APPLIED DNA SCIENCES INC
Form 10-Q
May 16, 2011

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

FORM 10-Q

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

For the quarterly period ended March 31, 2011

OR

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

For the transition period from to

Commission File Number: 33-17387

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

| | |
|---|---|
| Delaware<br>(State or other jurisdiction of incorporation or organization) | 59-2262718<br>(I.R.S. Employer Identification No.) |
| 25 Health Sciences Drive, Suite 215<br>Stony Brook, New York<br>(Address of principal executive offices) | 11790<br>(Zip Code) |

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
x Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
o Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

| | |
|---|---|
| Large accelerated filer o | Accelerated filer o |
| Non-accelerated filer o<br>(Do not check if a smaller reporting company) | Smaller reporting company x |

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

As of May 16, 2011, the registrant had 352,081,674 shares of common stock outstanding.

Applied DNA Sciences, Inc.

Form 10-Q for the Quarter Ended March 31, 2011

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Part I

Item 1 - Financial Statements

APPLIED DNA SCIENCES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

| | March 31, 2011 (unaudited) | September 30, 2010 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash | $ 122,753 | $ 17,618 |
| Accounts receivable | 99,238 | 63,029 |
| Prepaid expenses | 52,481 | 161,456 |
| Total current assets | 274,472 | 242,103 |
| | | |
| Property, plant and equipment-net of accumulated depreciation of $209,917 and $207,097, respectively | 945 | 3,765 |
| | | |
| Other assets: | | |
| Deposits | 23,458 | 8,322 |
| Capitalized finance costs-net of accumulated amortization of $1,407,639 and $947,276, respectively | 484,597 | 522,489 |
| | | |
| Intangible assets: | | |
| Patents, net of accumulated amortization of $34,257 (Note B) | - | - |
| Intellectual property, net of accumulated amortization and write off of $8,976,161 and $8,794,265, respectively (Note B) | 454,739 | 636,635 |
| | | |
| Total Assets | $ 1,238,211 | $ 1,413,314 |
| | | |
| LIABILITIES AND DEFICIENCY IN STOCKHOLDERS' EQUITY | | |
| | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 938,503 | $ 967,550 |
| Advances from officers | - | 50,000 |
| Convertible notes payable, net of unamortized discount of $1,651,160 and $545,920, respectively (Note D) | 2,423,840 | 1,774,080 |
| Total current liabilities | 3,362,343 | 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 March 31, 2011 and September 30, 2010 | - | - |

| | | |
|---|---|---|
| Common stock, par value $0.001 per share; 800,000,000 shares authorized; 351,499,975 and 346,366,244 issued and outstanding as of March 31, 2011 and September 30, 2010, respectively | 351,500 | 346,366 |
| Additional paid in capital | 152,808,436 | 149,396,907 |
| Accumulated deficit | (155,284,068) | (151,341,303) |
| Total deficiency in stockholders' equity | (2,124,132) | (1,598,030) |
| Total Liabilities and Deficiency in Stockholders' Equity | $1,238,211 | $1,413,314 |

See the accompanying notes to the unaudited condensed consolidated financial statements

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

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Sales | $140,443 | $187,275 | $458,260 | $259,990 |
| Cost of sales | (14,154) | (14,036) | (34,364) | (28,470) |
| Gross Profit | 126,289 | 173,239 | 423,896 | 231,520 |
| Operating expenses: | | | | |
| Selling, general and administrative | 1,605,201 | 1,262,833 | 2,914,200 | 2,804,968 |
| Research and development | 92,951 | 20,654 | 113,657 | 26,802 |
| Depreciation and amortization | 91,893 | 92,350 | 184,716 | 185,796 |
| Total operating expenses | 1,790,045 | 1,375,837 | 3,212,573 | 3,017,566 |
| NET LOSS FROM OPERATIONS | (1,663,756) | (1,202,598) | (2,788,677) | (2,786,046) |
| Other income (expenses) | | | | |
| Interest expense, net (Note C) | (934,913) | (186,604) | (1,154,088) | (410,864) |
| Net loss before provision for income taxes | (2,598,669) | (1,389,202) | (3,942,765) | (3,196,910) |
| Income taxes (benefit) | - | - | - | 300 |
| NET LOSS | $(2,598,669) | $(1,389,202) | $(3,942,765) | $(3,197,210) |
| Net (loss) per share-basic and fully diluted | $(0.01) | $(0.00) | $(0.01) | $(0.01) |
| Weighted average shares outstanding-Basic and fully diluted | 351,395,559 | 285,659,856 | 350,262,319 | 280,374,514 |

See the accompanying notes to the unaudited condensed consolidated financial statements

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

| | Six months ended March 31, | |
|---|---|---|
| | 2011 | 2010 |
| Cash flows from operating activities: | | |
| Net loss | $(3,942,765) | $(3,197,210) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 184,716 | 185,796 |
| Fair value of vested options issued to officers, directors and employees | 305,769 | 587,235 |
| Amortization of capitalized financing costs | 460,363 | 111,030 |
| Amortization of debt discount attributable to convertible debentures | 986,387 | 273,502 |
| Equity based compensation | 454,582 | 613,699 |
| Common stock issued in settlement of interest | 32,000 | - |
| Change in assets and liabilities: | | |
| (Increase) decrease in accounts receivable | (36,209) | 11,676 |
| Decrease in prepaid expenses and deposits | 93,839 | 54,351 |
| (Decrease) increase in accounts payable and accrued liabilities | (29,047) | 366,043 |
| Net cash used in operating activities | (1,490,365) | (993,878) |
| | | |
| Cash flows from investing activities: | - | - |
| | | |
| Cash flows from financing activities: | | |
| Net (payments of) proceeds from related party advances | (50,000) | 600,000 |
| Net proceeds from issuance of convertible notes | 1,645,500 | 279,500 |
| Net cash provided by financing activities | 1,595,500 | 879,500 |
| | | |
| Net increase (decrease) in cash and cash equivalents | 105,135 | (114,378) |
| Cash and cash equivalents at beginning of period | 17,618 | 213,307 |
| Cash and cash equivalents at end of period | $122,753 | $98,929 |
| | | |
| Supplemental Disclosures of Cash Flow Information: | | |
| Cash paid during the period for interest | $- | $- |
| Cash paid during the period for taxes | $- | $- |
| | | |
| Non-cash financing transactions: | | |
| Fair value of warrants issued for financing costs | $217,971 | $- |
| Common stock issued in exchange for previously incurred debt | $352,000 | $559,726 |

See the accompanying notes to the unaudited condensed consolidated financial statements

APPLIED DNA SCIENCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011
(unaudited)

NOTE A — SUMMARY OF ACCOUNTING POLICIES

General

The accompanying unaudited condensed consolidated financial statements as of March 31, 2011 and for the three and six months ended March 31, 2011 and 2010 are unaudited. These financial statements have been prepared in accordance with the instructions to Form 10-Q, and therefore, do not include all the information necessary for a fair presentation of financial position, results of operations and cash flows in conformity with generally accepted accounting principles.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six month period ended March 31, 2011 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2011. The unaudited condensed consolidated financial statements should be read in conjunction with the consolidated September 30, 2010 financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission (the “SEC”).

Business and Basis of Presentation

On September 16, 2002, Applied DNA Sciences, Inc. (the “Company”) was incorporated under the laws of the State of Nevada. Effective December 17, 2008, the Company reincorporated from the State of Nevada to the State of Delaware. During the year ended September 30, 2007, the Company transitioned from a development stage enterprise to an operating company. The Company is principally devoted to developing DNA embedded biotechnology security solutions in the United States and Europe. For the period from inception through March 31, 2011, the Company has accumulated losses of $155,284,068.

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

Estimates

The preparation of the financial 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.

APPLIED DNA SCIENCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011
(unaudited)

NOTE A — SUMMARY OF ACCOUNTING POLICIES (continued)

For revenue from product sales, the Company recognizes revenue in accordance with Accounting Standards Codification subtopic 605-10, Revenue Recognition (“ASC 605-10”). ASC 605-10 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the selling price is fixed and determinable; and (4) collectability is reasonably assured. Determination of criteria (3) and (4) are based on management’s judgments regarding the fixed nature of the selling prices of the products delivered and the collectability of those amounts. Provisions for allowances and other adjustments are provided for in the same period the related sales are recorded. The Company defers any revenue for which the product has not been delivered or is subject to refund until such time that the Company and the customer jointly determine that the product has been delivered or no refund will be required. At March 31, 2011 and September 30, 2010, the Company did not record any deferred revenue for the respective periods.

Cash Equivalents

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

Accounts Receivable

The Company provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. The Company’s estimate is based on historical collection experience and a review of the current status of trade accounts receivable. It is reasonably possible that the Company’s estimate of the allowance for doubtful accounts will change. At March 31, 2011 and September 30, 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 statements 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.

Property and Equipment

Property and equipment are stated at cost and depreciated over their estimated useful lives of 3 to 5 years using the straight line method. At March 31, 2011 and September 30, 2010, property and equipment consist of:

| | (Unaudited) March 31, 2011 | September 30, 2010 |
|---|---|---|
| Computer equipment | $ 27,404 | $ 27,404 |

| | | | | |
|---|---|---|---|---|
| Lab equipment | | 77,473 | | 77,473 |
| Furniture | | 105,985 | | 105,985 |
| | | 210,862 | | 210,862 |
| Accumulated depreciation | | 209,917 | | 207,097 |
| Net | $ | 945 | $ | 3,765 |

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APPLIED DNA SCIENCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011
(unaudited)

NOTE A — SUMMARY OF ACCOUNTING POLICIES (continued)

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.

Net Loss Per Share

The Company has adopted Accounting Standards Codification subtopic 260-10, Earnings Per Share ("ASC 260-10") which specifies the computation, presentation and disclosure requirements of earnings per share information. Basic earnings per share have been calculated based upon the weighted average number of common shares outstanding. Dilutive common stock equivalents consist of shares issuable upon conversion of convertible notes and the exercise of the Company's stock options and warrants. For the three and six months ended March 31, 2011, 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 466,659,356 and 503,382,600 for the three month and six months ended March 31, 2011 respectively. Fully diluted shares outstanding were 327,610,424 and 322,325,082 for the three and six months ended March 31, 2010.

APPLIED DNA SCIENCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011
(unaudited)

NOTE A — SUMMARY OF ACCOUNTING POLICIES (continued)

Stock Based Compensation

The Company has adopted Accounting Standards Codification subtopic 718-10, Compensation ("ASC 718-10") which requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro-forma disclosure is no longer an alternative. This statement does not change the accounting guidance for share based payment transactions with parties other than employees provided in ASC 718-10. Stock-based compensation expense recognized under ASC 718-10 for the six months ended March 31, 2011 and 2010 was $305,769 and $587,235, respectively.

As of March 31, 2011, 70,400,000 employee stock options were outstanding with 42,300,000 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 three and six months ended March 31, 2011 included an aggregate of 81% and 66% from four and three customers of the Company's total revenues, respectively. Three customers accounted for the Company's 75% and 73% of the Company's revenues earned from sale of products and services for the three and six months ended March 31, 2010, respectively.

Four customers accounted for the Company's 88% and 90% of total accounts receivable at March 31, 2011 and September 30, 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 $92,951 and $20,654 for the three month periods ended March 31, 2011 and 2010, respectively; and $113,657 and $26,802 for the six month periods ended March 31, 2011 and 2010, respectively.

Advertising

The Company follows the policy of charging the costs of advertising to expense as incurred. The Company charged to operations $26,142 and $50,482 for the three and six month periods ended March 31, 2011, respectively, and $12,400 and 25,455 as advertising costs for the three and six month periods ended March 31, 2010, respectively.

APPLIED DNA SCIENCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011
(unaudited)

NOTE A — SUMMARY OF ACCOUNTING POLICIES (continued)

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 delayed, until the first quarter of fiscal year 2009, the effective date for ASC 820-10 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The adoption of ASC 820-10 did not have a material impact on the Company’s financial position or operations. Refer to Footnote I for further discussion regarding fair valuation.

Effective October 1, 2008, the Company adopted Accounting Standards Codification subtopic 820-10, Fair Value Measurements and Disclosures (“ASC 820-10”) and Accounting Standards Codification subtopic 825-10, Financial Instruments (“ASC 825-10”), which permits entities to choose to measure many financial instruments and certain other items at fair value. Neither of these statements had an impact on the Company’s 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.

Recent Accounting Pronouncements

There were various other 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.

APPLIED DNA SCIENCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011
(unaudited)

NOTE B - INTANGIBLE ASSETS

Intangible assets acquired and their carrying values at March 31, 2011 and September 30, 2010 are as follows:

| | (Unaudited) March 31, 2011 | September 30, 2010 |
|---|---|---|
| Trade secrets and developed technologies (Weighted average life of 7 years) | $ 9,430,900 | $ 9,430,900 |
| Patents (Weighted average life of 5 years) | 34,257 | 34,257 |
| Total Amortized identifiable intangible assets-Gross carrying value: | 9,465,157 | 9,465,157 |
| Less: | | |
| Accumulated amortization | (3,355,407) | (3,173,511) |
| Impairment (See below) | (5,655,011) | (5,655,011) |
| Net: | $ 454,739 | $ 636,635 |
| Residual value: | $ 0 | $ 0 |

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

Total amortization expense charged to operations for the three and six months ended March 31, 2011 was $90,948 and $181,896, respectively. Total amortization expense charged to operations for the three and six months ended March 31, 2010 was $90,947 and $182,040, respectively.

NOTE C – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at March 31, 2011 and September 30, 2010 are as follows:

| | (Unaudited) March 31, 2011 | September 30, 2010 |
|---|---|---|

| | | | | |
|---|---|---|---|---|
| Accounts payable | $ | 482,443 | $ | 721,340 |
| Accrued consulting fees | | 102,500 | | 102,500 |
| Accrued interest payable | | 224,849 | | 88,937 |
| Accrued salaries payable | | 128,711 | | 54,773 |
| Total | $ | 938,503 | $ | 967,550 |

APPLIED DNA SCIENCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011
(unaudited)

NOTE D – CONVERTIBLE NOTES

Convertible notes payable as of March 31, 2011 and September 30, 2010 are as follows:

| | (Unaudited) March 31, 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 $3,315 and $5,286, respectively (see below) | 221,685 | 219,714 |
| Secured Convertible Notes Payable dated July 15, 2010, net of unamortized debt discount of $74,319 and $535,580, respectively (see below) | 375,681 | 1,464,420 |
| Secured Convertible Notes Payable dated November 19, 2010, net of unamortized debt discount of $48,830 (see below) | 301,170 | - |
| Secured Convertible Note Payable dated November 30, 2010, net of unamortized debt discount of $180,545 (see below) | 569,455 | - |
| Secured Convertible Note Payable dated January 7, 2011, net of unamortized debt discount of $185,605 (see below) | 564,395 | - |
| Secured Convertible Notes Payable, dated July 15, 2010, modified January 7, 2011, net of unamortized debt discount of $1,158,546 (see below) | 391,454 | |
| Total | 2,423,840 | 1,993,794 |
| Less: current portion | (2,423,840) | (1,774,080) |
| Long-term debt- net | $ - | $ 219,714 |

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 noteholders a security interest in all the Company's assets.

In accordance with ASC 470-20, the Company recognized an embedded beneficial conversion feature present in the 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 was recorded for the three and six months ended March 31, 2011, and $5,263 and $9,824 was recorded for the three and six month periods ended March 31, 2010, respectively.

APPLIED DNA SCIENCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011
(unaudited)

NOTE D – PRIVATE PLACEMENT OF CONVERTIBLE NOTES (continued)

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 $673 and $9,521 was recorded for the three and six months ended March 31, 2011, respectively, and $7,982 was recorded for the three and six month periods ended March 31, 2010.

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.

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.

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NOTE D – PRIVATE PLACEMENT OF CONVERTIBLE NOTES (continued)

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 $975 and $1,971 was recorded for the three and six months ended March 31, 2011, 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 noteholders 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 securities that does 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 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 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 convertible promissory notes, the Company wrote off the remaining unamortized debt discount of $331,332 to operations.  See below discussion of the restructured senior convertible promissory notes.

Amortization of $362,865 and $470,920 was recorded for the three and six month periods ended March 31, 2011, respectively.

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NOTE D – PRIVATE PLACEMENT OF CONVERTIBLE NOTES (continued)

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.

The Company recorded the intrinsic value of the embedded beneficial conversion feature ($76,494) to debt discount which will be amortized to interest expense over the term of the notes. Amortization of $18,861 and $27,663 was recorded for the three and six month periods ended March 31, 2011, respectively.

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

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.

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 $66,595 and $89,533 was recorded for the three and six month periods ended March 31, 2011, respectively.

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NOTE D – PRIVATE PLACEMENT OF CONVERTIBLE NOTES (continued)

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.

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 $54,628 was recorded for the three and six month periods ended March 31, 2011.

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NOTE D – PRIVATE PLACEMENT OF CONVERTIBLE NOTES (continued)

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.

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 $1,499,536 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 ($1,499,536) to debt discount which will be amortized to interest expense over the term of the note. Amortization of $340,990 was recorded for the three and six month periods ended March 31, 2011.

NOTE E - RELATED PARTY TRANSACTIONS

The Company’s current and former officers and stockholders have advanced funds on a non-interest bearing basis to the Company for travel related and working capital purposes. The Company has not entered into any agreement on the repayment terms for these advances. As of March 31, 2011 and September 30, 2010, there were $-0- and $50,000 advances outstanding, respectively.

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

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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 March 31, 2011 and September 30, 2010, there were 351,499,975 and 346,366,244 shares of common stock issued and outstanding, respectively.

During the six months ended March 31, 2011, the Company issued an aggregate of 888,813 shares valued at $65,000 for future consulting services.

During the six month periods ended March 31, 2011 and 2010, the Company has expensed $389,582 and $613,699 related to stock based compensation, respectively.

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 | 6.67 | $ 0.3088 | 2,428,756 | $ 0.3088 |
| $ 0.03283 | 533,116 | 6.64 | $ 0.3283 | 533,116 | $ 0.3283 |
| $ 0.04 | 9,000,000 | 4.42 | $ 0.04 | 3,000,000 | $ 0.04 |
| $ 0.04405 | 3,007,946 | 6.30 | $ 0.04405 | 3,007,946 | $ 0.04405 |
| $ 0.05529 | 1,356,484 | 4.27 | $ 0.05529 | 1,356,484 | $ 0.05529 |
| $ 0.06 | 12,000,000 | 3.88 | $ 0.06 | 7,000,000 | $ 0.06 |
| $ 0.07 | 200,000 | 0.96 | $ 0.07 | 200,000 | $ 0.07 |
| $ 0.09 | 16,400,000 | 0.42 | $ 0.09 | 16,400,000 | $ 0.09 |
| $ 0.10 | 1,500,000 | 1.99 | $ 0.10 | 1,500,000 | $ 0.10 |
| $ 0.50 | 18,600,000 | 0.99 | $ 0.50 | 18,600,000 | $ 0.50 |
| | 65,026,302 | | | 54,026,302 | |

Transactions involving warrants are summarized as follows:

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NOTE G - STOCK OPTIONS AND WARRANTS (continued)

| | 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 | $ 0.24 |
| Granted | 4,318,356 | 0.04 |
| Exercised | — | — |
| Canceled or expired | (8,500,000) | (0.50) |
| Balance, March 31, 2011 | 65,026,302 | $ 0.19 |

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 value of the warrants vesting during the six month period ended March 31, 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 $93,580 is charged ratably to current period operations. During the three and six month periods ended March 31, 2011, $46,276 and $78,669 was charged to operations, respectively.

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 value 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 three and six month periods ended March 31, 2011, $43,607 and $87,214 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 three and six month periods ended March 31, 2011, $28,081 and $56,787 was charged to operations, respectively. During the three and six month periods ended March 31, 2011, $5.5 million and $3.0 million warrants expired.

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NOTE G - STOCK OPTIONS AND WARRANTS (continued)

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 value 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 three and six month periods ended March 31, 2011, $30,210 and $41,102 was charged to operations, respectively.

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 value 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 three and six month periods ended March 31, 2011, $22,087 was charged to operations.

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 $0.05 to certain key employees and non-employee directors under the 2005 Incentive Stock Plan, including 17,000,000, 5,000,000 and 7,000,000 to James A. Hayward, Kurt H. Jensen and Ming-Hwa Liang, respectively. The options granted to our key employees and non-employee directors vested with respect to 25% of the underlying shares on the date of grant and the remaining vest ratably each anniversary thereafter until fully vested on the third anniversary of the date of grant.

The 2005 Incentive Stock Plan is designed to retain directors, executives, and selected employees and consultants by rewarding them for making contributions to our success with an award of options to purchase shares of our common stock. As of March 31, 2011, a total of 10,550,000 shares have been issued and options to purchase 70,400,000 shares have been granted under the 2005 Incentive Stock Plan.

The following table summarizes the changes in options outstanding and the related prices for the shares of the Company's common stock issued to employees of the Company under the 2005 Incentive Stock Plan:

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NOTE G - STOCK OPTIONS AND WARRANTS (continued)

| 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 | 2.22 | $ 0.05 | 29,000,000 | $ 0.05 |
| $ 0.06 | 30,000,000 | 4.25 | $ 0.06 | 7,500,000 | $ 0.06 |
| $ 0.07 | 2,500,000 | 4.71 | $ 0.07 | 250,000 | $ 0.07 |
| $ 0.08 | 2,000,000 | 4.77 | $ | - | $ |
| $ 0.09 | 1,500,000 | 0.42 | $ 0.09 | 1,500,000 | $ 0.09 |
| $ 0.11 | 5,400,000 | 2.22 | $ 0.11 | 4,050,000 | $ 0.11 |
| | 70,400,000 | | $ 0.06 | 42,300,000 | $ 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 | 3,500,000 | 0.08 |
| Exercised | - | |
| Canceled or expired | - | |
| Outstanding at March 31, 2011 | 70,400,000 | $ 0.06 |

On December 31, 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 from 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 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 from 2.01%.

The Company recorded $157,230 and $305,769 as stock compensation expense for the three and six month periods ended March 31, 2011, respectively, and $290,391 and $587,235 for the three and six month periods ended March 31, 2010, respectively, for the vesting portion of all employee options outstanding.

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NOTE H- COMMITMENTS AND CONTINGENCIES

The Company leases office space under an operating lease in Stony Brook, New York for its corporate use from an entity controlled by a significant former shareholder. The lease is renewable annually. Total lease rental expenses for the three and six month periods ended March 31, 2011 were $36,036 and $71,998, respectively. Total lease rental expense for the three and six month periods ended on March 31, 2010 were $20,275 and $40,550, respectively.

Litigation

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

Matters Voluntarily Reported to the SEC and Securities Act Violations

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

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

APPLIED DNA SCIENCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011
(unaudited)

## NOTE I - FAIR VALUE MEASUREMENT

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

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

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

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

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

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

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

At March 31, 2011, there were no identified assets or liabilities measured at fair value on a recurring basis.

At March 31, 2011, the carrying amounts of the convertible notes payable approximate fair value.

APPLIED DNA SCIENCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011
(unaudited)

## NOTE J - GOING CONCERN

The accompanying unaudited condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the accompanying unaudited condensed consolidated financial statements, at March 31, 2011, the Company has a negative working capital of $3.1 million, incurred a net loss for the six month period ended March 31, 2011 of $3.9 million and has an accumulated deficit of $155.3 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.

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

## NOTE K – SUBSEQUENT EVENTS

On April 15, 2011 the Company issued 289,727 shares of common stock in settlement of $10,000.00 principal amount convertible notes dated July 15, 2010 and related interest.

On April 25, 2011 an Officer of the Company advanced $175,000 on a non-interest bearing basis for travel related and working capital purposes.

On May 15, 2011 the Company issued 291,972 shares of common stock in settlement of $10,000.00 principal amount convertible notes dated July 15, 2010 and related interest.

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

The following discussion should be read in conjunction with our Condensed Consolidated Financial Statements and Notes thereto, included elsewhere within this report. The Quarterly Report contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), including statements using terminology such as “can”, “may”, “believe”, “designated to”, “v “expect”, “plan”, “anticipate”, “estimate”, “potential” or “continue”, or the negative thereof or other comparable terminc 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 our Annual Report on Form 10-K for the year-ended September 30, 2010. 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, 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.

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.

Plan of Operations

General

To date, our operations have produced revenues from SigNature® DNA and BioMaterial™ 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 principally from sales of our SigNature Program, Cashield™, DNANet™ 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 ("target markets"). Our developments in the cash-in-transit and textile and apparel authentication markets 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:

- Equity issued with registration rights;
- Revenue recognition;

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

Revenue Recognition

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

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

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 Results of Operations for the Three Months Ended March 31, 2011 and 2010

Revenues

For the three months ended March 31, 2011, we generated $140,443 in revenues from operations, principally from the sales of our authentication services and sales of our Signature DNA, and our cost of sales for the three months ended March 31, 2011 was $14,154, netting us a gross profit of $126,289. For the three months ended March 31, 2010, we generated $187,275 in revenues from operations, principally from the sales of our authentication services and sales of our Signature DNA, and our cost of sales for the three months ended March 31, 2010 was $14,036, netting us a gross profit of $173,239. The decrease in sales for the three months ended March 31, 2011 compared to the three months ended March 31, 2010, was primarily caused by lower volume activity for 2011.

Costs and Expenses

Selling, General and Administrative

Selling, general and administrative expenses increased from $1,262,833 for the three months ended March 31, 2010 to $1,605,201 for the three months ended March 31, 2011. The increase of $342,368, or 27%, is primarily attributable to increase in amortized financing costs and professional services incurred in 2011, as compared to 2010.

Research and Development

Research and development expenses increased from $20,654 for the three months ended March 31, 2010 to $92,951 for the three months ended March 31, 2011. The increase of $72,297 is attributed to additional research and development activity needed with current operations.

Depreciation and Amortization

In the three months ended March 31, 2011, depreciation and amortization decreased by $457 from $92,350 for the three months ended March 31, 2010 to $91,893 for the three months ended March 31, 2011. The decrease is attributable to the aging of our property and equipment.

Total Operating Expenses

Total operating expenses increased to $1,790,045 for the three months ended March 31, 2011 from $1,375,837 for the three months ended March 31, 2010, or an increase of $414,208, primarily attributable to increased amortization costs associated with financing and professional fees incurred.

Interest Expenses

Interest expense for the three months ended March 31, 2011 increased by $748,309 to $934,913 from $186,604 for the three months ended March 31, 2010. The increase in interest expense was due to larger amortization of debt discounts associated with recently issued or modified convertible promissory notes.

Net (Loss)

Net loss for the three months ended March 31, 2011 was $2,598,669 as compared to net loss of $1,389,202 for the three months ended March 31, 2010, primarily attributable to our increase in our debt discount amortization reflected in our interest expense line and our added selling, general and administrative costs.

Comparison of Results of Operations for the Six Months Ended March 31, 2011 and 2010

Revenues

For the six months ended March 31, 2011, we generated $458,260 in revenues from operations, principally from the sales of our authentication services and sales of our Signature DNA, and our cost of sales for the six months ended March 31, 2011 was $34,364, netting us a gross profit of $423,896. For the six months ended March 31, 2010, we generated $259,990 in revenues from operations, principally from the sales of our authentication services and sales of our Signature DNA, and our cost of sales for the six months ended March 31, 2010 was $28,470, netting us a gross profit of $231,520. The increase in sales for the six months ended March 31, 2011 compared to the six months ended March 31, 2010, was primarily caused by increased volume and added customers in 2011.

Costs and Expenses

Selling, General and Administrative

Selling, general and administrative expenses increased from $2,804,968 for the six months ended March 31, 2010 to $2,914,200 for the six months ended March 31, 2011. The increase of $109,232, or 4%, is primarily attributable to additional amortization of costs associated with financing.

Research and Development

Research and development expenses increased from $26,802 for the six months ended March 31, 2010 to $113,657 for the six months ended March 31, 2011. The increase of $86,855 is attributed to additional research and development activity related to the recent development and feasibility study agreements.

Depreciation and Amortization

In the six months ended March 31, 2010, depreciation and amortization decreased by $1,080 from $185,796 for the six months ended March 31, 2010 to $184,716 for the six months ended March 31, 2011. The decrease is attributable to the reduced depreciation/additions to our property and equipment.

Total Operating Expenses

Total operating expenses increased to $3,212,573 for the six months ended March 31, 2011 from $3,017,566 for the six months ended March 31, 2010, or an increase of $195,007, primarily attributable to the increase in amortization of capitalized financing costs in 2011.

Interest Expenses

Interest expense for the six months ended March 31, 2011 increased by $743,224 to $1,154,088 from $410,864 for the six months ended March 31, 2010. The increase in interest expense was due to larger amortization of debt discounts associated with recently issued or modified convertible promissory notes.

Net (Loss)

Net loss for the six months ended March 31, 2011 was $3,942,765 as compared to net loss of $3,197,210 in the prior period primarily attributable to increase in interest expense as 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 2010, and in prior fiscal years, we have been relying in part on cash infusions from our President, Chairman and Chief Executive Officer, James A. Hayward, in order to fund our operations. During fiscal 2010, Dr. Hayward provided $725,000 in new loans. Curtailment of cash investments by Dr. Hayward could harm our cash availability and our ability to fund our operations, including our ability to meet our payroll and accounts payable obligations.

As of March 31, 2011, we had a working capital deficit of $3,087,871. For the six months ended March 31, 2011, we generated a net cash flow deficit from operating activities of $1,490,365 consisting primarily of year to date loss of $3,942,765. Non cash adjustments included $1,631,466 in depreciation and amortization charges and, $760,351 for equity based compensation and $32,000 for settlement of accrued interest. Additionally, we had a net decrease in assets of $57,630 and a net decrease in current liabilities of $29,047. Cash provided by financing activities for the six months ended March 31, 2011 totaled $1,595,500 consisting of proceeds from the issuance of convertible debt, net of the capitalized financing costs and related party advance repayments.

We expect capital expenditures to be less than $200,000 in fiscal 2011. Our primary investments will be in laboratory equipment to support prototyping and our authentication services.

Exploitation of potential revenue sources is expected to be financed primarily through the sale of equity 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. Any issuances of preferred stock will be on such terms and conditions as are approved by our board of directors, may have rights, preferences and privileges senior to those of common stock, and may dilute the rights of holders of our common stock.

While we have raised capital to meet our working capital and financing needs in the past, additional financing is required within the next three months in order to meet our current and projected cash flow deficits from operations and development. We have sufficient funds to conduct our operations until approximately June 2011. There can be no assurance that financing will be available in amounts or on terms acceptable to us, if at all.

To the extent our revenues continue to increase over comparable year periods, our liquidity will be enhanced. However, we expect to require additional financing to sustain our growth and operations, including an increase in the number of employees.

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 15, 2010, 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. 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 (the "July 15 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 July 15 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 its July 15 Notes 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 of 1933 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 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, the Company's Chairman, President and Chief Executive Officer on June 4, 2010, 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.

In February 2011, the Company adjusted the conversion price of $1,550,000 of the $2,000,000 in principal amount of senior secured convertible promissory notes issued on July 15, 2010 (the "July 15 Notes"), from $0.04405 to $0.037104. The remaining $450,000 aggregate principal amount of the July 15 Notes, held by James A. Hayward, the Company's Chairman, President and Chief Executive Officer, will continue to have a conversion price of $0.04405.

Fiscal 2011 (through April 30, 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.

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 June 2011. 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 $50,000 for product research and development activities during the next twelve months.

Acquisition of Plant and Equipment and Other Assets

We do not anticipate the sale of any material property, plant or equipment during the next 12 months. We do anticipate spending approximately $10,000 on the acquisition of leasehold improvements during the next 12 months. We believe our current leased space as well as the facility from which we lease space has adequate capacity to manage our growth, if any, over the next 2 to 3 years.

Number of Employees

We currently have 14 full-time employees and two part-time employees, including two in management, eight in operations, five 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 unaudited 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 15, 2010, have expressed substantial doubt about our ability to continue as a going concern. Our cash position may be inadequate to pay all of the costs associated with the testing, production and marketing of our products. Management intends to use borrowings and the sale of equity or convertible debt to mitigate the effects of its cash position, however no assurance can be given that debt or equity financing, if and when required will be available. The accompanying unaudited condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets and classification of liabilities that might be necessary should we be unable to continue existence.

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

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

Item 4T. - Controls and Procedures.

Material Weakness Previously Disclosed

As discussed in our Annual Report on Form 10-K for the year ended September 30, 2010, we concluded that there were matters that constituted a material weakness in our internal control over financial reporting. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. Based on our assessment of the effectiveness of internal control over financial reporting as of September 30, 2010, we determined that control deficiencies existed that constituted material weaknesses, as described below:

- lack of documented policies and procedures;
- we have no audit committee;
- there is a risk of management override given that our officers have a high degree of involvement in our day to day operations.
- there is no policy on fraud and no code of ethics at this time, though we plan to implement such policies in fiscal 2011; and
- there is no effective separation of duties, which includes monitoring controls, between the members of management.

Management is currently evaluating what steps can be taken in order to address these material weaknesses.

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

During the fiscal quarter ended March 31, 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.

## Part II - Other Information

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

Since January 1, 2011, we issued 529,101 shares of our common stock to a consultant as consideration for services the consultant provided to us.

### Item 6 – Exhibits

31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14 and Rule 15d-14(a), promulgated under the Securities and Exchange Act of 1934, as amended

31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14 and Rule 15d 14(a), promulgated under the Securities and Exchange Act of 1934, as amended

32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer)

32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Financial Officer)

Signatures

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

Applied DNA Sciences, Inc.

Dated: May 16, 2011

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