication:

Level 1 "Spot Test" Detection: We offer rapid readers capable of instantly testing for the presence or absence of any of our SigNature DNA Markers.

Level 2 Forensic DNA Authentication: When a forensic level of authentication is necessary, we offer in-field or in-house forensic DNA authentication that will confirm authentication sequences in approximately 24 hours.

Sales and Marketing

As of December 8, 2011, we had eight employees engaged in sales and marketing. We expect to hire additional sales directors and/or consultants to assist us with sales and marketing efforts with respect to our ten target vertical markets.

Research and Development

Our research and development efforts are primarily focused on the development of prototypes of new versions of our products using our existing technologies for review by prospective customers, such as different types of SigNature DNA Ink and SigNature DNA Thread. We are also focused on the identification of additional genotyping markers. Nonetheless, we believe that our development of new and enhanced technologies relating to our business may be important to our future success, and we continue to examine whether investments in the research and development of such technologies is merited.

Raw Materials and Suppliers

Our sources of raw materials include botanical sources of DNA that are readily available in nature, which we are able to replicate to use in our product offerings. In general, our customers provide their materials to us in their own packaging to which we include our DNA products and return to them in their own packaging. In addition, Printcolor Screen Ltd. supplies the ink for our Cashield products, and SKS Bottle & Packaging supplies us with the plastic bottles used in packaging our DNANet sprays and liquids.

Manufacturing

We have the capability to manufacture SigNature DNA Markers, covert DNA Ink, and SigNature PCR Kits at our laboratories in Stony Brook. We rely upon other companies to manufacture our overt color-changing DNA Ink. We also have in-house capabilities to complete all BioMaterial Genotyping authentications.

Distribution of our Products and Commercial Agreements

Cash-in Transit. We can use our SigNature DNA platform to offer a forensic security solution for banks and institutions operating in the cash-in-transit industry, including automated teller machine (ATM) operations and banknote transportation and storage. We can embed our SigNature DNA Marker into cash degradation inks that are placed in cash-in-transit boxes. If a cash box is compromised or illegally accessed, the security device discharges the liquid cash degradation dye into the banknotes, which can be detected after the banknotes are recovered by police. Since January 2008, we have been engaged with Loomis Group U.K., a cash-handling company, and Spinnaker International, a cash-in-transit box manufacturer, pursuant to which we provide signature DNA for use in boxes and authentication and expert witness reports. In July 2009, we joined Banknote Watch, a national U.K.-based crime prevention initiative.

Printcolor Agreement. On September 16, 2009, we entered into a Supply and Distribution Agreement, pursuant to which Printcolor Screen Ltd. has agreed to manufacture and supply to us on an exclusive basis AzSure security ink for an initial period of five years, unless the agreement is mutually terminated by the parties or terminated for material breach.

Supima Cotton Agreement. On June 27, 2007, we entered into a Feasibility Study Agreement with Supima, a non-profit organization for the promotion of U.S. pima cotton growers. In connection with the agreement we undertook a study of the feasibility of establishing a method or methods to authenticate and identify U.S. produced pima cotton fibers. We received payments from Supima upon signing of the agreement and in installments beginning

on July 6, 2007 through completion of the feasibility study. The feasibility study was successfully completed in the first quarter of 2008. We have begun a preliminary launch of authentication services and we may in the future offer authentication services to member companies of Supima (as well as non-member companies) to confirm the Supima cotton content of textile items such as apparel and home fashion products. We are obligated to pay Supima a percentage of any fees that we receive from such companies for authentication services we provide them. We are also obligated to pay Supima fifty percent of the aggregate amount of payments that we received from Supima for the feasibility study out of any fees we receive from providing authentication services. In addition, until the earlier of either (i) five years from June 18, 2007 or (ii) the repayment to Supima of fifty percent of the aggregate amount of payments that we received from Supima for the feasibility study, we are obligated to pay Supima a fee for each authentication service that we provide. The agreement may be terminated by us or Supima after sixty (60) days upon fourteen (14) days prior written notice.

Textile Centre of Excellence. On August 11, 2008, we entered into an Agreement with Huddersfield and District Textile Training Company Limited. We have agreed to undertake a study to demonstrate how our SigNature DNA can be used to authenticate textiles at all points of the supply chain through to the end user. In addition, this study will demonstrate the integration of SigNature DNA with existing manufacturing processes to produce threads, labels and fabrics manufactured by Yorkshire-based companies. The funding for Phase I of the study, which ran through December 2008, totaled £50,000. In June 2010, we received our first order as part of our participation in the multi-year contract funded by the European Regional Development Fund and Yorkshire Forward. The initiating order for our products (approximately $50,000) was part of a three-year commitment of an aggregate of $1,500,000 to companies participating in the Yorkshire Forward program.

Nissha Agreement. On December 14, 2009, we entered into a Supply Agreement with Nissha Printing Co., Ltd. ("Nissha"), an international printing company. In the agreement, we agreed to supply our authentication marks to Nissha to be incorporated into their printing ink. We will receive an initial fee, annual fee and authentication mark fee for each unique authentication mark purchased. Additional fees may be received if more than 10 authentications per year are ordered by Nissha.

On November 1, 2011, we entered into an Exclusive Sales Agreement with Nissha, pursuant to which we granted Nissha an exclusive right to sell their printing inks and related products incorporating our SigNature DNA authentication markers, initially for fish and fruit products, publications and wood applications, in various countries in Asia for an initial period of three years. The exclusivity rights granted to Nissha are conditioned upon Nissha achieving minimum sales targets (or, if below the specified thresholds, paying the shortfall) and payment of annual fees. We also granted Nissha the non-exclusive right to sell their printing inks and related products incorporating our SigNature DNA authentication markers for cosmetics products in the same geographic area during the term of the agreement. We have agreed to supply our SigNature DNA authentication markers to Nissha on pricing terms and conditions to be set forth in the applicable purchase orders.

C.F. Martin & Co. Agreement. On July 18, 2011, we entered into a Joint Development Agreement, dated as of June 30, 2011 with C.F. Martin & Co., Inc., a designer and manufacturer of acoustic guitars, strings for acoustic guitars, and related guitar components and accessories ("Martin"). Under the terms of the agreement, we and Martin will jointly develop, create and apply new techniques and know-how for labeling and authenticating guitars, guitar strings and related guitar components and accessories using DNA security markers created by us. Each party shall bear and be responsible for its own expenses and costs of the development and creation of the techniques and know-how. Subject to certain exceptions for us, the agreement provides for a period of exclusivity ("Period of Exclusivity") of six (6) months beginning on June 30, 2011 whereby Martin and we agree not to sell, offer for sale, enter into any agreement with any third party for the future sale of, advertise, or market, anywhere in the world, any jointly developed technique for labeling guitars, guitar strings, and related guitar components and accessories with DNA security markers. The agreement also provides that Martin shall purchase DNA security markers exclusively from us during the longer of the term of the agreement or the Period of Exclusivity. The term of the agreement will continue until the parties agree that the development and creation of techniques or know-how for labeling guitars or guitar strings with DNA security markers is complete, unless either party terminates the agreement by giving at least sixty (60) days written notice to the other party.

Disc Graphics Agreement. On July 8, 2011, we entered into an agreement, dated as of July 7, 2011 (the "Agreement") with Disc Graphics Inc., a provider of specialty packaging ("DG"). Under the terms of the agreement, DG will purchase DNA security markers ("Markers") from us to be incorporated into coatings for DG's products. Additionally, DG will be our exclusive distributor in North America of Markers for the folding carton offset print sector and non-exclusive distributor of Markers for pressure sensitive labels. We are obligated to provide Markers for up to a fixed amount of coatings. We received an initial fee upon entering the agreement, and are entitled to an annual fee for the Markers, as well as fees for any authentication services provided by us. The initial term of the agreement is three years and will

automatically renew for successive one year periods, unless either party terminates the agreement by giving written notice to the other party at least ninety (90) days prior to the end of the third year. After the initial term, we have the right to terminate if DG does not pay the annual fee.

3SI Agreement. On August 9, 2011, the Company entered into a Supplier Agreement, dated as of August 3, 2011 (the "Supplier Agreement"), with 3SI Security Systems, Inc., a manufacturer and seller of asset protection security systems based on ink and smoke staining as well as GPS technology ("3SI"). On the same date, the parties also entered into a License Agreement, dated as of August 3, 2011 (the "License Agreement"). Under the terms of the Supplier Agreement, 3SI will purchase DNA markers and related products ("Markers") from us to be incorporated into products subject to certain patents ("Licensed Patents") owned by 3SI (the "Products"). Pursuant to the License Agreement, 3SI granted a nonexclusive irrevocable license to us to make, have made, use, import, offer to sell and sell the Products. Under the terms of the Supplier Agreement, 3SI is permitted to purchase the Products from us from time to time pursuant to purchase orders. The purchase price for the Products will be as set forth in an applicable product schedule for the purchase orders and may be adjusted from time to time pursuant to the terms of the Supplier Agreement. Under the terms of the License Agreement, the Company agreed to pay an initial payment and royalties to 3SI based on the number of Products sold, with such royalties being subject to adjustment pursuant to the terms of the License Agreement. The terms of the Supplier Agreement and the License Agreement will continue until the expiration of the Licensed Patents, unless earlier terminated under the terms of the respective agreements. Under the terms of the Supplier Agreement, 3SI has the right to immediately terminate upon written notice to us in the event that we fail to continuously maintain a minimum number of Markers to be incorporated into the Products, or upon 30 days written notice to us. Under the terms of the License Agreement, 3SI has the right to immediately terminate upon written notice to us in the event that we fail to continuously maintain a minimum number of Markers, or fail to sell Markers to 3SI for incorporation into the Products for a certain time after being ordered.

Defense Logistics Agency. On June 17, 2011, we received approval and permission to disclose from the Defense Logistics Agency of the U.S. Department of Defense (the "DLA") a time and material subcontract (the "Subcontract") that we entered into on June 2, 2011 with the Logistics Management Institute ("LMI"). Under the terms of the Subcontract, the Company will perform work and services for LMI and the DLA relating to a program to demonstrate the functional, technical and business viability of DNA marking technology as an anti-counterfeiting measure by using it in the DLA microcircuit supply chain. The program is divided into six tasks and involves the preparation, implementation and evaluation of marking materials for microcircuit chips and packages, creation of a business case analysis, development of a pricing and transition plan and identification of feasible techniques to apply DNA marks in conjunction with laser marking. The period of performance of the Subcontract is from May 26, 2011 through November 26, 2012. The Company is entitled to receive payments for performance under the Subcontract through November 26, 2012, for a total amount not to exceed $913,400 (with no minimum), assuming the successful completion of the six tasks of the program.

Manufacturer of Writing Instruments. On December 21, 2009, we entered into a Supply Agreement with an international manufacturer of writing instruments. In the agreement, we agreed to supply the company with our authentication marks for an initial period of five years. We will receive an annual fee for each unique authentication mark purchased. There is the potential to receive additional fees if more than three authentications per year are ordered. In exchange for exclusive rights in a specific field, the company has agreed to minimum volume purchases for each year of the agreement.

Competition

The principal markets for our offerings are intensely competitive. We compete with many existing suppliers and new competitors continue to enter the market. Many of our competitors, both in the United States and elsewhere, are major pharmaceutical, chemical and biotechnology companies, or have strategic alliances with such companies, and many of them have substantially greater capital resources, marketing experience, research and development staff, and facilities than we do. Any of these companies could succeed in developing products that are more effective than the products that we have or may develop and may be more successful than us in producing and marketing their existing products. Some of our competitors that operate in the anti-counterfeiting and fraud prevention markets include:

American Bank Note Holographics, Inc., Applied Optical Technologies, Authentix, Collectors Universe Inc., Collotype, Data Dot Technology, De La Rue Plc., Digimarc Corp., DNA Technologies, Inc., ID Global, Informium AG, Inksure Technologies, Kodak, L-1 Identity Solutions, Media Sec Technologies, opSec Security Group plc., SmartWater Technology, Inc., Sun Chemical Corp, Tracetag, Prooftag SAS, and Warnex.

Some examples of competing security products include:

fingerprint scanner (a system that scans fingerprints before granting access to secure information or facilities);

voice recognition software (software that authenticates users based on individual vocal patterns);

cornea scanner (a scanner that scans the iris of a user's eye to compare with data in a computer database);

face scanner (a scanning system that uses complex algorithms to distinguish one face from another);

integrated circuit chip and magnetic strips (integrated circuit chips that receive and, if authentic, send a correct electric signal back to the reader, and magnetic strips that contain information, both of which are common components of debit and credit cards);

optically variable microstructures (these include holograms, which display images in three dimensions and are generally difficult to reproduce using advanced color photocopiers and printing techniques, along with other devices with similar features);

elemental taggants and fluorescence (elemental taggants are various unique substances that can be used to mark products and other items, are revealed by techniques such as x-ray fluorescence); and

radioactivity and rare molecules (radioactive substances or rare molecules which are uncommon and readily detected).

We expect competition with our products and services to continue and intensify in the future. We believe competition in our principal markets is primarily driven by:

product performance, features and liability;

price;

timing of product introductions;

ability to develop, maintain and protect proprietary products and technologies;

sales and distribution capabilities;

technical support and service;

brand loyalty;

applications support; and

breadth of product line.

If a competitor develops superior technology or cost-effective alternatives to our products, our business, financial condition and results of operations could be significantly harmed.

Proprietary Rights

We believe that our 14 patents, 8 patents pending, 14 provisional patents, 9 registered trademarks, and 5 registered trademarks pending, and our trade secrets, copyrights and other intellectual property rights are important assets for us. Our patents will expire at various times between 2012 and 2024. The duration of our trademark registrations varies from country to country. However, trademarks are generally valid and may be renewed indefinitely as long as they are in use and/or their registrations are properly maintained.

However, there are events that are outside of our control that pose a threat to our intellectual property rights as well as to our products and services. For example, effective intellectual property protection may not be available in every country in which our products and services are distributed. The efforts we have taken to protect our proprietary rights may not be sufficient or effective. Any significant impairment of our intellectual property rights could harm our business or our ability to compete. Protecting our intellectual property rights is costly and time consuming. Any increase in the unauthorized use of our intellectual property could make it more expensive to do business and harm our operating results. Although we seek to obtain patent protection for our innovations, it is possible we may not be able to protect some of these innovations. Given the costs of obtaining patent protection, we may choose not to protect certain innovations that later turn out to be important. There is always the possibility that the scope of the protection gained from one of our issued patents will be insufficient or deemed invalid or unenforceable. We also seek to maintain certain intellectual property as trade secrets. This secrecy could be compromised by third parties, or intentionally or accidentally by our employees, which would cause us to lose the competitive advantage resulting from these trade secrets.

Additionally, litigation regarding patents and other intellectual property rights is extensive in the biotechnology industry. In the event of an intellectual property dispute, we may be forced to litigate. This litigation could involve proceedings instituted by the U.S. Patent and Trademark Office or the International Trade Commission, as well as proceedings brought directly by affected third parties. Intellectual property litigation can be extremely expensive, and these expenses, as well as the consequences should we not prevail, could seriously harm our business. If a third party claims an intellectual property right to technology we use, we might need to discontinue an important product or product line, alter our products and processes, pay license fees or cease our affected business activities. Although we might under these circumstances attempt to obtain a license to this intellectual property, we may not be able to do so on favorable terms, or at all.

In connection with a private placement of senior secured convertible notes on July 15, 2010, we granted a security interest in all of our assets, and the assets of APDN (B.V.I.), which includes all of our patents and trademarks.

Employees

We currently have 18 full-time employees and three part-time employees, including three in management, nine in operations, eight 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.

Available Information

We are subject to the informational requirements of the Securities Exchange Act of 1934, which requires us to file our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, amendments to such reports and other information with the Securities and Exchange Commission (“SEC”). This information is available at the SEC’s Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. Because we file documents electronically with the SEC, you may also obtain this information by visiting the SEC’s website at www.sec.gov. Our web site is located at www.adnas.com.

17

ITEM 1A. RISK FACTORS.

Because of the following factors, as well as other variables affecting our operating results and financial condition, past financial performance may not be a reliable indicator of future performance, and historical trends should not be used to anticipate results or trends in future periods.

Risks Relating to Our Business:

We have a short operating history, a relatively new business model, and have not produced significant revenues. This makes it difficult to evaluate our future prospects and increases the risk that we will not be successful.

We have a short operating history with our current business model, which involves the marketing, sale and distribution of anti-counterfeiting and product authentication solutions. Our operations since inception have produced limited revenues, and may not produce significant revenues in the near term, or at all, which may harm our ability to obtain additional financing and may require us to reduce or discontinue our operations. If we create significant revenues in the future, we will derive most of such revenues from the sale of anti-counterfeiting and product authentication solutions, which are immature industries. You must consider our business and prospects in light of the risks and difficulties we will encounter as an early-stage company in a new and rapidly evolving industry. We may not be able to successfully address these risks and difficulties, which could significantly harm our business, operating results, and financial condition.

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

We incurred net operating losses of $8.1 million for the year ended September 30, 2011 and $7.1 million for the year ended September 30, 2010. These net operating losses have principally been the result of the various costs associated with our selling, general and administrative expenses as we commenced operations, acquired, developed and validated technologies, began marketing activities, and incurred interest expense on notes and warrants we issued to obtain financing. Our operations are subject to the risks and competition inherent in a company that moved from the development stage to an operating company. We may not generate sufficient revenues from operations to achieve or sustain profitability on a quarterly, annual or any other basis in the future. Our revenues and profits, if any, will depend upon various factors, including whether our existing products and services or any new products and services we develop will achieve any level of market acceptance. If we continue to incur losses, our accumulated deficit will continue to increase, which might significantly impair our ability to obtain additional financing. As a result, our business, results of operations and financial condition would be significantly harmed, and we may be required to reduce or terminate our operations.

We will require additional financing which may require the issuance of additional shares which would dilute the ownership held by our stockholders.

We will need to raise funds through either debt or the sale of our shares in order to achieve our business goals. Any shares issued would further dilute the percentage ownership held by the stockholders. Furthermore, if we raise funds in equity transactions through the issuance of convertible securities which are convertible at the time of conversion at a discount to the prevailing market price, substantial dilution is likely to occur resulting in a material decline in the price of your shares.

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

We believe that our existing capital resources will enable us to fund our operations until approximately May 2012. We believe we will be required to seek additional capital to sustain or expand our prototype and sample manufacturing, and sales and marketing activities, and to otherwise continue our business operations beyond that date. We have no commitments for any future funding, and may not be able to obtain additional financing or grants on terms acceptable to us, if at all, in the future. If we are unable to obtain additional capital this would restrict our ability to grow and may require us to curtail or discontinue our business operations. Additionally, while a reduction in our business operations may prolong our ability to operate, that reduction would harm our ability to implement our business strategy. If we can obtain any equity financing, it may involve substantial dilution to our then existing stockholders.

Our independent auditors have expressed substantial doubt about our ability to continue as a going concern, which may hinder our ability to obtain future financing.

In their report dated December 8, 2011, our independent auditors stated that our financial statements for the year ended September 30, 2011 were prepared assuming that we would continue as a going concern, and that they have substantial doubt about our ability to continue as a going concern. Our auditors' doubts are based on our negative working capital of $1.5 million, recurring net operating loss of $8.1 million, and capital deficiency of $1.0 million for the year ended September 30, 2011. We continue to experience net operating losses. Our ability to continue as a going concern is subject to our ability to generate a profit and/or obtain necessary funding from outside sources, including the sale of our securities, obtaining loans from financial institutions, or obtaining grants from various organizations or governments, where possible. Our continued net operating losses and our auditors' doubts increase the difficulty of our meeting such goals and our efforts to continue as a going concern may not prove successful.

Our sales cycles for our products and services can take in excess of nine months from initial contact to contract execution, and require significant employee time and financial resources with no assurances that we will realize sales or revenues.

The sales cycle for our products and services can take in excess of nine months from initial customer contact to contract execution. During this period, we may expend substantial time, effort and financial resources without realizing any revenues with respect to the potential sale.

Our operating results could be adversely affected by a reduction in business with our significant customers.

We derive a significant amount of revenues from a few customers. Taken as a group, our top three customers were responsible for approximately 53% and 64% of our revenues for the years ended September 30, 2011 and 2010, respectively. In addition, four customers accounted for approximately 77% and 90% of total accounts receivable at September 30, 2011 and 2010, respectively. Generally, our customers do not have an obligation to make purchases from us and may stop ordering our products and services or may terminate existing orders or contracts at any time with little or no financial penalty. The loss of any of our significant customers, any substantial decline in sales to these customers or any significant change in the timing or volume of purchases by our customers could result in lower revenues and could harm our business, financial condition or results of operations.

General economic conditions and the current global financial crisis may adversely affect our business, operating results and financial condition.

A general weakening or decline in the global economy or a period of economic slowdown may have serious negative consequences for our business and operating results. Since our customers incorporate our products into a variety of consumer goods, the demand for our products is subject to worldwide economic conditions and their impact on levels of consumer spending. Some of the factors affecting consumer spending include general economic conditions, unemployment, consumer debt, reductions in net worth based on recent severe market declines, residential real estate and mortgage markets, taxation, energy prices, interest rates, consumer confidence and other macroeconomic factors. During a period of economic weakness or uncertainty, demand for consumer goods incorporating our products may weaken, and current or potential customers may defer purchases of our products. Although global economic conditions have improved somewhat since the extreme economic contraction in fiscal years 2008 and 2009, there is still significant uncertainty in the global economy, and there is no guarantee that the global economy will remain in this improved state.

The recent distress in the credit and financial markets has also resulted in extreme volatility in security prices and diminished liquidity. While markets seemed to have stabilized, there can be no assurance that our liquidity will not be

affected by changes in the financial markets and the global economy. Moreover, the current crisis has had a significant material adverse impact on a number of financial institutions and has limited access to capital and credit for many companies. This could, among other things, make it more difficult for us to obtain, or increase our cost of obtaining, capital and financing for our operations. Our access to additional capital may not be available on terms acceptable to us or at all.

If our existing products and services are not accepted by potential customers or we fail to introduce new products and services, our business, results of operations and financial condition will be harmed.

There has been limited market acceptance of our botanical DNA encryption, encapsulation, embedment and authentication products and services to date. Some of the factors that will affect whether we achieve market acceptance of our solutions include:

availability, quality and price relative to competitive solutions;

customers' opinions of the solutions' utility;

ease of use;

consistency with prior practices;

scientists' opinions of the solutions' usefulness;

citation of the solutions in published research; and

general trends in anti-counterfeit and security solutions' research.

The expenses or losses associated with the continued lack of market acceptance of our solutions will harm our business, operating results and financial condition.

Rapid technological changes and frequent new product introductions are typical for the markets we serve. Our future success may depend in part on continuous, timely development and introduction of new products that address evolving market requirements. We believe successful new product introductions may provide a significant competitive advantage because customers invest their time in selecting and learning to use new products, and are often reluctant to switch products. To the extent we fail to introduce new and innovative products, we may lose any market share we then have to our competitors, which will be difficult or impossible to regain. Any inability, for technological or other reasons, to successfully develop and introduce new products could reduce our growth rate or damage our business. We may experience delays in the development and introduction of products. We may not keep pace with the rapid rate of change in anti-counterfeiting and security products' research, and any new products acquired or developed by us may not meet the requirements of the marketplace or achieve market acceptance.

If we are unable to retain the services of Drs. Hayward or Liang we may not be able to continue our operations.

Our success depends to a significant extent upon the continued service of Dr. James A. Hayward, our Chairman, Chief Executive Officer and President, and Dr. Benjamin Liang, our Secretary and Strategic Technology Development Officer. We entered into an employment agreement with Dr. Hayward dated July 11, 2011. We do not have an employment agreement with Dr. Liang. Loss of the services of Drs. Hayward or Liang could significantly harm our business, results of operations and financial condition. We do not maintain key-man insurance on the lives of Drs. Hayward or Liang. During fiscal 2011, Dr. Hayward provided $750,000 in loans to and investments in the Company. In the absence of any other financing, curtailment of cash investments by Dr. Hayward could harm our cash availability and our ability to fund our operations.

The markets for our anti-counterfeiting and product authentication solutions are very competitive, and we may be unable to continue to compete effectively in these industries in the future.

The principal markets for our anti-counterfeiting and product authentication solutions are intensely competitive. Many of our competitors, both in the United States and elsewhere, are major pharmaceutical, chemical and biotechnology companies, or have strategic alliances with such companies, and many of them have substantially greater capital resources, marketing experience, research and development staff, and facilities than we do. Any of these companies could succeed in developing products that are more effective than the products that we have or may develop and may be more successful than us in producing and marketing their existing products. Some of our competitors that operate in the anti-counterfeiting and fraud prevention markets include: American Bank Note Holographics, Inc., Applied Optical Technologies, Authentix, Collectors Universe Inc., Collotype, Data Dot Technology, De La Rue Plc., Digimarc Corp., DNA Technologies, Inc., ID Global, Informium AG, Inksure Technologies, Kodak, L-1 Identity Solutions, Media Sec Technologies, opSec Security Group plc., SmartWater Technology, Inc., Sun Chemical Corp, Tracetag, Prooftag SAS, and Warnex.

We expect this competition to continue and intensify in the future. Competition in our markets is primarily driven by:

- product performance, features and liability;
- price;
- timing of product introductions;
- ability to develop, maintain and protect proprietary products and technologies;
- sales and distribution capabilities;
- technical support and service;
- brand loyalty;
- applications support; and
- breadth of product line.

If a competitor develops superior technology or cost-effective alternatives to our products, our business, financial condition and results of operations could be significantly harmed.

We need to expand our sales, marketing and support organizations and our distribution arrangements to increase market acceptance of our products and services.

We currently have few sales, marketing, customer service and support personnel and will need to increase our staff to generate a greater volume of sales and to support any new customers or the expanding needs of existing customers. The employment market for sales, marketing, customer service and support personnel in our industry is very competitive, and we may not be able to hire the kind and number of sales, marketing, customer service and support personnel we are targeting. Our inability to hire qualified sales, marketing, customer service and support personnel may harm our business, operating results and financial condition. We do not currently have any arrangements with any distributors and we may not be able to enter into arrangements with qualified distributors on acceptable terms or at all. If we are not able to develop greater distribution capacity, we may not be able to generate sufficient revenue to support our operations.

A manufacturer's inability or willingness to produce our goods on time and to our specifications could result in lost revenue and net losses.

Though we manufacture prototypes, samples and some of our own products, we currently do not own or operate any significant manufacturing facilities and depend upon independent third parties for the manufacture of some of our products to our specifications. The inability of a manufacturer to ship orders of such products in a timely manner or to meet our quality standards could cause us to miss the delivery date requirements of our customers for those items, which could result in cancellation of orders, refusal to accept deliveries or a reduction in purchase prices, any of which could harm our business by resulting in decreased revenues or net losses upon sales of products, if any sales could be made.

If we need to replace manufacturers, our expenses could increase, resulting in smaller profit margins.

We compete with other companies for the production capacity of our manufacturers and import quota capacity. Some of these competitors have greater financial and other resources than we have, and thus may have an advantage in the competition for production and import quota capacity. If we experience a significant increase in demand, or if our existing manufacturers must be replaced, we will need to establish new relationships with another or multiple manufacturers. We cannot assure you that this additional third party manufacturing capacity will be available when required on terms that are acceptable to us or terms similar to those we have with our existing manufacturers, either from a production standpoint or a financial standpoint. We do not have long-term contracts with our manufacturers, and our manufacturers do not produce our products exclusively. Should we be forced to replace our manufacturers, we may experience an adverse financial impact, or an adverse operational impact, such as being forced to pay increased costs for such replacement manufacturing or delays upon distribution and delivery of our products to our customers, which could cause us to lose customers or lose revenues because of late shipments.

If a manufacturer fails to use acceptable labor practices, we might have delays in shipments or face joint liability for violations, resulting in decreased revenue and increased expenses.

While we require our independent manufacturers to operate in compliance with applicable laws and regulations, we have no control over their ultimate actions. While our internal and vendor operating guidelines promote ethical business practices and our staff and buying agents periodically visit and monitor the operations of our independent manufacturers, we do not control these manufacturers or their labor practices. The violation of labor or other laws by our independent manufacturers, or by one of our licensing partners, or the divergence of an independent manufacturer's or licensing partner's labor practices from those generally accepted as ethical in the United States, could interrupt, or otherwise disrupt the shipment of finished products to us or damage our reputation. Any of these, in turn, could have a material adverse effect on our financial condition and results of operations, such as the loss of potential revenue and incurring additional expenses.

Failure to license new technologies could impair sales of our existing products or any new product development we undertake in the future.

To generate broad product lines, it is advantageous to sometimes license technologies from third parties rather than depend exclusively on the development efforts of our own employees. As a result, we believe our ability to license new technologies from third parties is and will continue to be important to our ability to offer new products. In addition, from time to time we are notified or become aware of patents held by third parties that are related to technologies we are selling or may sell in the future. After a review of these patents, we may decide to seek a license for these technologies from these third parties. There can be no assurance that we will be able to successfully identify new technologies developed by others. Even if we are able to identify new technologies of interest, we may not be able to negotiate a license on favorable terms, or at all. If we lose the rights to patented technology, we may need to discontinue selling certain products or redesign our products, and we may lose a competitive advantage. Potential competitors could license technologies that we fail to license and potentially erode our market share for certain products. Intellectual property licenses would typically subject us to various commercialization, sublicensing, minimum payment, and other obligations. If we fail to comply with these requirements, we could lose important rights under a license. In addition, certain rights granted under the license could be lost for reasons beyond our control, and we may not receive significant indemnification from a licensor against third party claims of intellectual property infringement.

Our failure to manage our growth in operations and acquisitions of new product lines and new businesses could harm our business.

Any growth in our operations, if any, will place a significant strain on our current management resources. To manage such growth, we would need to improve our:

operations and financial systems;

procedures and controls; and

training and management of our employees.

Our future growth, if any, may be attributable to acquisitions of new product lines and new businesses. Future acquisitions, if successfully consummated, would likely create increased working capital requirements, which would likely precede by several months any material contribution of an acquisition to our net income. Our failure to manage growth or future acquisitions successfully could seriously harm our operating results. Also, acquisition costs could cause our quarterly operating results to vary significantly. Furthermore, our stockholders would be diluted if we financed the acquisitions by incurring convertible debt or issuing securities.

Although our operations are principally based within the United States, we have begun to operate and sell to customers in foreign countries. To the extent that our international operations expand, we would face additional risks, including:

- difficulties in staffing, managing and integrating international operations due to language, cultural or other differences;
- different or conflicting regulatory or legal requirements;
- foreign currency fluctuations; and
- diversion of significant time and attention of our management.

Failure to attract and retain qualified scientific, production and managerial personnel could harm our business.

Recruiting and retaining qualified scientific and production personnel to perform and manage prototype, sample, and product manufacturing and business development personnel to conduct business development are critical to our success. In addition, our desired growth and expansion into areas and activities requiring additional expertise, such as clinical testing, government approvals, production, and marketing will require the addition of new management personnel and the development of additional expertise by existing management personnel. Because the industry in which we compete is very competitive, we face significant challenges attracting and retaining a qualified personnel base. Although we believe we have been and will be able to attract and retain these personnel, we may not be able to continue to successfully attract qualified personnel. The failure to attract and retain these personnel or, alternatively, to develop this expertise internally would harm our business since our ability to conduct business development and manufacturing will be reduced or eliminated, resulting in lower revenues. We generally do not enter into employment agreements requiring our employees to continue in our employment for any period of time.

Our intellectual property rights are valuable, and any inability to protect them could reduce the value of our products, services and brand.

Our patents, trademarks, trade secrets, copyrights and all of our other intellectual property rights are important assets for us. There are events that are outside of our control that pose a threat to our intellectual property rights as well as to our products and services. For example, effective intellectual property protection may not be available in every country in which our products and services are distributed. The efforts we have taken to protect our proprietary rights may not be sufficient or effective. Any significant impairment of our intellectual property rights could harm our business or our ability to compete. Protecting our intellectual property rights is costly and time consuming. Any increase in the unauthorized use of our intellectual property could make it more expensive to do business and harm our operating results. Although we seek to obtain patent protection for our innovations, it is possible we may not be able to protect some of these innovations. Given the costs of obtaining patent protection, we may choose not to protect certain innovations that later turn out to be important. There is always the possibility that the scope of the protection gained from one of our issued patents will be insufficient or deemed invalid or unenforceable. We also seek to maintain certain intellectual property as trade secrets. The secrecy could be compromised by third parties, or

intentionally or accidentally by our employees, which would cause us to lose the competitive advantage resulting from these trade secrets.

Intellectual property litigation could harm our business.

Litigation regarding patents and other intellectual property rights is extensive in the biotechnology industry. In the event of an intellectual property dispute, we may be forced to litigate. This litigation could involve proceedings instituted by the U.S. Patent and Trademark Office or the International Trade Commission, as well as proceedings brought directly by affected third parties. Intellectual property litigation can be extremely expensive, and these expenses, as well as the consequences should we not prevail, could seriously harm our business.

If a third party claims an intellectual property right to technology we use, we might need to discontinue an important product or product line, alter our products and processes, pay license fees or cease our affected business activities. Although we might under these circumstances attempt to obtain a license to this intellectual property, we may not be able to do so on favorable terms, or at all. Furthermore, a third party may claim that we are using inventions covered by the third party's patent rights and may go to court to stop us from engaging in our normal operations and activities, including making or selling our product candidates. These lawsuits are costly and could affect our results of operations and divert the attention of managerial and technical personnel. A court may decide that we are infringing the third party's patents and would order us to stop the activities covered by the patents. In addition, a court may order us to pay the other party damages for having violated the other party's patents. The biotechnology industry has produced a proliferation of patents, and it is not always clear to industry participants, including us, which patents cover various types of products or methods of use. The coverage of patents is subject to interpretation by the courts, and the interpretation is not always uniform. If we are sued for patent infringement, we would need to demonstrate that our products or methods of use either do not infringe the patent claims of the relevant patent and/or that the patent claims are invalid, and we may not be able to do this. Proving invalidity, in particular, is difficult since it requires a showing of clear and convincing evidence to overcome the presumption of validity enjoyed by issued patents.

Because some patent applications in the United States may be maintained in secrecy until the patents are issued, because patent applications in the United States and many foreign jurisdictions are typically not published until eighteen months after filing, and because publications in the scientific literature often lag behind actual discoveries, we cannot be certain that others have not filed patent applications for technology covered by our or our licensor's issued patents or pending applications or that we or our licensors were the first to invent the technology. Our competitors may have filed, and may in the future file, patent applications covering technology similar to ours. Any such patent application may have priority over our or our licensors' patent applications and could further require us to obtain rights to issued patents covering such technologies. If another party has filed a United States patent application on inventions similar to ours, we may have to participate in an interference proceeding declared by the United States Patent and Trademark Office to determine priority of invention in the United States. The costs of these proceedings could be substantial, and it is possible that such efforts would be unsuccessful, resulting in a loss of our United States patent position with respect to such inventions.

Some of our competitors may be able to sustain the costs of complex patent litigation more effectively than we can because they have substantially greater resources. In addition, any uncertainties resulting from the initiation and continuation of any litigation could have a material adverse effect on our ability to raise the funds necessary to continue our operations.

Accidents related to hazardous materials could adversely affect our business.

Some of our operations require the controlled use of hazardous materials. Although we believe our safety procedures comply with the standards prescribed by federal, state, local and foreign regulations, the risk of accidental contamination of property or injury to individuals from these materials cannot be completely eliminated. In the event of an accident, we could be liable for any damages that result, which could seriously damage our business and results

of operations.

Potential product liability claims could affect our earnings and financial condition.

We face a potential risk of liability claims based on our products and services, and we have faced such claims in the past. Though we have product liability insurance coverage which we believe is adequate, we may not be able to maintain this insurance at reasonable cost and on reasonable terms. We also cannot assure that this insurance, if obtained, will be adequate to protect us against a product liability claim, should one arise. In the event that a product liability claim is successfully brought against us, it could result in a significant decrease in our liquidity or assets, which could result in the reduction or termination of our business.

Litigation generally could affect our financial condition and results of operations.

We generally may be subject to claims made by and required to respond to litigation brought by customers, former employees, former officers and directors, former distributors and sales representatives, and vendors and service providers. We have faced such claims and litigation in the past and we cannot assure that we will not be subject to claims in the future. In the event that a claim is successfully brought against us, considering our lack of material revenue and the losses our business has incurred for the period from our inception to September 30, 2011, this could result in a significant decrease in our liquidity or assets, which could result in the reduction or termination of our business.

Risks Relating to Our Common Stock:

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

As of December 8, 2011, we had 513,233,108 shares of common stock issued and outstanding, outstanding options and warrants to purchase 178,930,280 shares of common stock, and outstanding notes convertible into 82,498,824 shares of common stock. All of the shares issuable upon exercise of our options and warrants may be sold without restriction, except for shares issuable upon exercise of options held by our "affiliates" as defined in Rule 144 under the Securities Act of 1933, as amended. The sale of these shares may adversely affect the market price of our common stock. The issuance of shares upon exercise of options and warrants will cause immediate and substantial dilution to the interests of other stockholders since the selling stockholder may convert and sell the full amount issuable on exercise.

If we fail to remain current on our reporting requirements, we could be removed from the OTC bulletin board which would limit the ability of broker-dealers to sell our securities and the ability of stockholders to sell their securities in the secondary market.

Companies trading on The Over The Counter Bulletin Board (the "OTC Bulletin Board"), such as us, must be reporting issuers under Section 12 or Section 15(d) of the Securities Exchange Act of 1934, as amended, and must be current in their reports under Section 13, in order to maintain price quotation privileges on the OTC Bulletin Board. If we fail to remain current on our reporting requirements, we could be removed from the OTC Bulletin Board. As a result, the market liquidity for our securities could be severely adversely affected by limiting the ability of broker-dealers to sell our securities and the ability of stockholders to sell their securities in the secondary market. We have been current in our reporting requirements for the last seven years, however, there can be no assurance that in the future we will always be current in our reporting requirements.

Our common stock is subject to the "penny stock" rules of the SEC and the trading market in our securities is limited, which makes transactions in our stock cumbersome and may reduce the value of an investment in our stock.

The SEC has adopted Rule 15g-9 which establishes the definition of a "penny stock," for the purposes relevant to us, as any equity security that has a market price of less than $5.00 per share or with an exercise price of less than $5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, the rules require:

that a broker or dealer approve a person's account for transactions in penny stocks; and

the broker or dealer receive from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased.

25

In order to approve a person's account for transactions in penny stocks, the broker or dealer must:

obtain financial information and investment experience objectives of the person; and

make a reasonable determination that the transactions in penny stocks are suitable for that person and the person has sufficient knowledge and experience in financial matters to be capable of evaluating the risks of transactions in penny stocks.

The broker or dealer must also deliver, prior to any transaction in a penny stock, a disclosure schedule prescribed by the SEC relating to the penny stock market, which, in highlight form:

sets forth the basis on which the broker or dealer made the suitability determination; and

that the broker or dealer received a signed, written agreement from the investor prior to the transaction.

Generally, brokers may be less willing to execute transactions in securities subject to the "penny stock" rules. This may make it more difficult for investors to dispose of our common stock and cause a decline in the market value of our stock.

Disclosure also has to be made about the risks of investing in penny stocks in both public offerings and in secondary trading and about the commissions payable to both the broker-dealer and the registered representative, current quotations for the securities and the rights and remedies available to an investor in cases of fraud in penny stock transactions. Finally, monthly statements have to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

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

ITEM 2. PROPERTIES.

We maintain our principal office at 25 Health Sciences Drive, Suite 215, Stony Brook, New York 11790. We moved our principal office to the Long Island High Technology Incubator, which is located on the campus of Stony Brook University, in November 2005. We believe that our current office space and facilities are sufficient to meet our present needs and do not anticipate any difficulty securing alternative or additional space, as needed, on terms acceptable to us.

ITEM 3. LEGAL PROCEEDINGS.

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.

Demodulation, Inc. v. Applied DNA Sciences, Inc., et al. (Civil Action No. - 2:11-cv-00296-WJM-MF, District of New Jersey):

On May 18, 2011, the Company was served with a complaint in a lawsuit brought by Demodulation, Inc. against the Company, Corning Incorporated, Alfred University, and Alfred Technology Resources, Inc. On July 8, 2011, the

Company filed a motion to dismiss the complaint. In response, on August 3, 2011, Demodulation, Inc. filed an amended complaint. Demodulation, Inc. alleges that it was unable to bring its microwire technology to market due to the wrongful acts of defendants, who allegedly conspired to steal Demodulation, Inc.'s trade secrets and other intellectual property and to interfere in its business opportunities. Of the 17 claims alleged in the amended complaint, five are asserted against the Company, including alleged misappropriation of trade secrets, antitrust violations, civil RICO, and patent infringement. The Company believes these claims are without merit. On September 10, 2011, Alfred University filed a motion to transfer the action from the District of New Jersey to the Western District of New York; the Court has not yet decided the motion. Pursuant to an order of the Court, once the transfer motion is decided, the Company intends to file a motion to dismiss the amended complaint for failure to state a claim and on other grounds. The Company intends to vigorously defend the action.

ITEM 4. (REMOVED AND RESERVED).

PART II

ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Market Information

Our Common Stock is traded over-the-counter on The Over The Counter Bulletin Board (the "OTC Bulletin Board") maintained by the National Association of Securities Dealers under the symbol "APDN." There is no certainty that the common stock will continue to be quoted or that any liquidity exists for our stockholders.

The following table sets forth the quarterly quotes of high and low prices for our common stock on the OTC Bulletin Board during the fiscal years ended September 30, 2010 and September 30, 2011.

	Fiscal 2010		Fiscal 2011	
	High	Low	High	Low
First Quarter	$ 0.13	$ 0.05	$ 0.09	$ 0.03
Second Quarter	$ 0.13	$ 0.06	$ 0.09	$ 0.05
Third Quarter	$ 0.08	$ 0.04	$ 0.08	$ 0.04
Fourth Quarter	$ 0.07	$ 0.03	$ 0.10	$ 0.06

Holders

As of December 8, 2011, we had approximately 700 holders of our common stock. The number of record holders was determined from the records of our transfer agent and does not include beneficial owners of common stock whose shares are held in the names of various security brokers, dealers, and registered clearing agencies. The transfer agent of our common stock is American Stock Transfer & Trust Company, 6201 15 th Avenue, Brooklyn, New York 11219.

Dividends

We have never declared or paid any cash dividends on our common stock. We do not anticipate paying any cash dividends to stockholders in the foreseeable future. In addition, any future determination to pay cash dividends will be at the discretion of the Board of Directors and will be dependent upon our financial condition, results of operations, capital requirements, and such other factors as the Board of Directors deem relevant.

Recent Sales of Unregistered Securities

Other than as previously described in our Quarterly Reports on Form 10-Q or in our Current Reports on Form 8-K, there were no sales of unregistered securities during fiscal 2011.

ITEM 6. SELECTED FINANCIAL DATA.

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

27

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion should be read in conjunction with our Consolidated Financial Statements and Notes thereto, included elsewhere within this report. The Annual Report on Form 10-K contains forward-looking statements including statements using terminology such as "can", "may", "believe", "designated to", "will", "expect", "plan", "an "estimate", "potential" or "continue", or the negative thereof or other comparable terminology regarding beliefs, plans, expectations or intentions regarding the future. You should read statements that contain these words carefully because they:

discuss our future expectations;

contain projections of our future results of operations or of our financial condition; and

state other "forward-looking" information.

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

Introduction

We are a provider of botanical-DNA based security and authentication solutions that can help protect products, brands and intellectual property of companies, governments and consumers from theft, counterfeiting, fraud and diversion. SigNature® DNA, SmartDNA, Cashield, DNANet 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.

SmartDNA. SmartDNA is a unique and patented security system based on botanical DNA, a new and effective crime protection system for stores, warehouses, banks, pharmacies, ATMs and the protection of valuables. The system contains a water-based, non-toxic spray which may be triggered during a crime, marking the perpetrator and remaining on their person for weeks after the crime. Each SmartDNA product is designed to be unique to each store, warehouse or sting operation allowing the police and prosecutors to link criminals to the crimes.

28

Cashield. Cashield is a family of cash degradation inks that permanently stain banknotes stolen from cash-handling or ATM systems. Cashield extends our offering beyond our prior singular product, AzSure ® , to a family of security inks that include Red, Violet, Green, Teal, Indigo, and the original AzSure ® Blue. Current degradation dyes suffer from a critical technical weakness, as the dyes may be removed by the use of solvents. We initiated the development of Cashield in response to demand for a more effective carrier for our SigNature DNA markers. Cashield has been certified for use in the EU by the Laboratoire National de Métrologie et d'Essais (LNE) and passed all 47 individual dye penetration and wash-out-resistance tests. Additionally, a CViT study presented by the University of Leeds cited Cashield AzSure Blue ink as having improved performance versus staining inks from other suppliers. In this study, the AzSure blue ink was tested across a range of currencies, including British pounds, Euros, and U.S. dollars. The evaluation involved exposure to numerous industrial solvents. Final analysis of the results concluded that the AzSure blue ink was bound strongly in five seconds or less to a variety of banknotes, and could not be removed with any solvent.

DNANet. In 2010, we developed DNANet tactical DNA products for law enforcement, in the form of DNA-marked fixative sprays and liquids as well as transferable grease. These products, being marketed to global police forces were created to help link criminals to crimes. DNANet is a tactical forensic system providing unique DNA codes for covert operations that require absolute proof of authentication.

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.

General

To date, the substantial portion of our revenues have been generated from sales of our Signature® DNA and BioMaterialTM Genotyping, our principal anti-counterfeiting and product authentication solutions ("authentication services"). We have continued to incur expenses and have limited sources of liquidity. We expect to generate revenues from sales of our SigNature Program, CashieldTM, DNANetTM, SmartDNA and BioMaterial Genotyping. We have developed or 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. Our developments in the cash-in-transit and textile and apparel authentication have contributed to the increase in our revenues. We intend to pursue both domestic and international sales opportunities in each of these vertical markets.

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 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.

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 the Year Ended September 30, 2011 to the Year Ended September 30, 2010

Revenues

For the years ended September 30, 2011 and 2010, we generated $968,848 and $519,844 in revenues from operations, respectively. The increase in revenues for the twelve months ended September 30, 2011 was substantially generated from sales of our SigNature DNA and BioMaterial GenoTyping as a result of an increase in our customer base by 40%.

Costs and Expenses

Selling, General and Administrative

Selling, general and administrative expenses for the twelve months ended September 30, 2011 increased 16.69% to $8,388,873 from $7,189,020 in the same period in 2010. Included within the selling, general and administrative expenses for the year ended September 30, 2011 was a noncash charge to operations of $3,668,460 for the fair value of vested options issued to officers and employees and other stock based compensation compared to $3,796,255 in 2010.

Research and Development

Research and development expenses increased by $192,915 for the twelve months ended September 30, 2011 compared to the same period in 2010 from $75,961 to $268,876, primarily due to an increase in research and development activities to support our increased customer demand.

Depreciation and Amortization

In the twelve months ended September 30, 2011, depreciation and amortization decreased by $4,358 compared to the same period in 2010 from $371,914 to $367,556. The decrease is attributable to the aging of fixed assets previously acquired.

Total Operating Expenses

Total operating expenses increased to $9,025,305 for the twelve months ended September 30, 2011 from $7,636,895, or an increase of $1,388,410, primarily due to increase in professional and other service providers expenses compared to the for the same period last year.

Interest Expenses

Interest expenses for the twelve months ended September 30, 2011, increased to $2,458,667 from $792,549 in the same period of 2010, an increase of $1,666,118. The increase in interest expense was due to the amortization of debt discounts attributable to our convertible notes of $2,096,427 as compared to $512,530 for the same period last year.

Net Loss

Net loss for the twelve months ended September 30, 2011 was $10,515,124 compared to $7,909,600 in the same period of 2010, a net change of $ 2,605,524 as a result of the combination of factors described above.

Liquidity and Capital Resources

Our liquidity needs consist of our working capital requirements, indebtedness payments and research and development expenditure funding. Historically, we have financed our operations through the sale of equity and convertible debt as well as borrowings from various credit sources. In fiscal 2011, and in prior fiscal years, we have been relying in part on cash infusions from our Chairman, Chief Executive Officer and President, James A. Hayward, in order to fund our operations. During fiscal 2011 and 2010, Dr. Hayward provided $750,000 and $725,000, respectively, in new loans to and investments in the company. In the absence of other sources of financing, 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 September 30, 2011, we had a working capital deficit of $1,466,770. For the year ended September 30, 2011, we generated a net cash flow deficit from operating activities of $3,761,716 consisting primarily of our loss of $10,515,124, net with non cash adjustments of $3,322,968 in depreciation and amortization charges, $3,705,457 for equity based compensation and settlement of accrued interest. Additionally, we had a net increase in operating assets of $75,528 and a net decrease in operating liabilities of $199,490. Cash used in investing activities was $89,108 consisting of acquisition of equipment. Cash provided by financing activities for the year ended September 30, 2011 totaled $6,580,500 consisting of proceeds from the issuance of convertible debt, net of the capitalized financing costs of $1,895,500, sale of our common stock of $4,735,000, net with related party advance repayments of $50,000.

We expect capital expenditures to be less than $200,000 in fiscal 2012. 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.

We believe that our existing capital resources will enable us to fund our operations until approximately May 2012. We believe we will be required to seek additional capital to sustain or expand our prototype and sample manufacturing, and sales and marketing activities, and to otherwise continue our business operations beyond that date. We have no commitments for any future funding, and may not be able to obtain additional financing or grants on terms acceptable to us, if at all, in the future. If we are unable to obtain additional capital this would restrict our ability to grow and may require us to curtail or discontinue our business operations. Additionally, while a reduction in our business operations may prolong our ability to operate, that reduction would harm our ability to implement our business strategy. If we can obtain any equity financing, it may involve substantial dilution to our then existing stockholders.

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 8, 2011, 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 2010

During the year ended September 30, 2010, we issued and sold an aggregate principal amount of $270,000 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 "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.

In addition, on July 15, 2010, we issued and sold an aggregate of $1,100,000 in principal amount of senior secured convertible notes bearing interest at a rate of 10% per annum to "accredited investors," as defined in regulations promulgated under the Securities Act (the "Private Placement"). The July 15 Notes are convertible, in whole or in part, at any time, at the option of the holders, into either (A) such number of shares of the Company's common stock, $0.001 par value per share, determined by dividing (i) the principal amount of each Note, together with any and all accrued and unpaid interest and penalties, by (ii) a conversion price of $0.04405, 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 (the "Common Conversion Price") or (B) securities issued in any Subsequent Financing ("Subsequent Financing Securities") at a conversion price equal to 80% of the price per Subsequent Security paid by investors for Subsequent Securities in a Subsequent Financing (the "Subsequent Financing Price"). A "Subsequent Financing" is the sale by the Company or an affiliate thereof of securities at any time after July 15, 2010 and prior to the earlier of (i) a Qualified Financing or (ii) July 15, 2011. A holder may convert a July 15 Note in whole in connection with any one Subsequent Financing or in part in connection with one or more Subsequent Financings. The July 15 Notes shall be automatically converted upon the earlier of (I) July 15, 2011 and (II) the completion of a Qualified Financing at the election of each holder into either (A) shares of common stock at the Common Conversion Price, (B) Subsequent Securities at a conversion price equal to 80% of the Subsequent Financing Price, or (C) securities issued in a Qualified Financing (the "Qualified Financing Securities") at a conversion price equal to 80% of the price per Qualified Security paid by investors for the Qualified Securities in the Qualified Financing. A "Qualified Financing" is the sale by the Company or an affiliate thereof of securities resulting in gross proceeds (before transaction fees and expenses) in a single transaction equal to or in excess of $10 million. The July 15 Notes bear interest at the rate of 10% per annum and are due and payable in full on July 15, 2011. Until the principal and accrued but unpaid interest under the July 15 Notes are paid in full, or converted into shares of common stock, Subsequent Financing Securities or Qualified Financing Securities, as the case may be (the "Conversion Shares") pursuant to their terms, the Company's obligations under the July 15 Notes will be secured by a lien on all assets of the Company and the assets of APDN (B.V.I.) Inc., the Company's wholly-owned subsidiary.

The July 15 Notes were issued pursuant to a Securities Purchase Agreement (the "Purchase Agreement"), dated as of July 15, 2010, by and among the Company and the purchasers named therein (the "Purchasers"). We have made customary representations and warranties and certain covenants in the Purchase Agreement and the July 15 Notes including, among others, covenants (i) not to offer, sell, grant any option or otherwise dispose of, with certain

exceptions, any of our, or our subsidiaries', equity or equity equivalent securities (a "Subsequent Placement"), unless we offer the Purchasers the option to participate pro rata in any proposed or intended issuance, sale or exchange of securities being offered in a Subsequent Placement, (ii) to use commercially reasonable efforts to adopt and comply with Nasdaq or New York Stock Exchange corporate governance standards, (iii) to hire additional senior officers and adopt compensation plans and arrangements that are competitive with comparably situated companies and (iv) not to incur or guarantee any indebtedness, with certain exceptions.

Additionally, the July 15 Notes contain certain events of default that are customarily included in financings of this nature. If an event of default occurs, the Purchasers may require the Company to redeem the July 15 Notes, in whole or in part, at a redemption price equal to the Event of Default Redemption Price (as defined in the July 15 Notes).

We also entered into a registration rights agreement, dated as of the date of the Purchase Agreement (the "Registration Rights Agreement"), with the Purchasers, pursuant to which we have agreed to prepare and file a registration statement with the SEC to register under the Securities Act resales from time to time of the Conversion Shares issued or issuable upon conversion or redemption of the July 15 Notes. Pursuant to the Registration Rights Agreement, we are required to file a registration statement within 45 days of receiving a Demand Registration Request (as defined in the Registration Rights Agreement), and to cause the registration statement to be declared effective within 45 days (or 90 days if the registration statement is reviewed by the SEC). We will be required to pay penalties to Purchasers in the event that these deadlines are not met.

On July 15, 2010, we cancelled a $450,000 principal amount promissory note previously issued to an accredited investor ("Prior Investor") on June 4, 2010 and, in lieu thereof, issued to the Prior Investor a $450,000 principal amount senior secured convertible note (the "Conversion Note") containing the same terms as the form of note issued to the holders in the Private Placement.

On July 15, 2010, we cancelled a $675,000 principal amount promissory note ("Prior Hayward Note") previously issued to James A. Hayward, our Chairman, Chief Executive Officer and President on June 4, 2010 (the "Prior Hayward Note"), and, in lieu thereof, issued to Dr. Hayward a $450,000 principal amount senior secured convertible note containing the same terms as the form of Note issued to the holders in the Private Placement and a $225,000 principal amount promissory note containing the same terms as the Prior Hayward Note.

Fiscal 2011

Since October 1, 2010, we issued and sold an aggregate of $1,850,000 in principal amount of senior secured convertible notes bearing interest at a rate of 10% per annum to "accredited investors," as defined in regulations promulgated under the Securities Act. The notes are convertible, in whole or in part, at any time, at the option of the noteholders, into either (A) such number of shares of the Company's common stock, $0.001 par value per share, determined by dividing (i) the principal amount of each note, together with any and all accrued and unpaid interest and penalties, by (ii) a conversion price 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 (the "Common Conversion Price") or (B) securities issued in any Subsequent Financing ("Subsequent Securities") at a conversion price equal to 80% of the price per Subsequent Security paid by investors for Subsequent Securities in a Subsequent Financing (the "Subsequent Financing Price"). The conversion prices of the notes range between $0.03088 and $0.05529. A "Subsequent Financing" is the sale by the Company or an affiliate thereof of securities at any time after the date of issuance of the notes and prior to the earlier of (i) a Qualified Financing or (ii) the one year anniversary of the issuance of the notes. A noteholder may convert its notes in whole in connection with any one Subsequent Financing or in part in connection with one or more Subsequent Financings. The notes shall be automatically converted upon the earlier of (I) the one year anniversary of their issuance and (II) the completion of a Qualified Financing at the election of each noteholder into either (A) shares of common stock at the Common Conversion Price, (B) Subsequent Securities at a conversion price equal to 80% of the Subsequent Financing Price, or (C) securities issued in a Qualified Financing (the "Qualified Financing Securities") at a conversion price equal to 80% of the price per Qualified Financing Security paid by investors for the Qualified Financing Securities in the Qualified Financing. A "Qualified Financing" is the sale by the Company or an affiliate thereof of securities resulting in gross proceeds (before transaction fees and expenses) in a single transaction equal to or in excess of $10 million. The notes bear interest at the rate of 10% per annum and are due and payable in full on the one year anniversary of issuance of the notes. Until the principal and accrued but unpaid interest under the notes are paid in full, or converted into Conversion Shares pursuant to their terms, the Company's obligations under the notes will be secured by a lien on all assets of the Company and the assets of APDN (B.V.I.) Inc., the Company's wholly-owned subsidiary.

On July 15, 2011, the Company closed a private placement of its common stock. The Company issued and sold 105,263,158 shares of common stock at a purchase price of $0.0475 per share to accredited investors for gross proceeds of $5,000,000.

A registered broker dealer firm acted as our placement agent with respect to the private placement. In connection with the private placement, the Company paid placement agent commissions and discounts aggregating $265,000. In addition, the placement agent or its designees were issued warrants with a seven-year term to purchase an aggregate of 7,578,948 shares of common stock with an exercise price of $0.0475 per share.

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 or borrow funds from private lenders. There can be no assurance that we will be successful in obtaining additional funding and execution of re-seller agreements outside the Unites States.

We 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 May 2012. 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 has made it more difficult to obtain financing through the issuance of equity or debt securities. Even if we are able to raise the funds required, it is possible that we could incur unexpected costs and expenses, fail to collect significant amounts owed to us, or experience unexpected cash requirements that would force us to seek alternative financing. Further, if we issue additional equity or debt securities, stockholders may experience additional dilution or the new equity securities may have rights, preferences or privileges senior to those of existing holders of our common stock. If additional financing is not available or is not available on acceptable terms, we will have to curtail our operations.

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

Product Research and Development

We anticipate spending approximately $500,000 for product research and development activities during the next twelve months.

Acquisition of Plant and Equipment and Other Assets

We do not anticipate the sale of any material property, plant or equipment during the next 12 months. We do anticipate spending approximately $50,000 on the acquisition of leasehold improvements during the next 12 months. We believe our current leased space is adequate to manage our growth, if any, over the next 2 to 3 years.

Number of Employees

We currently have 18 full-time employees and three part-time employees, including two in management, ten in operations, eight 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.

Going Concern

The accompanying audited condensed consolidated financial statements included in this filing have been prepared in conformity with generally accepted accounting principles that contemplate our continuance as a going concern. Our auditors, in their report dated December 8, 2011, have expressed substantial doubt about our ability to continue as going concern. Our cash position may be inadequate to pay all of the costs associated with the testing, production and marketing of our products. Management intends to use borrowings and the sale of equity or convertible debt to mitigate the effects of its cash position, however no assurance can be given that debt or equity financing, if and when required will be available. The accompanying audited consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets and classification of liabilities that might be necessary should we be unable to continue existence.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

See pages F-1 through F-25 following the Exhibits List.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures, as defined in Rule 13a-15(e) promulgated under the Exchange Act that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2011. Based on their evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2011, the Company's disclosure controls and procedures were effective to ensure that the information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules

and forms.

Management Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Under the supervision of our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of September 30, 2011 using the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

This Annual Report on Form 10-K does not include an attestation report of RBSM LLP, our independent registered public accounting firm, regarding internal control over financial reporting. The effectiveness of internal control over financial reporting was not subject to attestation by our independent registered public accounting firm pursuant to SEC rules that require us to provide only management's report in this Annual Report on Form 10-K.

Remediation of Previously Disclosed Material Weaknesses

As of September 30, 2010, management determined that control deficiencies existed that constituted material weaknesses, as described below:

lack of documented policies and procedures;

we had no audit committee;

there was a risk of management override given that our officers have a high degree of involvement in our day to day operations.

there was no policy on fraud and no code of ethics; and

there was no effective separation of duties, which includes monitoring controls, between the members of management.

As a result of the material weaknesses described above, management concluded that we did not maintain effective internal control over financial reporting as of September 30, 2010 based on criteria established in Internal Control—Integrated Framework issued by COSO.

In an effort to remediate the identified material weaknesses and other deficiencies and enhance our internal controls, during the fiscal year ended September 30, 2011, management took various actions to strengthen internal controls and improve its disclosure controls over financial reporting. As a result, we remediated the previously reported material weaknesses by performing the following remediation activities:

We have appointed four independent directors, so that our Board of Directors is currently composed of a supermajority of independent directors;

We have established certain entity level controls establishing a "tone at the top," including a fully functioning audit committee;

We have adopted a "code of ethics" as defined by regulations promulgated under the Securities Act and the Exchange Act that applies to all of our employees, officers and directors, including those officers responsible for financial reporting, and determined that a whistleblower policy is not necessary given the small size of the organization;

With an increase in headcount, we have issued policies and procedures regarding the delegation of authority and implemented an adequate segregation of duties consistent with control objectives;

We have implemented an internal process for the issuance of press releases which includes several layers of review and approvals; and

The validation of our conclusions regarding significant accounting policies and their application to our business transactions are carried out by personnel with an appropriate level of accounting knowledge, experience, and training.

Through these steps, we believe we are addressing the deficiencies that affected our internal control over financial reporting as of September 30, 2010. Because the remedial actions may require hiring of additional personnel, upgrading certain of our information technology systems, and relying extensively on manual review and approval, the successful operation of these controls for at least several quarters may be required before management may be able to conclude that the material weakness have been remediated. These efforts require significant time and resources.

Notwithstanding the material weaknesses discussed above, our management has concluded that the condensed consolidated financial statements included in this Annual Report on Form 10-K fairly present in all material respects our financial condition, results of operations, and cash flows for the fiscal year ended September 30, 2011 in conformity with accounting principles generally accepted in the United States of America.

Changes in Internal Controls

Other than the remediation of the material weaknesses addressed under the heading “Remediation of Previously Disclosed Material Weakness” above, during the fiscal year ended September 30, 2011, 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.

ITEM 9B. OTHER INFORMATION.

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The following is a list of our directors, executive officers and significant employees.

Name	Age	Title	Board of Directors
James A. Hayward	57	Chief Executive Officer, President, and Chairman of the Board	Director
John Bitzer, III	50		Director
Gerald Catenacci	49		Director
Karol Gray	58		Director
Charles Ryan	47		Director
Yacov Shamash	60		Director
Sanford R. Simon	69		Director
Kurt Jensen	53	Chief Financial Officer	
Ming-Hwa Benjamin Liang	48	Secretary and Strategic Technology Development Officer	

Directors are elected to serve until the next annual meeting of stockholders and until their successors are elected and qualified. For the majority of fiscal 2011, our Board of Directors consisted of three directors, Dr. James A. Hayward, Sanford R. Simon and Yacov Shamash. Effective as of August 15, 2011, the number of directors on the Board was

increased from three to seven and John Bitzer, III, Gerald Catenacci, Karol Gray and Charles Ryan and were appointed to fill such vacancies created on the Board. There are no family relationships between any director, executive officer, or person nominated or chosen by the registrant to become a director or executive officer.

Currently, the members of our Board of Directors do not receive any fees for being a director or attending meetings. Our directors are reimbursed for out-of-pocket expenses relating to attendance at meetings. Officers are elected by the Board of Directors and serve until their successors are appointed by the Board of Directors. Biographical resumes of each officer and director are set forth below.

Chief Executive Officer, President, and Chairman of the Board – James A. Hayward

Dr. James A. Hayward has been our Chief Executive Officer since March 17, 2006 and our President and the Chairman of the Board of Directors since June 12, 2007. He was previously our acting Chief Executive Officer since October 5, 2005. Dr. Hayward received his Ph.D. in Molecular Biology from the State University of New York at Stony Brook in 1983 and an honorary Doctor of Science from the same institution in 2000. His experience with public companies began with the co-founding of one of England's first biotechnology companies–Biocompatibles. Following this, Dr. Hayward was Head of Product Development for the Estee Lauder companies for five years. In 1990 he founded The Collaborative Group, a provider of products and services to the biotechnology, pharmaceutical and consumer-product industries based in Stony Brook, where he served as Chairman, President and Chief Executive Officer for 14 years. During this period, The Collaborative Group created several businesses, including The Collaborative BioAlliance, a contract developer and manufacturer of human gene products, that was sold to Dow Chemical in 2002, and Collaborative Labs, a service provider and manufacturer of ingredients for skincare and dermatology that was sold to Engelhard (now BASF) in 2004. Since 2000, Dr. Hayward has been a General Partner of Double D Venture Fund, a venture capital firm based in New York, New York.

Our Board believes that Dr. Hayward's current role as our Chief Executive Officer, the capital investments he has made to the Company throughout his tenure with us and his former senior executive positions in our industry make him an important contributor to our Board.

Director-John Bitzer, III

John Bitzer, III, joined the Board of Directors on August 10, 2011. Mr. Bitzer is President and Chief Executive Officer of ABARTA, Inc., a private, fourth-generation family holding-company with operations in the soft drink beverages, newspaper publishing, oil and gas exploration and development, and frozen food industries ("ABARTA"). In 1985, Mr. Bitzer began his career in sales for the Cleveland Coca-Cola Bottling Company. He has been Publisher of Atlantic City Magazine in Atlantic City, N.J. In 1994 he founded the ABARTA Media Group and held the position of Group Publisher. In 1997 he was named President and Chief Operating Officer of ABARTA and has been President and Chief Executive Officer since 1999. He is also a director of the Institute for Entrepreneurial Excellence at the University of Pittsburgh. Mr. Bitzer has a degree from the University of Southern California and an MBA from the University of Michigan.

Our Board believes that Mr. Bitzer's professional and management experience in investing in and building growing enterprises make him an important contributor to the Board.

Delabarta, Inc., a wholly owned subsidiary of ABARTA, participated as an investor in the Company's private placement (the "Private Placement") of the Company's common stock, par value $0.001 per share, on July 15, 2011, described in our Current Report on Form 8-K filed with the SEC on July 15, 2011, in which it acquired 21,052,632 shares of common stock for a purchase price of $1,000,000. In connection with the Private Placement, the Company agreed to use best efforts to nominate Mr. Bitzer to the Board and elect him as director within 30 days of the closing of the Private Placement and to nominate and include Mr. Bitzer on the slate of nominees for the company's Board of Directors for election by stockholders at the annual meetings of stockholders for so long as Delabarta, Inc., owns at least 2% of the company's outstanding shares of common stock.

On November 30, 2010, the Company issued and sold a $750,000 principal amount senior secured convertible note bearing interest at a rate of 10% per annum to Delabarta, Inc., the terms of which are described in our Current Report on Form 8-K filed with the SEC on December 3, 2010. On January 7, 2010, the Company issued and sold a $750,000 principal amount senior secured convertible note bearing interest at a rate of 10% per annum to Delabarta, Inc., the terms of which are described in our Current Report on Form 8-K filed with the SEC on January 13, 2011.

39

Director- Gerald Catenacci

Gerald Catenacci joined the Board of Directors on August 10, 2011. Mr. Catenacci is the Founder and President of Neustrada Capital, LLC, a private investment fund ("Neustrada"). Mr. Catenacci obtained a Bachelor of Science in Civil Engineering from McMaster University in 1985, and has spent his career in equity management. Mr. Catenacci was the Founding Partner and Managing Member Principled Capital Management, a hedge fund that operated from New York City from 1998 to 2010.

Our Board believes that Mr. Catenacci's professional experience in investing in growing enterprises make him an important contributor to the Board.

Neustrada participated as an investor in the Private Placement and acquired 42,105,263 shares of common stock for a purchase price of $2,000,000. In connection with the Private Placement, the Company agreed to use best efforts to nominate Mr. Catenacci to the Board and elect him as director within 30 days of the closing of the Private Placement and providing for the nomination and inclusion of Mr. Catenacci on the slate of nominees for the company's Board of Directors for election by stockholders at the annual meetings of stockholders for so long as Neustrada owns at least 2% of the company's outstanding shares of common stock.

Director- Karol Gray

Karol Gray joined the Board of Directors on August 10, 2011. In December 2011, Ms. Gray assumed the position of Vice President for Finance and Administration at UNC-Chapel Hill. Ms. Gray previously was the Vice President for Finance and Administration and the Chief Financial Officer at the University at Stony Brook. She is active on several committees, including the Brookhaven National Laboratory Audit Committee, the Presidential Budget Working Group, and the Investment Subcommittee of the Research Foundation of the State University of New York, and is a member of the Executive Committee of the State University of New York Business and Officers Association. Ms. Gray is a Certified Public Accountant with a Bachelor in Business Administration from Hofstra University.

Our Board believes that Ms. Gray's professional and management experience at a large university as well as her financial expertise and education make her an important contributor to the Board.

Director- Charles Ryan

Dr. Charles Ryan joined the board of Directors on August 10, 2011. Dr. Ryan is the Senior Vice President, and Chief Intellectual Property Counsel at Forest Laboratories, a developer of branded drugs, where he has been employed since 2003. Dr. Ryan has over 18 years experience in managing all aspects of intellectual property litigation, conducting due diligence investigations and prosecuting patent and trademark applications in the pharmaceutical and biotechnology industries. Dr. Ryan earned a doctorate in oral biology and pathology from SUNY Stony Brook and a law degree from Western New England College School of Law.

Our Board believes that Mr. Ryan's expertise as chief intellectual property counsel at a global public company make him an important contributor to the Board.

Director – Yacov Shamash

Dr. Yacov Shamash has been a member of the Board of Directors since March 17, 2006. Dr. Shamash is Vice President of Economic Development at the State University of New York at Stony Brook. Since 1992, he has been the Dean of Engineering and Applied Sciences and the Harriman School for Management and Policy at the University, and Founder of the New York State Center for Excellence in Wireless Technologies at the University. Dr.

Shamash developed and directed the NSF Industry/University Cooperative Research Center for the Design of Analog/Digital Integrated Circuits from 1989 to 1992 and also served as Chairman of the Electrical and Computer Engineering Department at Washington State University from 1985 until 1992. Dr. Shamash also serves on the Board of Directors of Keytronic Corp., Netsmart Technologies, Inc., American Medical Alert Corp., and Softheon Corp.

As Vice President of Economic Development at the State University of New York at Stony Brook, Dr. Shamash daily encounters leaders of businesses large and small, regional and global in their reach and, as a member of our Board, has played an integral role in our business development by providing the highest-level introductions to customers, channels to market and to the media. Dr. Shamash also brings to our Board his valuable experience gained from serving as a director at other private and public companies.

Our Board believes that Dr. Shamash's professional and management experience, service on other companies' boards and education make him an important contributor to our Board.

Director – Sanford R. Simon

Dr. Sanford R. Simon has been a member of the Board of Directors since March 17, 2006. Dr. Simon has been a Professor of Biochemistry, Cell Biology and Pathology at Stony Brook since 1997. He joined the faculty at Stony Brook as an Assistant Professor in 1969 and was promoted to Associate Professor with tenure in 1975. Dr. Simon was a member of the Board of Directors of The Collaborative Group from 1995 to 2004. From 1967 to 1969 Dr. Simon was a Guest Investigator at Rockefeller University. Dr. Simon received a B.A. in Zoology and Chemistry from Columbia University in 1963, a Ph.D. in Biochemistry from Rockefeller University in 1967, and studied as a postdoctoral fellow with Nobel Prize winner Max Perutz in Cambridge, England.

Dr. Simon is an expert at the use of large biomolecules in commercial media, and we have made use of his expertise in formulating DNA into commercial carriers for specific customers. As a member of our Board, Dr. Simon has advised us on patents, provided technical advice, and introduced us to corporate partners and customers.

Our Board believes that Dr. Simon's professional experience, expertise, and education make him an important contributor to our Board.

Chief Financial Officer – Kurt Jensen

Kurt H. Jensen, M.Sc.(Cand. Merc.) has been our Chief Financial Officer since December 21, 2007, taking over the position from Dr. Hayward. Mr. Jensen has been our Controller since February 2006. Prior to that date, for a period of more than 23 years, he was employed by Point of Woods Homes, Inc. Mr. Jensen was awarded a M.Sc. in Economics and Business Administration from the Copenhagen Business School in 1983.

Secretary and Strategic Technology Development Officer – Ming-Hwa Benjamin Liang

Ming-Hwa Benjamin Liang has been our Secretary and Strategic Technology Development Officer since October 2005. Between May 1999 and September 2005, Mr. Liang had been the director of research and development at Biowell Technology Inc. Mr. Liang received a B.S. in Bio-Agriculture from Colorado State University in 1989, a M.S. in Horticulture from the University of Missouri at Columbia in 1991, his Ph.D. in Plant Science from the University of Missouri at Columbia in 1997 and his LL.M. in Intellectual Property Law from Shih Hsin University, Taiwan in 2004.

Board Leadership Structure

Our Board of Directors does not have a policy on whether the same person should serve as both the Chief Executive Officer and Chairman of the Board or, if the roles are separate, whether the Chairman should be selected from the non-employee directors or should be an employee. The Board of Directors believes that Dr. Hayward's dual role as both Chairman of the Board and Chief Executive Officer serves the best interests of both the company and its stockholders. His combined role enables decisive leadership, ensures clear accountability, and enhances the company's ability to communicate its message and strategy clearly and consistently to the company's stockholders, employees, customers and suppliers. Dr. Hayward possesses detailed and in-depth knowledge of the issues, opportunities and challenges facing the company and its businesses and is thus best positioned to develop agendas that ensure that the time and attention of the Board of Directors are focused on the most critical matters. This structure also enables our Chief Executive Officer to act as a bridge between management and the Board of Directors, helping both to act with a common purpose.

41

The Board of Directors appreciates that the advantages gained by having a single Chairman and Chief Executive Officer must be viewed in light of potential independence concerns. The Board considers, however, that we have adequate safeguards in place to address those concerns, including, for example, our Board of Directors consisting of a supermajority of independent directors. In addition, our audit, compensation and nominating committees, which oversee critical matters such as the integrity of our financial statements, the compensation of executive management, the selection and evaluation of directors, and the development and implementation of corporate governance policies, each consist entirely of independent directors.

Our risk management program is overseen by our Chief Executive Officer. Material risks are identified and prioritized by management, and each prioritized risk is referred to a Board Committee or the full Board of Directors for oversight. For example, strategic risks are referred to the full Board while financial risks are referred to the Audit Committee. The Board of Directors regularly reviews information regarding our liquidity and operations, as well as the risks associated with each. Also, the Compensation Committee periodically reviews the most important risks to our business to ensure that compensation programs do not encourage excessive risk-taking and promote our goals and objectives.

Board of Directors Structure and Committee Composition

In June 2008, our Board of Directors established a standing compensation committee and in September 2011, our Board of Directors established an audit committee and a nominating committee. Each of the committees operates under a written charter adopted by the Board of Directors. All of the committee charters are available on our web site at http://www.adnas.com/investors or by writing to Applied DNA Sciences, Inc., 25 Health Sciences Drive, Suite 215, Stony Brook, New York 11790, c/o Investor Relations.

During fiscal 2011, the Board of Directors held six formal meetings. Each director attended at least 75% of all meetings of the Board of Directors and applicable committee meetings.

The membership of each of the audit committee, the compensation committee, and the nominating committee is composed entirely of independent directors. In addition, the members of the audit committee meet the heightened standards of independence for audit committee members required by SEC rules and NASDAQ rules. The committee membership and the responsibilities of each of the committees are described below.

Name	Audit	Compensation	Nominating
James A. Hayward	—	—	—
John Bitzer, III (I)		—	
Gerald Catenacci (I)	—		—
Karol Gray (I)			—
Charles Ryan (I)	—		—
Sanford R. Simon (I)	—	—	
Yacov Shamash (I)		—	

Chairman
Member
(I) Independent director

Audit Committee

Ms. Gray (Chairperson) and Messrs. Bitzer and Shamash currently serve on the audit committee. The Board of Directors has determined that each member of the audit committee is independent within the meaning of the director independence standards of the company and NASDAQ as well as the heightened director independence standards of the SEC for audit committee members, including Rule 10A-3(b)(1) under the Exchange Act. The Board of Directors has also determined that each of the members of the audit committee is financially sophisticated and is able to read and understand consolidated financial statements and that Ms. Gray is an “audit committee financial expert” as defined in the Exchange Act.

The composition and responsibilities of the audit committee and the attributes of its members, as reflected in the charter, are intended to be in accordance with applicable requirements for corporate audit committees. The audit committee charter will be reviewed, and amended if necessary, on an annual basis.

The audit committee assists the Board of Directors in fulfilling its oversight responsibility relating to our financial statements and the disclosure and financial reporting process, our system of internal controls, our internal audit function, the qualifications, independence and performance of our independent registered public accounting firm, compliance with our code of ethics and legal and regulatory requirements. The audit committee has the sole authority to appoint, retain, terminate, compensate and oversee the work of the independent registered public accounting firm, as well as to pre-approve all audit and non-audit services to be provided by the independent registered public accounting firm.

Compensation Committee

Our compensation committee is composed of Gerald Catenacci (Chairperson), Charles Ryan and Karol Gray. The compensation committee reviews and approves salaries and bonuses for all officers, administers options outstanding under our stock incentive plan, provides advice and recommendations to the Board regarding directors' compensation and carries out the responsibilities required by SEC rules. The compensation committee believes that its processes and oversight should be directed toward attracting, retaining and motivating employees and non-employee directors to promote and advance the interests and strategic goals of the Company. As requested by the compensation committee, the Chief Executive Officer will provide information and may participate in discussion regarding compensation for other executive officers. The compensation committee does not utilize outside compensation consultants but considers other general industry information and trends if available.

Nominating Committee

Messrs. Shamash (Chairperson), Bitzer and Simon currently serve on the nominating committee. The Board of Directors has determined that each member of the nominating committee is independent within the meaning of the director independence standards of the company, NASDAQ and the SEC.

The nominating committee is responsible for, among other things: reviewing Board composition, procedures and committees, and making recommendations on these matters to the Board of Directors; reviewing, soliciting and making recommendations to the Board of Directors and stockholders with respect to candidates for election to the Board.

Process for Identifying and Evaluating Nominees for the Board of Directors

Director Qualifications. The nominating committee has not formally established any specific, minimum qualifications that must be met by each candidate for the Board of Directors or specific qualities or skills that are necessary for one or more of the members of the Board of Directors to possess.

Identifying Nominees. The nominating committee has two primary methods for identifying director candidates (other than those proposed by our stockholders, as discussed below). First, on a periodic basis, the nominating committee will solicit ideas for possible candidates from a number of sources, including members of the Board of Directors, our executive officers and individuals personally known to the members of the Board of Directors. Second, the nominating committee is authorized to use its authority under its charter to retain at the company's expense one or more search firms to identify candidates (and to approve such firms' fees and other retention terms).

Stockholder Candidates. The nominating committee will consider candidates for nomination as a director submitted by stockholders. Although the nominating committee does not have a separate policy that addresses the consideration of director candidates recommended by stockholders, the Board of Directors does not believe that such a separate policy is necessary because our bylaws permit stockholders to nominate candidates and one of the duties set forth in the nominating committee charter is to consider director candidates submitted by stockholders in accordance with our bylaws. The nominating committee will evaluate individuals recommended by stockholders for nomination as directors according to the criteria discussed above and in accordance with our bylaws and the procedures described under “Stockholder Proposals and Nominations” below.

Review of Director Nominees. The nominating committee will evaluate any candidates recommended by stockholders against the same criteria and pursuant to the same policies and procedures applicable to the evaluation of candidates proposed by our directors, executive officers, third-party search firms or other sources. In evaluating proposed director candidates, the nominating committee may consider, in addition to any minimum qualifications and other criteria for Board of Directors membership approved by the Board of Directors from time to time, all facts and circumstances that it deems appropriate or advisable, including, among other things, the proposed director candidate's understanding of the company's business and industry on a technical level, his or her judgment and skills, his or her depth and breadth of professional experience or other background characteristics, his or her independence, his or her willingness to devote the time and effort necessary to be an effective board member, and the needs of the Board of Directors. We do not have a formal policy with regard to the consideration of diversity in identifying director nominees. However, the Board of Directors believes that it is essential that its members represent diverse viewpoints, with a broad array of experiences, professions, skills, geographic representation and backgrounds that, when considered as a group, provide a sufficient mix of perspectives to allow the Board of Directors to best fulfill its responsibilities to the long-term interests of our stockholders. The nominating committee considers at least annually, and recommends to the Board of Directors suggested changes to, if any, the size, composition, organization and governance of the Board of Directors and its committees.

Stockholder Proposals and Nominations. In order for a stockholder to nominate a person for election as a director at the 2013 annual meeting of stockholders, you must provide written notice to Applied DNA Sciences, Inc., 25 Health Sciences Drive, Suite 215, Stony Brook, New York 11790, c/o Corporate Secretary. The Corporate Secretary must receive this notice within the time period specified in proxy statement for the 2012 annual meeting of stockholders. The notice of a proposed director nomination must provide information and documentation as required in our bylaws which, in general, require that the notice of a director nomination include the information about the nominee that would be required to be disclosed in the solicitation of proxies for the election of a director under federal securities laws; the nominee's written consent to be named in the proxy statement as a nominee and to serve as a director if elected; a description of any transaction or arrangement during the last three years between the stockholder making the nomination and the nominee in which the nominee had a direct or indirect material interest; and a completed and signed questionnaire, representation and agreement. A copy of the bylaw requirements will be provided upon request to the Corporate Secretary at the address above.

Stockholder Communications with the Board

Stockholders and other interested parties may make their concerns known confidentially to the Board of Directors or the independent directors by submitting a communication in an envelope addressed to the "Board of Directors," a specifically named independent director or the "Independent Directors" as a group, in care of the Secretary. All such communications will be conveyed, as applicable, to the full Board of Directors, the specified independent director or the independent directors as a group.

Code of Ethics

Our Board of Directors adopted a "code of ethics" as defined by regulations promulgated under the Securities Act and the Exchange Act that applies to all of our employees, officers and directors, including those officers responsible for financial reporting. The code of ethics is designed to codify the ethical standards that we believe are reasonably designed to deter wrong-doing.

We have established procedures to ensure that suspected violations of the code may be reported anonymously. A current copy of our code of ethics is available on our website at http://www.adnas.com/investors. A copy may also be obtained, free of charge, from us upon a request directed to Applied DNA Sciences, Inc., 25 Health Sciences Drive, Suite 215, Stony Brook, New York 11790, c/o Investor Relations. We intend to disclose any amendments to or

waivers of a provision of the code of ethics granted to directors and officers by posting such information on our website available at www.adnas.com and/or in our public filings with the SEC.

Compliance with Section 16(A) of the Exchange Act

Since our common stock is registered under Section 15(d) of the Exchange Act, we are not required to file reports of executive officers and directors and persons who own more than 10% of a registered class of the Company's equity securities pursuant to Section 16(a) of the Exchange Act.

ITEM 11. EXECUTIVE COMPENSATION.

Summary Compensation Table

The following table sets forth the compensation of our principal executive officer and our two other executive officers for the fiscal years ended September 30, 2011 and 2010. We refer to these executive officers as our "named executive officers."

Name and Principal Position	Year	Salary ($)	Stock Awards ($)	Option Awards ($)(1)	Non-Equity Incentive Plan Compensation ($)	Total ($)
(a)	(b)	(c)	(e)	(f)	(g)	(j)
James A. Hayward						
Chairman, President and						
Chief Executive Officer	2011	65,410	877,500	2,686,107	—	3,214,247
	2010	58,000	—	1,326,262	—	1,384,262
Kurt H. Jensen						
Chief Financial Officer	2011	196,554	—	600,238	—	796,792
	2010	140,796	—	778,716	—	919,512
Ming-Hwa Liang						
Chief Technology Officer						
and Secretary	2011	135,234	—	—	—	135,234
	2010	126,110	—	869,974	—	996,084

(1) The amounts in column (f) represent the grant date fair value under ASC 718-10 based on the average of the bid and asked prices of our common stock on the grant date. On July 11, 2011, our Board of Directors granted 40,000,000 nonstatutory stock options under the 2005 Incentive Stock Plan to Dr. James A. Hayward, our Chairman, President and Chief Executive Officer. The option granted to Dr. Hayward vested 25% on the grant date and shall vest 37.5% on each of the next two anniversaries of the grant date, subject to Dr. Hayward's continuous employment through the applicable vesting date, and if our revenues for any fiscal quarter beginning after the date hereof are at least $1 million more than our revenues for the immediately preceding fiscal quarter, then vesting of the next 37.5% installment will accelerate (such that, if the $1 million increase is met in at least two quarters before the second anniversary of the option grant date, all of the options will have become fully vested as of the end of the second quarter for which the $1 million increase is met). Notwithstanding the foregoing, exercisability of the option is further conditioned upon shareholder approval (at the next annual meeting of shareholders) of the Board's amendment increasing the number of shares of Company common stock available for issuance under the Company's 2005 Incentive Stock Plan from 100 million shares to 350 million shares and the number of shares of common stock that can be covered by awards made to any participant in any calendar year from 25,000,000 to 50,000,000 shares, and if the amendment is not so approved, the option shall

expire. On August 12, 2011, our Board of Directors extended the expiration date of the 6,400,000 options to Dr. Hayward and 500,000 options to Mr. Jensen, originally issued on September 1, 2006 for an additional 5 years. The full fair value is reflected above. On July 11, 2011, our Board of Directors granted 10,000,000 nonstatutory stock options under the 2005 Incentive Stock Plan to Mr. Jensen. The options granted to Mr. Jensen vested 25% on the grant date and shall vest 37.5% on each of the next two anniversaries of the grant date, subject to Mr. Jensen's continuous employment through the applicable vesting date, and if our revenues for any fiscal quarter beginning after the date hereof are at least $1 million more than our revenues for the immediately preceding fiscal quarter, then vesting of the next 37.5% installment will accelerate (such that, if the $1 million increase is met in at least two quarters before the second anniversary of the option grant date, all of the options will have become fully vested as of the end of the second quarter for which the $1 million increase is met).

(2) On August 12, 2011, our Board of Directors extended the expiration of the 6,400,000 options to Dr. Hayward and 500,000 options to Mr. Jensen, 250,000 options to Sanford Simon, 250,000 to Yacov Shamash and 1,000,000 to key employees, originally issued on September 1, 2006 for an additional 5 years.

Outstanding Equity Awards at Fiscal Year-End

The following table shows information concerning outstanding equity awards as of September 30, 2011 held by the Named Executive Officers.

	Option Awards			
Name (a)	Number of Securities Underlying Unexercised Options (#) Exercisable (1)	Number of Securities Underlying Unexercised Options (#) Unexercisable (1)	Option Exercise Price ($) (1)	Option Expiration Date (1)
James A. Hayward	6,400,000(1)	0	$ 0.09	9/1/2016
	17,000,000(2)	0	$ 0.05	5/27/2015
	5,000,000(3)	5,000,000	0.06	7/1/2015
	10,000,000(4)	30,000,000	0.0585	7/11/2018
Kurt H. Jensen	500,000(1)	0	0.09	9/01/2016
	5,000,000(2)	0	0.05	5/27/2015
	5,000,000(3)	5,000,000	0.06	7/1/2015
	2,500,000(5)	7,500,000	0.0585	7/11/2018
Ming-Hwa Liang	7,000,000(2)	0	0.05	5/27/2015
	5,000,000(3)	5,000,000	0.06	7/1/2015

(1) On August 12, 2011, our Board of Directors extended the expiration of the 2006 options for an additional 5 years

(2) On May 27, 2010, our named executive officers elected to forfeit certain stock options to purchase up to 29 million shares of our common stock at an exercise price of $0.11 that were previously granted to them under the 2005 Incentive Stock Plan. In lieu of the forfeited options, our Board of Directors granted new stock options to such named executive officers to purchase up to 29 million shares of our common stock at an exercise price of $0.05 under the 2005 Stock Incentive Plan which are fully vested and became exercisable on June 29, 2010 following approval by our stockholders to amend our certificate of incorporation to increase our authorized shares of common stock.

(3) On July 1, 2010, our Board of Directors granted nonstatutory stock options under the 2005 Incentive Stock Plan to our named executive officers. The options granted to the named executive officers vested with respect to 25% of the underlying shares on the date of grant, and the remaining will vest ratably each anniversary thereafter until fully vested on the third anniversary of the date of grant.

(4) On July 11, 2011, our Board of Directors granted nonstatutory stock options under the 2005 Incentive Stock Plan to Dr. James A. Hayward, our Chairman, President and Chief Executive Officer. The option granted to Dr. Hayward vested 25% on the grant date and shall vest 37.5% on each of the next two anniversaries of the grant date, subject to Dr. Hayward's continuous employment through the applicable vesting date, and if our revenues for

any fiscal quarter beginning after the date hereof are at least $1 million more than our revenues for the immediately preceding fiscal quarter, then vesting of the next 37.5% installment will accelerate (such that, if the $1 million increase is met in at least two quarters before the second anniversary of the option grant date, all of the options will have become fully vested as of the end of the second quarter for which the $1 million increase is met). Notwithstanding the foregoing, exercisability of the option is further conditioned upon shareholder approval (at the next annual meeting of shareholders) of the Board's amendment increasing the number of shares of Company common stock available for issuance under the Company's 2005 Incentive Stock Plan from 100 million shares to 350 million shares and the number of shares of common stock that can be covered by awards made to any participant in any calendar year from 25,000,000 to 50,000,000 shares, and if the amendment is not so approved, the option shall expire.

(5) On July 11, 2011, our Board of Directors granted nonstatutory stock options under the 2005 Incentive Stock Plan to Mr. Jensen, our Chief Financial Officer. The options granted to Mr. Jensen vested 25% on the grant date and shall vest 37.5% on each of the next two anniversaries of the grant date, subject to Mr. Jensen's continuous employment through the applicable vesting date, and if our revenues for any fiscal quarter beginning after the date hereof are at least $1 million more than our revenues for the immediately preceding fiscal quarter, then vesting of the next 37.5% installment will accelerate (such that, if the $1 million increase is met in at least two quarters before the second anniversary of the option grant date, all of the options will have become fully vested as of the end of the second quarter for which the $1 million increase is met).

Pension Benefits

None of our named executive officers participates in or has account balances in qualified or non-qualified defined benefit plans sponsored by us.

Nonqualified Contribution Plans

None of our named executive officers participate in or have account balances in non-qualified defined contribution plans maintained by us.

Deferred Compensation

None of our named executive officers participates in or has account balances in deferred compensation plans or arrangements.

Employment Agreements

Employment Agreement with Dr. James A. Hayward

We entered into an employment agreement dated July 11, 2011, with Dr. James A. Hayward, our Chairman, President and Chief Executive Officer. The agreement provides that Dr. Hayward will be the Chief Executive Officer of the Company, and will continue to serve on the Board of Directors. The term of employment will be from July 1, 2011 through June 30, 2014 with automatic one-year renewals subject to ninety days' prior notice of non-renewal by either party. Dr. Hayward will receive an initial annual salary of $225,000, subject to annual review. Dr. Hayward's annual salary would be increased to $350,000 per annum after the first quarter in which our revenues exceed $1 million. The Board of Directors, acting in its discretion, may grant annual bonuses to Dr. Hayward. Dr. Hayward will be eligible for a special cash bonus of up to $750,000, 40% of which would be payable if and when annual revenue reaches $6 million and 10% of which would be payable for each $2 million of annual revenue in excess of $6 million. Dr. Hayward will be entitled to certain benefits and perquisites and will be eligible to participate in retirement, welfare and incentive plans available to our other employees.

Dr. Hayward was granted options to purchase 40 million shares of our common stock at an exercise price per share equal to the average of the bid and asked prices of our common stock on the Over The Counter (OTC) Bulletin Board on the date of grant. The option will vest as follows: 25% on the grant date, and 37.5% on each of the next two anniversaries of the grant date, subject to Dr. Hayward's continuous employment. If our revenues for any fiscal quarter increase by more than $1 million over the prior fiscal quarter, then the vesting date for the next 37.5% tranche will be accelerated. Exercisability of options will be conditioned upon stockholder approval of an amendment of our 2005 Incentive Stock Plan made by the Board of Directors increasing the aggregate and individual limits on the shares of our common stock issuable under the Plan. The Company also granted 15 million shares of our common stock to Dr. Hayward.

47

The agreement with Dr. Hayward also provides that if he is terminated before the end of the initial or a renewal term by the Company without cause or by Dr. Hayward for good reason, then, in addition to previously earned and unpaid salary, bonus and benefits, and subject to the delivery of a general release and continuing compliance with restrictive covenants, Dr. Hayward will be entitled to receive a pro rata portion of the annual bonus he would have received if employment had continued through the end of the year of termination; salary continuation payments for two years following termination equal to the greater of (i) three times base salary or (ii) two times base salary plus bonus; Company-paid COBRA continuation coverage; continuing life insurance benefits (if any) for two years; and extended exercisability of outstanding vested options (for three years from termination date or, if earlier, the expiration of the fixed option term). If termination of employment as described above occurs within six months before or two years after a change in control of the Company, then, in addition to the above payments and benefits, all of Dr. Hayward's outstanding options and other equity incentive awards will become fully vested and Dr. Hayward will receive a lump sum payment of the amounts that would otherwise be paid as salary continuation. In general, a change in control will include a 30% or more change in ownership of the Company.

Upon termination due to death or disability, Dr. Hayward will generally be entitled to receive the same payments and benefits he would have received if his employment had been terminated by the Company without cause (as described in the preceding paragraph), other than salary continuation payments.

Employment Agreement with Kurt H. Jensen

We entered into an employment agreement dated July 11, 2011 with Kurt H. Jensen, our Chief Financial Officer. The agreement provides that Mr. Jensen will be the Chief Financial Officer, Executive Vice President or Chief Operating Officer of the Company, with changes in title and duties as determined from time to time by the Chief Executive Officer. The term of employment will be from July 1, 2011 through June 30, 2014 with automatic one-year renewals subject to ninety days' prior notice of non-renewal by either party. Mr. Jensen will receive an initial annual salary of $225,000, subject to annual review. Mr. Jensen's annual salary would be increased to $250,000 per annum after the first quarter in which our revenues exceed $1 million. The Board of Directors, acting in its discretion, may grant annual bonuses to Mr. Jensen. In addition, Mr. Jensen will be entitled to certain benefits and perquisites and will be eligible to participate in retirement, welfare and incentive plans available to our other employees.

Mr. Jensen was granted options to purchase 10 million shares of our common stock at an exercise price per share equal to the average of the bid and asked prices of our common stock on the Over The Counter (OTC) Bulletin Board on the date of grant. The option will vest as follows: 25% on the grant date, and 37.5% on each of the next two anniversaries of the grant date, subject to Mr. Jensen's continuous employment. If our revenues for any fiscal quarter increase by more than $1 million over the prior fiscal quarter, then the vesting date for the next 37.5% tranche will be accelerated.

The agreement with Mr. Jensen also provides that if he is terminated before the end of the initial or a renewal term by us without cause or by Mr. Jensen for good reason, then, in addition to previously earned and unpaid salary, bonus and benefits, and subject to the delivery of a general release and continuing compliance with restrictive covenants, Mr. Jensen will be entitled to receive a pro rata portion of the annual bonus he would have received if employment had continued through the end of the year of termination; salary continuation payments for 18 months following termination of his salary plus bonus; Company-paid COBRA continuation coverage for 18 months; and extended exercisability of outstanding vested options (for three years from termination date or, if earlier, the expiration of the fixed option term). If termination of employment as described above occurs within six months before or one year after a change in control of the Company, then, in addition to the above payments and benefits, all of Mr. Jensen's outstanding options and other equity incentive awards will become fully vested and Mr. Jensen will receive a lump sum payment of the amounts that would otherwise be paid as salary continuation. In general, change in control will include a 30% or more change in ownership of the Company.

Upon termination due to death or disability, Mr. Jensen will generally be entitled to receive the same payments and benefits he would have received if his employment had been terminated by the Company without cause (as described in the preceding paragraph), other than salary continuation payments, and except that Company-paid COBRA coverage will continue for one year.

Payment of Post-Termination Compensation

We have change-in-control agreements with two of our executive officers, and we are obligated to pay severance or other enhanced benefits to executive officers upon termination of their employment. For additional information, see "Employment Agreements" above.

Director Compensation Fiscal 2011

We currently have no policy in effect for providing compensation to our non-employee directors for their services on our Board of Directors. During the fiscal year ended September 30, 2011, we did not provide any cash compensation to our non-employee directors for their service on our Board of Directors. In addition, except as noted below, during the fiscal year ended September 30, 2011, we did not provide any equity compensation to our non-employee directors for their service on our Board of Directors.

	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards ($)(1)	All Other Compensation ($)	Total ($)(1)
Sanford R. Simon	—	—	250,000	—	16,202
Yacov Shamash	—	—	250,000	—	16,202
John Bitzer, III	—	—	—	—	—
Gerald Catenacci	—	—	—	—	—
Karol Gray	—	—	—	—	—
Charles Ryan	—	—	—	—	—

(1) Compensation recognized solely in connection with the extension of certain outstanding vested stock options. Both the stock options were granted on September 1, 2006 at an exercise price of $0.09 per share, and would have expired on September 1, 2011. The expiration dates of the stock options were extended for an additional five years until September 1, 2016.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The following table sets forth certain information regarding the shares of our common stock beneficially owned as of December 8, 2011, (i) by each person who is known to us to beneficially own more than 5% of the outstanding common stock, (ii) by each of the executive officers named in the table under "Executive Compensation" and by each of our directors, and (iii) by all officers and directors as a group.

Unless otherwise indicated below, each person or entity has an address in care of our principal executive offices at 25 Health Sciences Drive, Suite 215, Stony Brook, New York 11790.

NAME AND ADDRESS OF BENEFICIAL OWNER	TITLE OF CLASS	NUMBER OF SHARES OWNED (1)(2)	PERCENTAGE OF CLASS (3)
Executive Officers and Directors:			
James A. Hayward	Common Stock	145,022,314 (4)	25.0%
Yacov Shamash	Common Stock	1,226,125 (5)	*
John Bitzer, III (11)	Common Stock	62,690,277 (6)	11.9%
Gerald Catenacci (12)	Common Stock	42,105,263	8.2%
Karol Gray	Common Stock	0	*
Charles Ryan	Common Stock	0	*
Kurt Jensen	Common Stock	13,080,000 (7)	2.0%
Ben Liang	Common Stock	12,403,359 (8)	1.9%
Sanford R. Simon	Common Stock	908,700 (9)	*
All directors and officers as a group (9 persons)	Common Stock	277,436,038 (10)	44.6%
5% Stockholders:			
Delabarta, Inc., (11)	Common Stock	62,690,277 (6)	11.9%
Neustrada Capital LLC (12)	Common Stock	42,105,263	8.2%

* indicates less than one percent

(1) Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to the shares shown. Except as indicated by footnote and subject to community property laws where applicable, to our knowledge, the stockholders named in the table have sole voting and investment power with respect to all common stock shares shown as beneficially owned by them. A person is deemed to be the beneficial owner of securities that can be acquired by such person within 60 days upon the exercise of options, warrants or convertible securities (in any case, the “Currently Exercisable Options”). Each beneficial owner’s percentage ownership is determined by assuming that the Currently Exercisable Options that are held by such person (but not those held by any other person) have been exercised and converted.

(2) Does not include unvested shares subject to options granted on July 1, 2010 pursuant to the 2005 Incentive Stock Plan, which vested with respect to 25% of the underlying shares on the date of grant and vest with respect to the remaining shares ratably on each anniversary thereafter until fully vested on the third anniversary of the date of grant, including 5,000,000 to James A. Hayward, 5,000,000 to Kurt H. Jensen and 5,000,000 to Ben Liang. Does not include 7,500,000 unvested shares subject to options granted on July 11, 2011 to Kurt H. Jensen. The option will vest as follows: 25% on the grant date, and 37.5% on each of the next two anniversaries of the grant date, subject to Mr. Jensen’s continuous employment. If our

revenues for any fiscal quarter increase by more than $1 million over the prior fiscal quarter, then the vesting date for the next 37.5% tranche will be accelerated. Does not include 30,000,000 unvested shares subject to options granted on July 11, 2011 to James A. Hayward. The option will vest as follows: 25% on the grant date, and 37.5% on each of the next two anniversaries of the grant date. If our revenues for any fiscal quarter increase by more than $1 million over the prior fiscal quarter, then the vesting date for the next 37.5% tranche will be accelerated. Exercisability of this option will be conditioned upon stockholder approval of an amendment of our 2005 Incentive Stock Plan made by the Board of Directors increasing the aggregate and individual limits on the shares of our common stock issuable under the Plan. Does not include 954,000 unvested shares subject to five-year options granted on November 30, 2011 to each of our non-employee directors. These option will vest in full on the first anniversary on the date of grant. Exercisability of these options will be conditioned upon stockholder approval of an amendment of our 2005 Incentive Stock Plan made by the Board of Directors increasing the aggregate and individual limits on the shares of our common stock issuable under the Plan.

(3) Based upon 513,233,108 shares of common stock outstanding as of December 8, 2011.

(4) Includes 41,400,000 shares underlying currently exercisable options and warrants and 25,135,473 shares underlying convertible notes.

(5) Includes 750,000 shares underlying a currently exercisable warrant and 476,125 shares underlying a fully vested stock option.

(6) Includes 14,921,324 shares underlying a convertible note.

(7) Includes 40,000 shares held by spouse and 13,000,000 shares underlying currently exercisable options.

(8) Includes 275,392 shares held by spouse and 12,000,000 shares underlying currently exercisable options.

(9) Includes 750,000 shares underlying a currently exercisable warrant and 158,700 shares underlying a fully vested stock option.

(10) Includes 67,930,000 shares underlying currently exercisable options and warrants and 40,056,797 shares underlying convertible notes.

(11) The address of the principal business office for the stockholder is 1000 Gamma Drive, Suite 500, Pittsburgh, PA 15238. John Bitzer, III, one of our directors is President and Chief Executive Officer of the stockholder. Mr. Bitzer disclaims beneficial ownership of the shares held by the stockholder, except to the extent of his pecuniary interest therein.

(12) The address of the principal business office for the stockholder is 767 Third Avenue, 6th floor, New York, NY 10017. Gerald Catenacci, one of our directors is President and Chief Executive Officer of the stockholder. Mr. Catenacci disclaims beneficial ownership of the shares held by the stockholder, except to the extent of his pecuniary interest therein.

Equity Compensation Plan Information

2002 Professional/Employee/Consultant Compensation Plan

In November of 2002, we created a special compensation plan to pay the founders, consultants and professionals that had been contributing valuable services to us during the previous nine months. This plan, under which 2,000,000 shares of our common stock were reserved for issuance, is called the Professional/Employee/ Consultant Compensation Plan (the "Compensation Plan"). Share and option issuances from the Compensation Plan were to be staggered over the following six to eight months, and consultants that were to continue providing services thereafter either became employees or received renewed contracts from us in July of 2003, which contracts contained a more traditional cash compensation component. Each qualified and eligible recipient of shares and/or options under the Compensation Plan received securities in lieu of cash payment for services. Each recipient agreed, in his or her respective consulting contract with us, to sell a limited number of shares monthly. In December of 2004, we adjusted the exercise price of options under the Compensation Plan to $0.60 per share. As of September 30, 2011, a total of 1,440,000 shares have been issued from, and options to purchase 560,000 shares have been issued under the Compensation Plan, and options to purchase 264,000 shares have been exercised as of that date.

2005 Incentive Stock Plan

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. A proposal to increase the total number of shares issuable pursuant to the 2005 Incentive Stock Plan from 100,000,000 to 350,000,000 and the number of shares of common stock that can be covered by awards made to any participant in any calendar year from 25,000,000 to 50,000,000 was adopted by our Board of Directors and will be voted on by our stockholders at the 2012 annual meeting of stockholders.

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 September 30, 2011, a total of 9,675,000 shares have been issued and options to purchase 120,650,000 shares have been granted under the 2005 Incentive Stock Plan, however 40,000,000 options granted to Dr. Hayward are conditioned upon shareholder approval (at the next annual meeting of shareholders) of the Board's amendment increasing the number of shares of Company common stock available for issuance under the Company's 2005 Incentive Stock Plan from 100 million shares to 350 million shares and the number of shares of common stock

that can be covered by awards made to any participant in any calendar year from 25,000,000 to 50,000,000 shares, and if the amendment is not so approved, this option shall expire.

The Board of Directors, in their discretion, may award stock and stock options to executive officers and key employees as part of their compensation for employment or for retention purposes.

The following table sets forth certain information regarding our compensation plans as of September 30, 2011:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders 2005 Incentive Stock Plan (1)	80,650,000	$ 0.06	9,675,000
Equity compensation plans not approved by security holders	—	$ —	—
Total	80,650,000	$ 0.06	9,675,000

(1) Does not include an option to buy 40,000,000 shares of common stock. The option is subject to the requisite approval of the stockholders of the Company of an amendment to the Company's 2005 Incentive Stock Plan increasing the number of shares authorized for issuance to 350,000,000 shares and the number of shares of common stock that can be covered by awards made to any participant in any calendar year from 25,000,000 to 50,000,000 shares.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

James A. Hayward

During the fiscal years ended September 30, 2011 and 2010, Dr. James A. Hayward, our President, Chairman and Chief Executive Officer provided $750,000 and $725,000, respectively, in new loans to and investments in the company.

Fiscal year ended September 30, 2011. Dr. Hayward participated as an investor in a private placement of our common stock on July 15, 2011, described in our Current Report on Form 8-K filed with the SEC on July 15, 2011 (the "Private Placement"), in which he acquired 10,526,316 shares of common stock using $500,000 recently advanced to the Company. We also issued Dr. Hayward a one-year note convertible into common stock at $.0585 bearing interest at a rate of 4% per annum in the principal amount of $250,000.

Fiscal year ended September 30, 2010. On July 15, 2010, we cancelled a $675,000 principal amount promissory note previously issued to Dr. Hayward on June 4, 2010, and, in lieu thereof, issued to Dr. Hayward a $450,000 principal amount senior secured convertible note bearing interest at the rate of 10% per annum ("First July Note") and a $225,000 principal amount promissory note bearing interest at a rate of 10% per annum ("Second July Note").

The First July Note was convertible, in whole or in part, at any time, at the option of the noteholder, into either (A) such number of shares of our common stock, determined by dividing (i) the principal amount of the note, together with any and all accrued and unpaid interest and penalties, by (ii) a conversion price of $0.04405, 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 (the “Common Conversion Price”) or (B) securities issued in any Subsequent Financing (“Subsequent Securities”) at a conversion price equal to 80% of the price per Subsequent Security paid by investors for Subsequent Securities in a Subsequent Financing. A “Subsequent Financing” is the sale by the Company or an affiliate thereof of securities at any time after July 15, 2010 and prior to the earlier of (i) a Qualified Financing or (ii) July 15, 2011. On January 7, 2011, the maturity date of the First July Note was extended to the later of (i) the maturity date of the Note or (ii) the maturity date of any other notes to be issued in connection with a financing of up to $3,000,000 aggregate principal amount of senior secured convertible notes by the company by January 31, 2011.

The Second July Note shall automatically convert on the earlier of (a) January 31, 2012 into shares of our common stock at a conversion price of $0.38866151 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 or (b) the closing of a Qualified Financing into shares of Qualified Financing Securities at a conversion price equal to a 20% discount to the purchase price paid by investors in the Qualified Financing. In addition, the promissory note 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) $0.38866151. In addition, any time prior to conversion, we have the irrevocable right to repay the unpaid principal and accrued but unpaid interest under the promissory note on three days written notice (during which period the holder can elect to convert the promissory note). The promissory note bears interest at the rate of 10% per annum and is due and payable in full on January 31, 2012. Until the principal and accrued but unpaid interest under the promissory note is 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 and the assets of our wholly-owned subsidiary, APDN (B.V.I.) Inc.

The foregoing transactions with Dr. Hayward were made on substantially similar terms as transactions with third party investors in our securities during the fiscal years ended September 30, 2011 and 2010.

Delabarta, Inc. / John Bitzer, III

John Bitzer, III, one of our directors, is President and Chief Executive Officer of ABARTA, Inc., a private, fourth-generation family holding-company, which owns Delabarta, Inc. Prior to Mr. Bitzer joining our Board of Directors, Delabarta, Inc. participated as an investor in the Private Placement and acquired 21,052,632 shares of common stock for a purchase price of $1,000,000. In connection with the Private Placement, we agreed to use best efforts to nominate Mr. Bitzer to the Board and elect him as director within 30 days of the closing of the Private Placement and to nominate and include Mr. Bitzer on the slate of nominees for the Board of Directors for election by stockholders at the annual meetings of stockholders for so long as Delabarta, Inc. owns at least 2% of the outstanding shares of common stock.

On November 30, 2010, the company issued and sold a $750,000 principal amount senior secured convertible note bearing interest at a rate of 10% per annum to Delabarta, Inc., the terms of which are described in our Current Report on Form 8-K filed with the SEC on December 3, 2010. On January 7, 2010, the company issued and sold a $750,000 principal amount senior secured convertible note bearing interest at a rate of 10% per annum to Delabarta, Inc., the terms of which are described in our Current Report on Form 8-K filed with the SEC on January 13, 2011.

Neustrada/ Gerald Catenacci

Gerald Catenacci, one of our directors, is the Founder and President of Neustrada Capital, LLC, a private investment fund (“Neustrada”). Prior to Mr. Catenacci joining our Board of Directors, Neustrada participated as an investor in the Private Placement and acquired 42,105,263 shares of common stock for a purchase price of $2,000,000. In connection with the Private Placement, we agreed to use best efforts to nominate Mr. Catenacci to the Board and elect him as director within 30 days of the closing of the Private Placement and to nominate and include Mr. Catenacci on the slate of nominees for the Board of Directors for election by stockholders at the annual meetings of stockholders for so long as Neustrada owns at least 2% of the outstanding shares of common stock.

Policy and Procedure for Approval of Related Person Transactions

We have a formal policy that requires all related party transactions, which includes transactions with directors, officers and holders of five percent or more of our voting securities and any member of the immediate family of and any entity affiliated with any of the foregoing persons, to be approved by our audit committee. In approving or

rejecting any such proposal, our audit committee will consider the relevant facts and circumstances available and deemed relevant to the committee, including, but not limited to, whether the transaction is on terms no less favorable than terms generally available to an unaffiliated third party under the same or similar circumstances and the extent of the related party's interest in the transaction.

Director Independence

Our Board of Directors currently consists of seven members: James A. Hayward, Yacov Shamash, Sanford R. Simon, John Bitzer, III, Gerald Catenacci, Karol Gray and Charles Ryan. Messrs. Bitzer, Catenacci and Ryan and Ms. Gray were elected to the Board on August 10, 2011. Although our securities are not currently listed on a national securities exchange or in an inter-dealer quotation system which has requirements that a majority of the Board of Directors be independent, the Board of Directors has determined that currently and at all times during the fiscal year ended September 30, 2011, each of our directors other than Dr. Hayward are "independent" as defined by the listing standards of the Nasdaq Stock Market, constituting a majority of independent directors of our Board of Directors as required by the rules of the Nasdaq Stock Market. The Board of Directors considers in its evaluation of independence whether any director has a relationship with us that would interfere with the exercise of independent judgment in carrying out his or her responsibilities of a director.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The following table sets forth fees billed to us by our auditors during fiscal years ended September 30, 2011 and 2010 for: (i) services rendered for the audit of our annual financial statements and the review of our quarterly financial statements, (ii) services by our auditor that are reasonably related to the performance of the audit or review of our financial statements and that are not reported as Audit Fees, (iii) services rendered in connection with tax compliance, tax advice and tax planning, and (iv) all other fees for services rendered.

	Fiscal year ended September 30, 2011	Fiscal year ended September 30, 2010
(i) Audit Fees	$ 73,000	$ 73,000
(ii) Audit Related Fees	—	—
(iii) Tax Fees	7,000	20,000
(iv) All Other Fees	—	—
Total Fees	$ 80,000	$ 93,000

Audit Fees -- Consists of fees billed for professional services rendered for the audit of our consolidated financial statements and review of the interim consolidated financial statements included in quarterly reports and services that are normally provided by RBSM LLP in connection with statutory and regulatory filings or engagements.

Audit Related Fees -- Consists of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our consolidated financial statements and are not reported under "Audit Fees." These services consist of responding to SEC comments in connection with our filings with the SEC and the review of and consent to registration statements. There were no audit related fees billed in fiscal 2011 or 2010.

Tax Fees -- Consists of fees billed for professional services for tax compliance, tax advice and tax planning.

All Other Fees -- Consists of fees for products and services other than the services reported above. There were no management consulting services provided in fiscal 2011 or 2010.

The Board of Directors has considered whether the provision of non-audit services is compatible with maintaining the principal accountant's independence.

Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors

The audit committee has adopted a policy and procedures for the pre-approval of audit and non-audit services provided by the independent auditors. These services may include audit services, audit-related services, tax services and other services. Pre-approval is generally provided for up to one year and any pre-approval is detailed as to the particular service or category of services and is generally subject to a specific budget. The independent auditors and management are required to periodically report to our audit committee regarding the extent of services provided by the independent auditors in accordance with this pre-approval, and the fees for the services performed to date. The audit committee may also pre-approve particular services on a case-by-case basis.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) We have filed the following documents as part of this Form 10-K :

1. Consolidated Financial Statements

Our consolidated financial statements at September 30, 2011 and 2010, and for the years ended September 30, 2011 and 2010, and the notes thereto, together with the report of our independent registered public accounting firm on those consolidated financial statements, are hereby filed as part of this report beginning on page F-1.

2. Financial Statement Schedule

All financial statement schedules have been omitted since the required information is not applicable or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements and notes thereto.

3. Exhibits.

The information required by this item is set forth on the exhibit index that follows the signature page of this report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

APPLIED DNA SCIENCES, INC.

Date: December 8, 2011

/s/ JAMES A. HAYWARD
James A. Hayward
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Position	Date
/s/ JAMES A. HAYWARD James A. Hayward	Chief Executive Officer (Principal Executive Officer), President, Chairman of the Board of Directors and Director	December 8, 2011
/s/ KURT H. JENSEN Kurt H. Jensen	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	December 8, 2011
/s/ JOHN BITZER, III John Bitzer, III	Director	December 8, 2011
/s/ GERALD CATENACCI Gerald Catenacci	Director	December 8, 2011
/s/ KAROL GRAY Karol Gray	Director	December 8, 2011
/s/ CHARLES RYAN Charles Ryan	Director	December 8, 2011
/s/ YACOV SHAMASH Yacov Shamash	Director	December 8, 2011
/s/ SANFORD R. SIMON Sanford R. Simon	Director	December 8, 2011

EXHIBIT INDEX

The following exhibits are included as part of this Form 10-K . References to “the Company” in this Exhibit List mean Applied DNA Sciences, Inc., a Delaware corporation.

Exhibit	Description
3.1	Certificate of Incorporation of Applied DNA Sciences, Inc., filed as an exhibit to the current report on Form 8-K filed with the Commission on January 16, 2009 and incorporated herein by reference.
3.2	By-Laws of Applied DNA Sciences, Inc., filed as an exhibit to the current report on Form 8-K filed with the Commission on January 16, 2009 and incorporated herein by reference.
4.1	Form of Subscription Agreement, filed as an exhibit to the current report on Form 8-K filed with the Commission on January 28, 2005 and incorporated herein by reference.
4.2	Form of 10% Secured Convertible Promissory Note, filed as an exhibit to the current report on Form 8-K filed with the Commission on January 28, 2005 and incorporated herein by reference.
4.3	Form of Warrant Agreement, filed as an exhibit to the current report on Form 8-K filed with the Commission on January 28, 2005 and incorporated herein by reference.
4.4	Registration Rights Agreement, dated January 28, 2005, between the Company and Vertical Capital Partners, Inc., on behalf of the investors, filed as an exhibit to the current report on Form 8-K filed with the Commission on January 28, 2005 and incorporated herein by reference.
4.5	Security Agreement, dated January 28, 2005, between the Company and Vertical Capital Partners, Inc., on behalf of the investors, filed as an exhibit to the current report on Form 8-K filed with the Commission on January 28, 2005 and incorporated herein by reference.
4.6	Form of Subscription Agreement, filed as an exhibit to the current report on Form 8-K filed with the Commission on October 11, 2007 and incorporated herein by reference.
4.7	Form of 10% Secured Convertible Promissory Note, filed as an exhibit to the current report on Form 8-K filed with the Commission on October 11, 2007 and incorporated herein by reference.
4.8	Form of Warrant Agreement, filed as an exhibit to the current report on Form 8-K filed with the Commission on October 11, 2007 and incorporated herein by reference.
10.1†	Applied DNA Sciences, Inc. 2005 Stock Incentive Plan and form of employee stock option agreement thereunder, filed as an exhibit to the registration statement on Form S-8 filed with the Commission on December 4, 2009 and incorporated herein by reference.
10.2#	Joint Development and Marketing Agreement, dated April 18, 2007 by and between Applied DNA Sciences and International Imaging Materials, Inc., filed as an exhibit to the current report on Form 8-K filed with the Commission on April 24, 2007 and incorporated herein by reference.
10.3#	

Technology Reseller Agreement, dated May 30, 2007 by and between Applied DNA Sciences, Inc. and Printcolor Screen Ltd., filed as an exhibit to the current report on Form 8-K filed with the Commission on June 1, 2007 and incorporated herein by reference.

10.4#	Feasibility Study Agreement, dated June 27, 2007 by and between Applied DNA Sciences, Inc. and Supima, filed as an exhibit to the current report on Form 8-K filed with the Commission on July 3, 2007 and incorporated herein by reference.
10.5#	Supply and Distribution Agreement, dated September 16, 2009 by and between Applied DNA Sciences, Inc. and Printcolor Screen Ltd., filed as an exhibit to the annual report on Form 10-K filed with the Commission on December 23, 2009
10.6#*	Authentication Mark Agreement, dated December 21, 2009 by and between Applied DNA Sciences, Inc. and ***, filed as an exhibit to the quarterly report on Form 10-Q filed with the Commission on February 11, 2010.
10.7#	Authentication Mark Agreement, dated December 14, 2009 by and between Applied DNA Sciences, Inc. and Nissha Printing Co., Ltd., filed as an exhibit to the quarterly report on Form 10-Q filed with the Commission on February 11, 2010.
10.8#	Authentication Mark Agreement, dated December 21, 2009 by and between Applied DNA Sciences, Inc. and ***, filed as an exhibit to the quarterly report on Form 10-Q filed with the Commission on February 11, 2010.
10.9	Form of Securities Purchase Agreement, filed as an exhibit to the current report on Form 8-K filed with the Commission on July 16, 2010.
10.10	Form of Note, filed as an exhibit to the current report on Form 8-K filed with the Commission on July 16, 2010.
10.11	Form of Registration Rights Agreement, filed as an exhibit to the current report on Form 8-K filed with the Commission on July 16, 2010.
10.12	Security Agreement, dated July 15, 2010, made by the Company in favor of Etico Capital, LLC, filed as an exhibit to the current report on Form 8-K filed with the Commission on July 16, 2010.
10.13	Security Agreement, dated July 15, 2010, made by APDN BVI in favor of Etico Capital, LLC, filed as an exhibit to the current report on Form 8-K filed with the Commission on July 16, 2010.
10.14	Trademark Security Agreement, dated July 15, 2010, made by the Company in favor of Etico Capital, LLC, filed as an exhibit to the current report on Form 8-K filed with the Commission on July 16, 2010.
10.15	Trademark Security Agreement, dated July 15, 2010, made by APDN BVI in favor of Etico Capital, LLC, filed as an exhibit to the current report on Form 8-K filed with the Commission on July 16, 2010.
10.16	Trademark Security Agreement, dated July 15, 2010, made by APDN BVI, as successor in interest by merger to Rixflex Holdings Limited, in favor of Etico Capital, LLC, filed as an exhibit to the current report on Form 8-K filed with the Commission on July 16, 2010.
10.17	Patent Security Agreement, dated July 15, 2010, made by APDN BVI in favor of Etico Capital, LLC, filed as an exhibit to the current report on Form 8-K filed with the Commission on July 16, 2010.
10.18	

Patent Security Agreement, dated July 15, 2010, made by APDN BVI, as successor in interest by merger to Rixflex Holdings Limited, in favor of Etico Capital, LLC, filed as an exhibit to the current report on Form 8-K filed with the Commission on July 16, 2010.

10.19	Form of Prior Investor Security Agreement, filed as an exhibit to the current report on Form 8-K filed with the Commission on July 16, 2010.
10.20	Form of Warrant, filed as an exhibit to the current report on Form 8-K filed with the Commission on July 16, 2010.
10.21	10% Secured Convertible Promissory Note issued by the Company to James A. Hayward, filed as an exhibit to the current report on Form 8-K filed with the Commission on July 16, 2010.
10.22	Form of Subscription Agreement by and among Applied DNA Sciences, Inc. and the investors named on the signature pages thereto, filed as an exhibit to the current report on Form 8-K filed with the Commission on November 26, 2010.
10.23	Form of Note, filed as an exhibit to the current report on Form 8-K filed with the Commission on November 26, 2010.
10.24	Form of Joinder Agreement to Registration Rights Agreement filed as an exhibit to the current report on Form 8-K filed with the Commission on November 26, 2010.
10.25	Form of Joinder Agreement to Security Agreement filed as an exhibit to the current report on Form 8-K filed with the Commission on November 26, 2010.
10.26	Form of Joinder Agreement to Security Agreement (APDN BVI) filed as an exhibit to the current report on Form 8-K filed with the Commission on November 26, 2010.
10.27	Agreement, dated August 11, 2008, by and between Huddersfield and Textile Training Company, Limited and Applied DNA Sciences, Inc. filed as an exhibit to the annual report on Form 10 K/A filed with the Commission on July 25, 2011.
10.28*	Form of Subscription Agreement, dated July 15, 2011, by and among Applied DNA Sciences, Inc. and the investors named on the signature pages thereto.
10.29*	Form of Warrant, dated July 15, 2011, issued to the investors named on the signature pages thereto.
10.30#*	Joint Development Agreement, dated June 30, 2011, between C.F. Martin & Co., Inc. and Applied DNA Sciences, Inc.
10.31#*	Agreement, dated July 7, 2011, between Disc Graphics and Applied DNA Sciences, Inc.
10.32†*	Employment Agreement, dated July 11, 2011, between James A. Hayward and Applied DNA Sciences, Inc.
10.33†*	Employment Agreement, dated July 11, 2011, between Kurt H. Jensen and Applied DNA Sciences, Inc.
10.34	Subcontract, dated June 2, 2011, between Logistics Management Institute and Applied DNA Sciences, Inc. filed as an exhibit to the quarterly report on Form 10-Q filed with the Commission on August 10, 2011.
23.1*	Consent of RBSM LLP.

31.1*	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 .

31.2*	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 .
32.1*	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 .
32.2*	Certifications of Chief Financial Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 .
101 INS*	XBRL Instance Document
101 SCH*	XBRL Taxonomy Extension Schema Document
101 CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101 LAB*	XBRL Extension Labels Linkbase Document
101 PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.
† Indicates a management contract or any compensatory plan, contract or arrangement.
# A request for confidentiality has been filed for certain portions of the indicated document. Confidential portions have been omitted and filed separately with the Securities and Exchange Commission as required by Rule 24b-2 promulgated under the Securities Exchange Act of 1934.

APPLIED DNA SCIENCES, INC.
INDEX TO FINANCIAL STATEMENTS

	Page
Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets as of September 30, 2011 and 2010	F-3
Consolidated Statements of Operations for the Years Ended September 30, 2011 and 2010	F-4
Consolidated Statements of Deficiency in Stockholders' Equity for the Two Years Ended September 30, 2011	F-5
Consolidated Statements of Cash Flows for the Years Ended September 30, 2011 and 2010	F-6
Notes to Consolidated Financial Statements	F-7

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Applied DNA Sciences, Inc.
Stony Brook, New York

We have audited the accompanying consolidated balance sheets of Applied DNA Sciences, Inc. (the "Company") as of September 30, 2011 and 2010 and the related consolidated statements of operations, deficiency in stockholders' equity, and cash flows for each of the two years in the period ended September 30, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based upon our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Applied DNA Sciences, Inc. as of September 30, 2011 and 2010, and the results of its operations and its cash flows for each of the two years in the period ended September 30, 2011, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in the Note K to the accompanying consolidated financial statements, the Company has suffered recurring losses and does not have significant cash or other material assets, nor does it have an established source of revenues sufficient to cover its operations, which raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to this matter are described in Note K. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ RBSM LLP

New York, New York
December 8, 2011

APPLIED DNA SCIENCES, INC.
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2011 AND 2010

	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents	$2,747,294	$17,618
Accounts receivable	208,587	63,029
Prepaid expenses	76,290	161,456
Total current assets	3,032,171	242,103
Property, plant and equipment-net of accumulated depreciation of $210,862 and $207,097 respectively	89,108	3,765
Other assets:		
Deposits	23,458	8,322
Capitalized finance costs-net of accumulated amortization of $1,806,261 and $947,276, respectively	85,975	522,489
Intangible assets:		
Patients, net of accumulated amortization of $34,257 (Note B)	-	-
Intellectual property, net of accumulated amortization and write off of $9,158,056 and $8,794,265, respectively (Note B)	272,844	636,635
Total Assets	$3,503,556	$1,413,314
LIABILITIES AND DEFICIENCY IN STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$768,061	$967,550
Advances from Officers (Note E)	-	50,000
Convertible notes payable, net of unamortized discount of $541,120 and $545,920, (Note D)	3,730,880	1,774,080
Total current liabilities	4,498,941	2,791,630
Long term debt:		
Convertible note payable-related party, net of unamortized discount of $5,286	-	219,714
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 September 30, 2011 and September 30, 2010	-	-
Common stock, par value $0.001 per share; 800,000,000 shares authorized; 473,325,859 and 346,366,244 issued and outstanding as of September 30, 2011 and	473,326	346,366

2010, respectively		
Additional paid in capital	160,387,716	149,396,907
Accumulated deficit	(161,856,427)	(151,341,303)
Total deficiency in stockholders' equity	(995,385)	(1,598,030)
Total Liabilities and Deficiency in Stockholders' Equity	$3,503,556	$1,413,314

See the accompanying notes to the consolidated financial statements

APPLIED DNA SCIENCES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	2011	2010
Revenue	$968,848	$519,844
Operating expenses:		
Selling, general and administrative	8,388,873	7,189,020
Research and development	268,876	75,961
Depreciation and amortization	367,556	371,914
Total operating expenses	9,025,305	7,636,895
NET LOSS FROM OPERATIONS	(8,056,457)	(7,117,051)
Interest expense, net	(2,458,667)	(792,549)
Net loss before provision for income taxes	(10,515,124)	(7,909,600)
Income taxes (benefit)	-	-
NET LOSS	$(10,515,124)	$(7,909,600)
Net loss per share-basic and fully diluted	$(0.03)	$(0.03)
Weighted average shares outstanding- Basic and fully diluted	376,833,809	300,352,913

See the accompanying notes to the consolidated financial statements

APPLIED DNA SCIENCES, INC.
CONSOLIDATED STATEMENT OF DEFICIENCY IN STOCKHOLDERS' EQUITY
TWO YEARS ENDED SEPTEMBER 30, 2011

	Preferred Stock Shares	Preferred Stock Amount	Common Shares	Common Stock Amount	Additional Paid in Capital	Accumulated Deficit	Total
Balance, September 30, 2009	-	$-	275,204,070	$275,204	$141,409,667	$(143,431,703)	$(1,746,8
Equity based compensation	-	-	-	-	1,250,950	-	1,250,9
Fair value of vested options issued to directors, officers and employees	-	-	-	-	2,545,305	-	2,545,3
Fair value of vested warrants issued for service	-	-	-	-	288,314	-	288,314
Beneficial conversion feature relating to convertible debentures	-	-	-	-	744,147	-	744,147
Common stock issued in settlement of convertible debentures	-	-	56,099,888	56,100	2,975,749	-	3,031,8
Common stock issued in exchange for consulting services	-	-	15,297,286	15,297	182,540	-	197,837
Cancellation of shares held in treasury	-	-	(235,000)	(235)	235	-	-
Net loss	-	-	-	-	-	(7,909,600)	(7,909,6
Balance, September 30, 2010	-	-	346,366,244	346,366	149,396,907	(151,341,303)	(1,598,0
Equity based compensation	-	-	-	-	502,082	-	502,082
Fair value of vested options issued to directors, officers and employees	-	-	-	-	1,485,068	-	1,485,0
Fair value of vested warrants issued for services	-	-	-	-	217,971	-	217,971
Common stock issued in settlement of convertible debentures	-	-	5,807,643	5,808	404,189	-	409,997
Common stock issued in exchange for consulting services	-	-	888,813	889	64,111	-	65,000
Sale of common stock	-	-	105,263,159	105,263	4,629,737	-	4,735,0
Common stock issued as officer compensation	-	-	15,000,000	15,000	862,500	-	877,500
Change in fair value of extended vested options	-	-	-	-	738,810	-	738,810
Beneficial conversion feature relating to convertible debentures	-	-	-	-	2,086,341	-	2,086,3
Net loss	-	-	-	-	-	(10,515,124)	(10,515
Balance, September 30, 2011	-	$-	473,325,859	$473,326	$160,387,716	$(161,856,426)	$(995,38

See the accompanying notes to the consolidated financial statements

APPLIED DNA SCIENCES, INC
CONSOLIDATED STATEMENT OF CASH FLOWS
YEARS ENDED SEPTEMBER 31, 2011 AND 2010

	2011	2010
Cash flows from operating activities:		
Net loss	$(10,515,124)	$(7,909,600)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	367,556	371,914
Fair value of vested options issued to officers, directors and employees	1,485,068	2,545,305
Amortization of capitalized financing costs	858,985	331,665
Amortization of debt discount attributable to convertible debentures	2,096,427	512,530
Equity based compensation	1,444,583	1,250,951
Common stock issued in settlement of interest	36,997	195,794
Fair value change from employee option modifications	738,810	-
Change in assets and liabilities:		
Increase in accounts receivable	(145,558)	(15,727)
Decrease in prepaid expenses and deposits	70,030	31,865
(Decrease) increase in accounts payable and accrued liabilities	(199,490)	230,114
Net cash used in operating activities	(3,761,716)	(2,455,189)
Cash flows from investing activities:		
Purchase of property and equipment	(89,108)	-
Net cash used in investing activities	(89,108)	-
Cash flows from financing activities:		
Net proceeds from (repayments of) related party advances	(50,000)	50,000
Net proceeds from sale of common stock	4,735,000	-
Net proceeds from issuance of convertible notes	1,895,500	2,209,500
Net cash provided by financing activities	6,580,500	2,259,500
Net increase (decrease) in cash and cash equivalents	2,729,676	(195,689)
Cash and cash equivalents at beginning of year	17,618	213,307
Cash and cash equivalents at end of year	$2,747,294	$17,618
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for interest	$-	$-
Cash paid during the year for taxes	$-	$-
Non-cash transactions:		
Fair value of warrants issued for financing costs	$217,971	$-
Common stock issued in exchange for previously incurred debt	$409,997	$3,031,849

See the accompanying notes to the consolidated financial statements

APPLIED DNA SCIENCES, INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE A — SUMMARY OF ACCOUNTING POLICIES

A summary of the significant accounting policies applied in the preparation of the accompanying consolidated financial statements follows.

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. The Company is principally devoted to developing DNA embedded biotechnology security solutions in the United States and Europe.

The 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 financial statements 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.

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 September 30, 2011 and 2010, the Company did not record

any deferred revenue for the respective periods.

Cash Equivalents

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

APPLIED DNA SCIENCES, INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

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 September 30, 2011 and 2010, 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.

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 September 30, 2011 and 2010, property and equipment consist of:

	September 30, 2011	September 30, 2010
Computer equipment	$ 33,464	$ 27,404
Lab equipment	146,101	77,473
Furniture	120,405	105,985
Total	299,970	210,862
Accumulated depreciation	210,862	207,097
Net	$ 89,108	$ 3,765

Impairment of Long-Lived Assets

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

Comprehensive Income

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

APPLIED DNA SCIENCES, INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

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.

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 year ended September 30, 2011 and 2010, common stock 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 540,969,602 and 300,352,913 for the years ended September 30, 2011 and 2010, respectively.

Stock Based Compensation

The Company follows 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. Stock-based compensation expense recognized under ASC 718-10 for the year ended September 30, 2011 and 2010 was $1,485,068 and 2,545,305, respectively.

As of September 30, 2011, 120,650,000 employee stock options were outstanding with 63,900,000 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 years ended September 30, 2011 and 2010 included an aggregate of 53% and 64%, respectively, from three customers of the Company's total revenues. Four customers accounted for the Company's 77% and 90% of total accounts receivable at September 30, 2011 and 2010, respectively.

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 $268,876 and $75,961 for the years ended September 30, 2011 and 2010, respectively.

APPLIED DNA SCIENCES, INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

Advertising

The Company follows the policy of charging the costs of advertising to expense as incurred. The Company charged to operations $131,938 and $50,195 as advertising costs for the years ended September 30, 2011 and 2010, 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 other intellectual property uses a seven year useful life. We periodically evaluate the recoverability of intangible assets and take into account events or circumstances that warrant revised estimates of useful lives or that indicate that impairment exists. All of our intangible assets are subject to amortization.

Fair Value of Financial Instruments

In the first quarter of fiscal year 2008, the Company adopted Accounting Standards Codification subtopic 820-10, Fair Value Measurements and Disclosures ("ASC 820-10"). ASC 820-10 defines fair value, establishes a framework for measuring fair value, and enhances fair value measurement disclosure. ASC 820-10 delays, until the first quarter of fiscal year 2009, the effective date for ASC 820-10 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The adoption of ASC 820-10 did not have a material impact on the Company's financial position or operations. Refer to Footnote K 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 consolidated financial position, results of operations or cash flows. The carrying value of cash and cash equivalents, accounts payable and short-term borrowings, as reflected in the balance sheets, approximate fair value because of the short-term maturity of these instruments

Recently Adopted Accounting Principles

There were various updates recently issued, most of which represented technical corrections to the accounting literature or application to specific industries and are not expected to a have a material impact on the Company's consolidated financial position, results of operations or cash flows.

NOTE B - INTANGIBLE ASSETS

The identifiable intangible assets acquired and their carrying values at September 30, 2011 and 2010 are as follows:

	September 30, 2011		September 30, 2010
$	9,430,900	$	9,430,900

Trade secrets and developed technologies (Weighted average life of 7 years)		
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	(3,537,302)	(3,173,511)
Impairment (2006)	(5,655,011)	(5,655,011)
Net:	$ 272,844	$ 636,635
Residual value:	$ 0	$ 0

APPLIED DNA SCIENCES, INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

Total amortization expense charged to operations for the years ended September 30, 2011 and 2010 were $363,791 and $363,936, respectively.

NOTE C – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at September 30, 2011 and 2010 are as follows:

	September 30, 2011	September 30, 2010
Accounts payable	$ 165,465	$ 721,340
Accrued consulting fees	102,500	102,500
Accrued interest payable	415,096	88,937
Accrued salaries payable	85,000	54,773
Total	$ 768,061	$ 967,550

NOTE D – PRIVATE PLACEMENT OF CONVERTIBLE NOTES

Convertible notes payable as of September 30, 2011 and 2010 are as follows:

	September 30, 2011	September 30, 2010
Secured Convertible Notes Payable dated October 14, 2009, net of unamortized debt discount of $819 (see below)	$ -	$ 269,181
Secured Convertible Note Payable dated January 7, 2010, net of unamortized debt discount of $673 and $9,521, respectively (see below)	-	40,479
Secured Convertible Note Payable dated June 4, 2010, net of unamortized debt discount of $1,332 and $5,286, respectively (see below)	223,668	219,714
Secured Convertible Notes Payable dated July 15, 2010, net of unamortized debt discount of $26,091 and $535,580, respectively (see below)	423,909	1,464,420
Secured Convertible Notes Payable dated November 19, 2010, net of unamortized debt discount of $10,479 (see below)	339,521	-
Secured Convertible Note Payable dated November 30, 2010, net of unamortized debt discount of $45,136 (see below)	704,864	-
Secured Convertible Note Payable dated January 7, 2011, net of unamortized debt discount of $65,159 (see below)	684,841	-
Secured Convertible Notes Payable, dated July 15, 2010, modified January 7, 2011, net of unamortized debt discount of $392,923 (see below)	1,104,077	
Convertible Note Payable, dated July 11, 2011	250,000	
Total	3,730,880	1,993,794
Less: current portion	(3,730,880)	(1,774,080)
Long-term debt- net	$ -	$ 219,714

F-11

APPLIED DNA SCIENCES, INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

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 holders' 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 note holders 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 notes. 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 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 ($21,343) to debt discount which will be amortized to interest expense over the term of the notes. 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 $819 and $20,524 was recorded for the years ended September 30, 2011 and 2010, respectively.

On October 14, 2010, the Company issued 3,204,776 shares of common stock in settlement of the convertible notes and related interest.

10% Secured Convertible Promissory Note 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 $9,521 and $25,582 was recorded for the years ended September 30, 2011 and 2010, respectively.

On January 7, 2011, the Company issued 1,040,142 shares of common stock in settlement of the convertible note and related interest.

10% Secured Convertible Promissory Note dated June 4, 2010

On June 4, 2010, the Company issued a $675,000 related party convertible promissory note due January 31, 2012 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 $0.038866151 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 $0.038866151 per share. The Company has granted the noteholder a security interest in all the Company's assets.

APPLIED DNA SCIENCES, INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

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 $19,692 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 as interest expense.

The Company recorded the intrinsic value of the embedded beneficial conversion feature ($19,692) to debt discount which will be amortized to interest expense over the term of the note. Amortization of $3,954 and $2,166 was recorded for the years ended September 30, 2011 and 2010, respectively.

On July 15, 2010, $450,000 of the $675,000 related party convertible promissory note was converted to the same terms and conditions as described in the 10% Secured Convertible Promissory Notes dated July 15, 2010 below.

10% Senior Secured Convertible Promissory Notes dated July 15, 2010

On July 15, 2010, the Company issued an aggregate of $2,000,000 senior secured convertible promissory notes due July 15, 2011 with interest at 10% per annum due upon maturity to "accredited investors," as defined in regulations promulgated under the Securities Act of 1933, as amended ("Securities Act"). The notes are convertible at any time prior to maturity, at the holders' option, into shares of our common stock (i) prior to the occurrence of Subsequent Financing at a rate of $0.04405, or (ii) after Subsequent Financing in the event the holder elects to receive conversion shares that are not Subsequent Financing securities, at a rate of $0.04405, or as of any conversion date that occurs after the closing of a Subsequent Financing at a rate of 80% of the purchase price paid by investors in the Subsequent Financing. The notes automatically convert at the earlier occurrence of (i) maturity or (ii) Qualified Financing including any accrued and unpaid interest, at a rate as described above. The Company has granted the note holders a security interest in all the Company's assets and the assets of APDN (B.V.I.) Inc., the Company's wholly-owned subsidiary.

Subsequent Financing is defined as the issuance and sale by the Company or an affiliate thereof of securities that do not qualify as Qualified Financing. Qualified Financing is defined as the issuance and sale by the Company or an affiliate thereof of equity or debt securities in a single transaction that results in gross proceeds of (before transaction fees and expenses) equal to or in excess of $10,000,000.

In accordance with ASC 470-20, the Company recognized an embedded beneficial conversion feature present in the notes. 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 $678,774 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 ($678,774) to debt discount which will be amortized to interest expense over the term of the notes.

On January 7, 2011, upon the completion of a Subsequent Financing, the above described conversion rate changed from $0.04405 to $0.37104 with an extended due date from July 15, 2011 to January 7, 2012 on $1,550,000

of the $2,000,000 issued senior convertible promissory notes. All other terms are remaining the same. Although the conversion rate of the remaining $450,000 senior secured convertible promissory notes remained the same, the due date was extended also to January 7, 2012. In conjunction with the conversion rate and term modifications of the $1,550,000 senior secured convertible promissory notes, the Company wrote off the remaining unamortized debt discount of $331,332 to operations. See below discussion of the restructured senior secured convertible promissory notes.

APPLIED DNA SCIENCES, INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

Amortization of $70,102 was recorded for the year ended September 30, 2011 for the remaining $450,000 senior secured convertible promissory note.

10% Senior Secured Convertible Promissory Notes dated November 19, 2010

On November 19, 2010, the Company issued an aggregate of $350,000 in principal amount of senior secured convertible notes bearing interest at a rate of 10% per annum to "accredited investors," as defined in regulations promulgated under the Securities Act. The notes are convertible, in whole or in part, at any time, at the option of the noteholders, into either (A) such number of shares of the Company's common stock, $0.001 par value per share, determined by dividing (i) the principal amount of each note, together with any and all accrued and unpaid interest and penalties, by (ii) a conversion price of $ 0.032825817, 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 (the "Common Conversion Price") or (B) securities issued in any Subsequent Financing ("Subsequent Securities") at a conversion price equal to 80% of the price per Subsequent Security paid by investors for Subsequent Securities in a Subsequent Financing (the "Subsequent Financing Price"). A "Subsequent Financing" is the sale by the Company or an affiliate thereof of securities at any time after November 19, 2010 and prior to the earlier of (i) a Qualified Financing or (ii) November 19, 2011. A noteholder may convert its notes in whole in connection with any one Subsequent Financing or in part in connection with one or more Subsequent Financings. The notes shall be automatically converted upon the earlier of (I) November 19, 2011 and (II) the completion of a Qualified Financing at the election of each noteholder into either (A) shares of common stock at the Common Conversion Price, (B) Subsequent Securities at a conversion price equal to 80% of the Subsequent Financing Price, or (C) securities issued in a Qualified Financing (the "Qualified Financing Securities") at a conversion price equal to 80% of the price per Qualified Financing Security paid by investors for the Qualified Financing Securities in the Qualified Financing.

A "Qualified Financing" is the sale by the Company or an affiliate thereof of securities resulting in gross proceeds (before transaction fees and expenses) in a single transaction equal to or in excess of $10 million. The notes bear interest at the rate of 10% per annum and are due and payable in full on November 19, 2011.

Until the principal and accrued but unpaid interest under the notes are paid in full, or converted into Conversion Shares pursuant to their terms, the Company's obligations under the notes will be secured by a lien on all assets of the Company and the assets of APDN (B.V.I.) Inc., the Company's wholly-owned subsidiary.

In accordance with ASC 470-20, the Company recognized an embedded beneficial conversion feature present in the notes. 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 $76,494 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. Amortization of $66,015 was recorded for the year ended September 30, 2011.

10% Senior Secured Convertible Promissory Note dated November 30, 2010

On November 30, 2010, the Company issued a $750,000 principal amount senior secured convertible note bearing interest at a rate of 10% per annum to an "accredited investor," as defined in regulations promulgated under the Securities Act. The note is convertible, in whole or in part, at any time, at the option of the noteholder, into either (A) such number of shares of the Company's common stock, $0.001 par value per share, determined by dividing (i) the

principal amount of each note, together with any and all accrued and unpaid interest and penalties, by (ii) a conversion price of $ 0.03088, 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 (the "Common Conversion Price") or (B) securities issued in any Subsequent Financing ("Subsequent Securities") at a conversion price equal to 80% of the price per Subsequent Security paid by investors for Subsequent Securities in a Subsequent Financing (the "Subsequent Financing Price"). A "Subsequent Financing" is the sale by the Company or an affiliate thereof of securities at any time after November 30, 2010 and prior to the earlier of (i) a Qualified Financing or (ii) November 30, 2011. The noteholder may convert its note in whole in connection with any one Subsequent Financing or in part in connection with one or more Subsequent Financings. The note shall be automatically converted upon the earlier of (I) November 30, 2011 and (II) the completion of a Qualified Financing at the election of the noteholder into either (A) shares of common stock at the Common Conversion Price, (B) Subsequent Securities at a conversion price equal to 80% of the Subsequent Financing Price, or (C) securities issued in a Qualified Financing (the "Qualified Financing Securities") at a conversion price equal to 80% of the price per Qualified Financing Security paid by investors for the Qualified Financing Securities in the Qualified Financing.

APPLIED DNA SCIENCES, INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

A “Qualified Financing” is the sale by the Company or an affiliate thereof of securities resulting in gross proceeds (before transaction fees and expenses) in a single transaction equal to or in excess of $10 million. The note bears interest at the rate of 10% per annum and is due and payable in full on November 30, 2011.

Until the principal and accrued but unpaid interest under the note is paid in full, or converted into Conversion Shares pursuant to its terms, the Company’s obligations under the note will be secured by a lien on all assets of the Company and the assets of APDN (B.V.I.) Inc., the Company’s wholly-owned subsidiary.

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 $270,078 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 ($270,078) to debt discount which will be amortized to interest expense over the term of the note. Amortization of $224,942 was recorded for the year ended September 30, 2011.

10% Senior Secured Convertible Promissory Note dated January 7, 2011

On January 7, 2011, the Company issued a $750,000 principal amount senior secured convertible note bearing interest at a rate of 10% per annum to an “accredited investor,” as defined in regulations promulgated under the Securities Act. The note is convertible, in whole or in part, at any time, at the option of the noteholder, into either (A) such number of shares of the Company’s common stock, $0.001 par value per share, determined by dividing (i) the principal amount of each note, together with any and all accrued and unpaid interest and penalties, by (ii) a conversion price of $ 0.05529, 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 (the “Common Conversion Price”) or (B) securities issued in any Subsequent Financing (“Subsequent Securities”) at a conversion price equal to 80% of the price per Subsequent Security paid by investors for Subsequent Securities in a Subsequent Financing (the “Subsequent Financing Price”). A “Subsequent Financing” is the sale by the Company or an affiliate thereof of securities at any time after January 7, 2011 and prior to the earlier of (i) a Qualified Financing or (ii) January 7, 2012. The noteholder may convert its note in whole in connection with any one Subsequent Financing or in part in connection with one or more Subsequent Financings. The note shall be automatically converted upon the earlier of (I) January 7, 2012 and (II) the completion of a Qualified Financing at the election of the noteholder into either (A) shares of common stock at the Common Conversion Price, (B) Subsequent Securities at a conversion price equal to 80% of the Subsequent Financing Price, or (C) securities issued in a Qualified Financing (the “Qualified Financing Securities”) at a conversion price equal to 80% of the price per Qualified Financing Security paid by investors for the Qualified Financing Securities in the Qualified Financing.

A “Qualified Financing” is the sale by the Company or an affiliate thereof of securities resulting in gross proceeds (before transaction fees and expenses) in a single transaction equal to or in excess of $10 million. The note bears interest at the rate of 10% per annum and is due and payable in full on January 7, 2012.

Until the principal and accrued but unpaid interest under the note is paid in full, or converted into Conversion Shares pursuant to its terms, the Company's obligations under the note will be secured by a lien on all assets of the Company and the assets of APDN (B.V.I.) Inc., the Company's wholly-owned subsidiary.

APPLIED DNA SCIENCES, INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

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 $240,233 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 ($240,233) to debt discount which will be amortized to interest expense over the term of the note. Amortization of $175,074 was recorded for the year ended September 30, 2011.

10% Senior Secured Convertible Promissory Notes issued on July 15, 2010, modified on January 7, 2011

On January 7, 2011, the Company modified previously issued senior secured promissory notes initially dated July 15, 2010 totaling $1,550,000 in principal amount bearing interest at a rate of 10% per annum to "accredited investors," as defined in regulations promulgated under the Securities Act. The notes are convertible, in whole or in part, at any time, at the option of the noteholders, into either (A) such number of shares of the Company's common stock, $0.001 par value per share, determined by dividing (i) the principal amount of each note, together with any and all accrued and unpaid interest and penalties, by (ii) a conversion price of $ 0.037104 or (B) securities issued in any Subsequent Financing ("Subsequent Securities") at a conversion price equal to 80% of the price per Subsequent Security paid by investors for Subsequent Securities in a Subsequent Financing (the "Subsequent Financing Price"). A "Subsequent Financing" is the sale by the Company or an affiliate thereof of securities at any time after January 7, 2011 and prior to the earlier of (i) a Qualified Financing or (ii) January 7, 2012. A noteholder may convert its note in whole in connection with any one Subsequent Financing or in part in connection with one or more

Subsequent Financings. The notes shall be automatically converted upon the earlier of (I) January 7, 2012 and (II) the completion of a Qualified Financing at the election of the noteholder into either (A) shares of common stock at the Common Conversion Price, (B) Subsequent Securities at a conversion price equal to 80% of the Subsequent Financing Price, or (C) securities issued in a Qualified Financing (the "Qualified Financing Securities") at a conversion price equal to 80% of the price per Qualified Financing Security paid by investors for the Qualified Financing Securities in the Qualified Financing. The effect of this refinancing was recognized as "debt modification" in the financial statements.

A "Qualified Financing" is the sale by the Company or an affiliate thereof of securities resulting in gross proceeds (before transaction fees and expenses) in a single transaction equal to or in excess of $10 million. The notes bear interest at the rate of 10% per annum and is due and payable in full on January 7, 2012.

Until the principal and accrued but unpaid interest under the notes are paid in full, or converted into Conversion Shares pursuant to their terms, the Company's obligations under the notes will be secured by a lien on all assets of the Company and the assets of APDN (B.V.I.) Inc., the Company's wholly-owned subsidiary.

In accordance with ASC 470-20, the Company recognized an embedded beneficial conversion feature present in the notes. 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 $1,482,122 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 ($1,482,122) to debt discount which will be amortized to interest expense over the term of the note. Amortization of $1,214,668 was recorded for the year ended September 30, 2011.

APPLIED DNA SCIENCES, INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

During the year ended September 30, 2011, the Company issued an aggregate of 1,562,725 shares of common stock in settlement of the $53,000 of convertible notes and related interest.

4% Senior Secured Convertible Promissory Note issued on July 11, 2011

On June 11, 2011, the Company issued a $250,000 related party convertible promissory note due July 11, 2012 with interest at 4% 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 $0.0585 per share. At maturity, the note, including any accrued and unpaid interest, is automatically convertible at $0.0585 per share. The Company has granted the note holder a security interest in all the Company's assets.

The embedded conversion feature present in the note equaled the fair value of the underlying common stock at the date of issuance, therefore the Company did record a beneficial conversion feature.

NOTE E - RELATED PARTY TRANSACTIONS

The Company's current and former officers and shareholders have advanced funds to the Company for travel related and working capital purposes. No formal repayment terms or arrangements existed. There were $0 and $50,000 advances due at September 30, 2011 and 2010, respectively.

During the years ended September 30, 2011 and 2010, the Company's Chief Executive Officer, or entities controlled by the Company's Chief Executive Officer, had advanced funds to the Company in the form of convertible promissory notes for working capital purposes (see Note D). Interest expense related to these notes amounted to $24,719 and $76,891 for the years ended September 30, 2011 and 2010, respectively.

During the year ended September 30, 2010, the Company issued 41,720,685 shares of common stock in exchange for settlement of an aggregate of $1,500,000 related party convertible promissory notes and accrued interest.

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

NOTE F - CAPITAL STOCK

The Company is authorized to issue 800,000,000 shares of common stock, with a $0.001 par value per share, as the result of a vote of stockholders conducted on June 29, 2010 which effected an increase in the authorized shares of common stock from 410,000,000 to 800,000,000. 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 September 30, 2011 and 2010, there were 473,325,859 and 346,366,244 shares of common stock issued and outstanding, respectively.

Preferred and Common Stock Transactions During the Year Ended September 30, 2010:

During the year ended September 30, 2010, the Company issued an aggregate of 15,297,286 shares valued at $777,837 for current and future consulting services.

Preferred and Common Stock Transactions During the Year Ended September 30, 2011:

During the year ended September 30, 2011, the Company issued an aggregate of 888,813 shares valued at $65,000 for future consulting services.

During the year ended September 30, 2011, the Company issued 15,000,000 shares valued at $877,500 as officer compensation.

During the year ended September 30, 2011, the Company has expensed $502,082 related to stock based compensation.

APPLIED DNA SCIENCES, INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE G - STOCK OPTIONS AND WARRANTS

Warrants

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

Exercise Prices	Number Outstanding	Warrants Outstanding Remaining Contractual Life (Years)	Weighted Average Exercise Price	Weighted Average Exercisable	Exercisable Weighted Average Exercise Price
$ 0.03088	2,428,756	6.17	$ 0.3088	2,428,756	$ 0.3088
$ 0.03283	533,116	6.14	$ 0.3283	533,116	$ 0.3283
$ 0.04	9,000,000	3.92	$ 0.04	3,000,000	$ 0.04
$ 0.04405	3,007,946	5.79	$ 0.04405	3,007,946	$ 0.04405
$ 0.04750	7,578,978	6.79	$ 0.04750	7,578,978	$ 0.04750
$ 0.05529	1,356,484	6.28	$ 0.05529	1,356,484	$ 0.05529
$ 0.06	12,000,000	3.38	$ 0.06	7,000,000	$ 0.06
$ 0.07	200,000	0.46	$ 0.07	200,000	$ 0.07
$ 0.09	9,900,000	4.93	$ 0.09	9,900,000	$ 0.09
$ 0.10	1,500,000	1.49	$ 0.10	1,500,000	$ 0.10
$ 0.50	10,700,000	1.24	$ 0.50	10,700,000	$ 0.50
	58,205,280			47,205,280	

Transactions involving warrants are summarized as follows:

	Number of Shares	Weighted Average Price Per Share
Balance, September 30, 2009	64,820,500	$ 0.43
Granted	22,007,946	0.05
Exercised	—	
Canceled or expired	(17,620,500)	(0.73)
Balance at September 30, 2010	69,207,946	$ 0.237
Granted	11,897,334	0.044
Exercised	—	—
Canceled or expired	(22,900,000)	(0.384)
Balance, September 30, 2011	58,205,280	$ 0.140

On April 29, 2010, warrants totaling 10,000,000 were issued in connection with services. The warrants are exercisable for five years from the date of issuance at an exercise price of $0.06 per share with 25% vesting immediately, 25% on October 29, 2010, 25% on April 29, 2011 and 25% on October 29, 2011. The fair values of the warrants vesting during the nine month period ended June 30, 2011 was determined using the Black-Scholes Option Pricing Model with the following assumptions: dividend yield $-0-, volatility of 170.72% and risk free rate from 1.17%.

The determined fair value of $136,988 is charged ratably to current period operations. During the years ended September 30, 2011 and 2010, $21,709 and $115,279 was charged to operations, respectively.

APPLIED DNA SCIENCES, INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

On July 15, 2010, warrants totaling 3,007,946 were issued in connection with services provided in connection with the issuance of convertible notes. The warrants are exercisable for seven years from the date of issuance at an exercise price of $0.04405 per share. The fair values of the warrants were determined using the Black-Scholes Option Pricing Model with the following assumptions: dividend yield $-0-, volatility of 173.55% and risk free rate from 2.43%.

The determined fair value of $174,429 is charged ratably to current period operations over one year. During the years ended September 30, 2011 and 2010, $137,154 and $36, 497 was charged to operations, respectively.

On August 30, 2010, warrants totaling 10,000,000 were issued in connection with services. The warrants are exercisable for five years from the date of issuance at an exercise price of $0.04 per share with 33% vesting immediately and 67% upon achieving defined milestones. The fair value of the vested warrants was determined using the Black-Scholes Option Pricing Model with the following assumptions: dividend yield $-0-, volatility of 173.24% and risk free rate from 1.39%.

The determined fair value of $113,885 is charged ratably to current period operations. During the year ended September 30, 2011 and 2010, $85,180 and 28,705 was charged to operations, respectively.

In the month of November 2010, warrants totaling 2,961,872 were issued in connection with services provided in connection with the issuance of convertible notes. The warrants are exercisable for seven years from the date of issuance at exercise prices from $0.03088 to $0.03283 per share. The fair values of the warrants were determined using the Black-Scholes Option Pricing Model with the following assumptions: dividend yield $-0-, volatility of 169.06% to 169.21% and risk free rate from 2.16 to 2.20%.

The determined fair value of $120,840 is charged ratably to current period operations over one year. During the year ended September 30, 2011, $101,989 was charged to operations.

In the month of January 2011, warrants totaling 1,356,484 were issued in connection with services provided in connection with the issuance of convertible notes. The warrants are exercisable for seven years from the date of issuance at exercise price of $0.05529 per share. The fair values of the warrants were determined using the Black-Scholes Option Pricing Model with the following assumptions: dividend yield $-0-, volatility of 170.33% and risk free rate of 2.69%.

The determined fair value of $97,131 is charged ratably to current period operations over one year. During the year ended September 30, 2011, $70,653 was charged to operations.

During the month of July 2011, warrants totaling 7,578,978 were issued in connection with the sale of the Company's common stock. The warrants are exercisable for seven years from the date of issuance at an exercise price of $0.04750 per share.

On August 12, 2011, the Company extended the expiration date of previously issued warrants exercisable at $0.09 per share to consultants. The warrants were extended from September 1, 2011 to September 1, 2016. The change in fair value of the options of $194,424 was charged to current period operations and was determined using the Black-Sholes Option Pricing model with the following assumptions: dividend yield $-0-, volatility of 162.03% and risk free rate from 0.01% to 0.32%.

APPLIED DNA SCIENCES, INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

Employee Stock Options

On January 26, 2005, the Board of Directors, and on February 15, 2005, the holders of a majority of the outstanding shares of 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 shares of 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 at an exercise price of $0.11 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.

On May 27, 2010, our named executive officers elected to forfeit certain stock options to purchase up to 29 million shares of our Common Stock at an exercise price of $0.11 that were previously granted to them under the 2005 Incentive Stock Plan. In lieu of the forfeited options, our Board of Directors granted new stock options to such named executive officers to purchase up to 29 million shares of our common stock at an exercise price of $0.05 under the 2005 Stock Incentive Plan which are fully vested and became exercisable on June 29, 2010 following approval by our stockholders to amend our certificate of incorporation to increase our authorized shares of common stock.

On July 1, 2010, our Board of Directors granted nonstatutory stock options under the 2005 Incentive Stock Plan to our named executive officers. The options granted to the named executive officers vested with respect to 25% of the underlying shares on the date of grant, and the remaining will vest ratably each anniversary thereafter until fully vested on the third anniversary of the date of grant.

The 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 September 30, 2011, a total of 9,675,000 shares have been issued and options to purchase 120,650,000 shares have been granted under the 2005 Incentive Stock Plan. The exercisability of options to purchase 40,000,000 shares of Common Stock is conditioned upon stockholder approval at the 2012 annual stockholders meeting of an amendment to the Company's 2005 Incentive Stock Plan increasing the aggregate limits on the shares of Common Stock issuable under the Plan from 100,000,000 to 350,000,000 and the number of shares of Common Stock that can be covered by awards made to any participant in any calendar year from 25,000,000 to 50,000,000 shares, and if the amendment is not so approved, this option shall expire.

On July 11, 2011, our Board of Directors granted an aggregate of 50,000,000 nonstatutory stock options under the 2005 Incentive Stock Plan to key executive officers. The options granted to the key executive officers vest as follows: 25% immediately, 37.5% on the first anniversary and 37.5% on the second anniversary with vesting acceleration dependent on defined revenue targets. The exercisability of options to purchase 40,000,000 shares of Common Stock is conditioned upon stockholder approval at the 2012 annual stockholders meeting of an amendment to the Company's

2005 Incentive Stock Plan increasing the aggregate limits on the shares of Common Stock issuable under the Plan from 100,000,000 to 350,000,000 and the number of shares of Common Stock that can be covered by awards made to any participant in any calendar year from 25,000,000 to 50,000,000 shares, and if the amendment is not so approved, this option shall expire.

APPLIED DNA SCIENCES, INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

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 the 2005 Incentive Stock 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
$ 0.05	29,000,000	3.66	$ 0.05	29,000,000	$ 0.05
$ 0.0585	50,000,000	6.79	0.0585	12,500,000	0.0585
$ 0.06	30,000,000	3.75	$ 0.06	15,000,000	$ 0.06
$ 0.07	2,750,000	3.55	$ 0.07	500,000	$ 0.07
$ 0.08	2,000,000	4.27	$	-	$ -
$ 0.09	1,500,000	4.93	$ 0.09	1,500,000	$ 0.09
$ 0.11	5,400,000	1.72	$ 0.11	5,400,000	$ 0.11
	120,650,000		$ 0.06	63,900,000	$ 0.06

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

	Number of Shares	Weighted Average Exercise Price Per Share
Outstanding at October 1, 2009	38,920,000	$ 0.11
Granted	59,000,000	0.06
Exercised	-	
Cancelled or expired	(31,020,000)	(0.11)
Outstanding at September 30, 2010	66,900,000	$ 0.06
Granted	53,750,000	0.06
Exercised	-	
Canceled or expired	-	
Outstanding at September 30, 2011	120,650,000	$ 0.06

On December 13, 2010, the Company granted 1,500,000 options to purchase the Company's common stock at an exercise price of $0.07 per share for five years to an employee with vesting at 25% each anniversary for the next four years. The fair value of options was determined using the Black Scholes Option Pricing Model with the following assumptions: dividend yield $-0-, volatility of 171.29% and risk free rate of 0.98%.

On January 4, 2011, the Company granted 2,000,000 options to purchase the Company's common stock at an exercise price of $0.08 per share for five years to an employee with vesting at 25% each anniversary for the next four years. The exercisability of options to purchase 40,000,000 shares of Common Stock is conditioned upon stockholder approval at the 2012 annual stockholders meeting of an amendment to the Company's 2005 Incentive Stock Plan increasing the aggregate limits on the shares of Common Stock issuable under the Plan from 100,000,000 to 350,000,000 and the number of shares of Common Stock that can be covered by awards made to any participant in any calendar year from 25,000,000 to 50,000,000 shares, and if the amendment is not so approved, this option shall expire. The fair value of options was determined using the Black-Scholes Option Pricing Model with the following assumptions: dividend yield $-0-, volatility of 170.62% and risk free rate of 2.01%.

On July 11, 2011, the Company granted an aggregate of 50,000,000 options to purchase the Company's common stock at an exercise price of $0.0585 per share for seven years to key officers with vesting as follows: 25% immediately, 37.5% each anniversary for the next two years with vesting acceleration dependent on defined revenue targets. The options are issuable subject to stockholder approval. The fair value of options was determined using the Black-Scholes Option Pricing Model with the following assumptions: dividend yield $-0-, volatility of 162.37% and risk free rate of 2.22%.

On August 1, 2011, the Company granted 250,000 options to purchase the Company's common stock at an exercise price of $0.07 per share for five years to an employee with vesting at 25% each anniversary for the next four years. The fair value of options was determined using the Black-Scholes Option Pricing Model with the following assumptions: dividend yield $-0-, volatility of 162.43% and risk free rate of 1.32%.

APPLIED DNA SCIENCES, INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

On August 12, 2011, the Company extended the expiry date of previously issued options exercisable at $0.09 per share to key officers. The fully vested options were extended from September 1, 2011 to September 1, 2016. The change in fair value of the options of $544,386 was charged to current period operations and was determined using the Black-Sholes Option Pricing model with the following assumptions: dividend yield $-0-, volatility of 162.03% and risk free rate from 0.01% to 0.32%.

The Company recorded $1,485,068 and $2,545,305 as stock compensation expense for the years ended September 30, 2011 and 2010, respectively.

NOTE H – 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 bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

At September 30, 2011, the Company has available for federal income tax purposes a net operating loss carryforward of approximately $34,000,000, expiring in the year 2031 that may be used to offset future taxable income. The Company has provided a valuation reserve against the full amount of the net operating loss benefit, since in the opinion of management based upon the earnings history of the Company; it is more likely than not that the benefits will not be realized. Due to significant changes in the Company's ownership, the future use of its existing net operating losses may be limited. Components of deferred tax assets as of September 30, 2011 are as follows:

Non current:	
Net operating loss carryforward	$ 34,000,000
Valuation allowance	(34,000,000)
Net deferred tax asset	$ —

NOTE I- LOSS PER SHARE

The following table presents the computation of basic and diluted loss per share:

	For the Year Ended September 30, 2011	For the Year Ended September 30, 2010
Loss available for common shareholders	$ (10,515,124)	$ (7,909,600)
Basic loss per share	$ (0.03)	$ (0.03)
Weighted average common shares outstanding-basic	376,833,809	300,352,913
Weighted average common shares outstanding-fully diluted	376,833,809	300,352,913

During the years ended September 30, 2011 and 2010, common stock equivalents are not considered in the calculation of the weighted average number of common shares outstanding because they would be anti-dilutive, thereby decreasing the net loss per common share.

NOTE J- COMMITMENTS AND CONTINGENCIES

Operating leases

The Company leases office space under operating lease in Stony Brook, New York for its corporate use from an entity controlled by a significant former shareholder, expiring in October 2011 renewable annually thereafter. Total lease rental expenses for the years ended September 30, 2011 and 2010 were $144,118 and $93,433, respectively.

APPLIED DNA SCIENCES, INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

Employment and Consulting Agreements

Employment agreements

On July 11, 2011, the Company's Board of Directors approved the terms of employment for each of James A. Hayward, the Company's Chief Executive Officer, and Kurt H. Jensen, the Company's Chief Financial Officer.

In connection with his employment agreement, Dr. Hayward was granted options to purchase 40 million shares of the Company's Common Stock at an exercise price per share equal to the average of the bid and asked prices of the Company's Common Stock on the Over The Counter (OTC) Bulletin Board on the date of grant. The option will vest as follows: 25% on the grant date, and 37.5% on each of the next two anniversaries of the grant date, subject to Dr. Hayward's continuous employment. If Company revenues for any fiscal quarter increase by more than $1 million over the prior fiscal quarter, then the vesting date for the next 37.5% tranche will be accelerated. Exercisability of options for the 40 million shares will be conditioned upon stockholder approval of an amendment of the Company's 2005 Incentive Stock Plan made by the Board of Directors increasing the aggregate and individual limits on the shares of Company Common Stock issuable under the Plan. The Company also granted 15 million shares of the Company's Common Stock to Dr. Hayward.

In connection with his employment agreement, Mr. Jensen was granted options to purchase 10 million shares of the Company's Common Stock at an exercise price per share equal to the average of the bid and asked prices of the Company's Common Stock on the Over The Counter (OTC) Bulletin Board on the date of grant. The option will vest as follows: 25% on the grant date, and 37.5% on each of the next two anniversaries of the grant date, subject to Mr. Jensen's continuous employment. If Company revenues for any fiscal quarter increase by more than $1 million over the prior fiscal quarter, then the vesting date for the next 37.5% tranche will be accelerated.

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

Litigation

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. 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.

Demodulation, Inc. v. Applied DNA Sciences, Inc., et al. (Civil Action No. - 2:11-cv-00296-WJM-MF, District of New Jersey):

On May 18, 2011, the Company was served with a complaint in a lawsuit brought by Demodulation, Inc. against the Company, Corning Incorporated, Alfred University, and Alfred Technology Resources, Inc. On July 8, 2011, the Company filed a motion to dismiss the complaint. In response, on August 3, 2011, Demodulation, Inc. filed an amended complaint. Demodulation, Inc. alleges that it was unable to bring its microwire technology to market due to the wrongful acts of defendants, who allegedly conspired to steal Demodulation, Inc.'s trade secrets and other intellectual property and to interfere in its business opportunities. Of the 17 claims alleged in the amended complaint, five are asserted against the Company, including alleged misappropriation of trade secrets, antitrust violations, civil RICO, and patent infringement. The Company believes these claims are without merit. On September 10, 2011,

Alfred University filed a motion to transfer the action from the District of New Jersey to the Western District of New York; the Court has not yet decided the motion. Pursuant to an order of the Court, once the transfer motion is decided, the Company intends to file a motion to dismiss the amended complaint for failure to state a claim and on other grounds. The Company intends to vigorously defend the action.

APPLIED DNA SCIENCES, INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE K - GOING CONCERN

The accompanying 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 consolidated financial statements during the year ended September 30, 2011, the Company has a negative working capital of $1.5 million, incurred a net loss of $10.5 million and has a capital deficiency of $1.0 million. 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 consolidated financial statements do not include any adjustments that might result should the Company be unable to continue as a going concern.

APPLIED DNA SCIENCES, INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

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

NOTE L – SUBSEQUENT EVENTS

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

On October 26, 2011, the Company issued 1,497,826 shares of common stock in settlement of $50,000.00 principal amount convertible note dated July 15, 2010 and accrued interest.

On November 2, 2011, the Company issued 8,342,081 shares of common stock in settlement of $250,000.00 principal amount convertible note dated November 19, 2010 and accrued interest.

On November 19, 2011, the Company issued 3,351,021 shares of common stock in settlement of $100,000.00 principal amount convertible note dated November 19, 2010 and accrued interest.

On November 30, 2011, the Company issued 26,716,321 shares of common stock in settlement of $750,000.00 principal amount convertible note dated November 30, 2010 and accrued interest.

On November 30, 2011, the Board of Directors granted each of the Company's six non-employee directors a 5 year stock option to purchase 954,000 shares of the Company's Common Stock at $0.068 per share and with a fair value of $60,000 determined using the Black-Scholes Option Pricing Model. The stock options will be fully vested on the first anniversary of the date of grant. Exercisability of the options is conditioned upon stockholder approval of an amendment to the Company's 2005 Incentive Stock Plan increasing the aggregate limits on the shares of Common Stock issuable under the Plan from 100,000,000 to 350,000,000 at the 2012 annual stockholders meeting.

On December 6, 2011, the Board of Directors granted one of the Company's six non-employee directors a fully vested 5 year stock option to purchase 158,700 shares of the Company's Common Stock at $0.065 per share (the closing price of the Company's common stock on the Over The Counter (OTC) Bulletin Board on the date of grant) and with a fair value of $10,000 determined using the Black-Scholes Option Pricing Model.

On December 6, 2011, the Board of Directors granted one of the Company's six non-employee directors a fully vested 5 year stock option to purchase 476,125 shares of the Company's Common Stock at $0.065 per share (the closing price of the Company's common stock on the Over The Counter (OTC) Bulletin Board on the date of grant) and with a fair value of $30,000 determined using the Black-Scholes Option Pricing Model.

On December 6, 2011, the Board of Directors granted Kurt H. Jensen, the Chief Financial Officer of the Company, a cash bonus of $50,000.