APPLIED DNA SCIENCES INC
Form 10-Q
May 15, 2012

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, 2012

OR

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

For the transition period from to

Commission File Number: 33-17387

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

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

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

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

x Yes o No

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

x Yes o No

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

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

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

As of May 14, 2012, the registrant had 591,413,316 shares of common stock outstanding.

Applied DNA Sciences, Inc.

Form 10-Q for the Quarter Ended March 31, 2012

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Part I

Item 1 - Financial Statements

APPLIED DNA SCIENCES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

		March 31, 2012 (unaudited)		September 30, 2011
ASSETS				
Current assets:				
Cash	$	856,574	$	2,747,294
Accounts receivable		323,643		208,587
Prepaid expenses		23,518		76,290
Total current assets		1,203,735		3,032,171
Property, plant and equipment-net of accumulated depreciation of $226,047 and $210,862 respectively		121,056		89,108
Other assets:				
Deposits		36,276		23,458
Capitalized finance costs-net of accumulated amortization of $1,892,236 and $1,806,261, respectively		—		85,975
Intangible assets:				
Patents, net of accumulated amortization of $34,257 (Note B)		—		—
Intellectual property, net of accumulated amortization and write off of $9,339,952 and $9,158,056, respectively (Note B)		90,948		272,844
Total Assets	$	1,452,015	$	3,503,556
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)				
Current liabilities:				
Accounts payable and accrued liabilities	$	388,232	$	768,061
Convertible notes payable, net of unamortized discount of $-0- and $541,120, (Note D)		250,000		3,730,880
Total current liabilities		638,232		4,498,941
Commitments and contingencies (Note H)		—		—
Stockholders' Equity (Deficit) (Note F)				
Preferred stock, par value $0.001 per share; 10,000,000 shares authorized; -0- issued and outstanding as of March 31, 2012 and September 30, 2011		—		—
		591,413		473,326

Common stock, par value $0.001 per share; 1,350,000,000 shares authorized; 591,413,316 and 473,325,859 issued and outstanding as of March 31, 2012 and September 30, 2011, respectively				
Additional paid in capital		166,032,584		160,387,716
Accumulated deficit		(165,810,214)		(161,856,427)
Total stockholders' equity (deficit)		813,783		(995,385)
Total Liabilities and Stockholders' Equity (Deficit)	$	1,452,015	$	3,503,556

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, 2012	Three Months Ended March 31, 2011	Six Months Ended March 31, 2012	Six Months Ended March 31, 2011
Revenue	$ 518,402	$ 140,443	$ 1,035,306	$ 458,260
Operating expenses:				
Selling, general and administrative	1,824,646	1,619,355	3,977,074	2,948,564
Research and development	96,097	92,951	174,570	113,657
Depreciation and amortization	98,708	91,893	197,081	184,716
Total operating expenses	2,019,451	1,804,199	4,348,725	3,246,937
NET LOSS FROM OPERATIONS	(1,501,049)	(1,663,756)	(3,313,419)	(2,788,677)
Other income (expense):				
Interest expense, net	(42,833)	(934,913)	(640,368)	(1,154,088)
Net loss before provision for income taxes	(1,543,882)	(2,598,669)	(3,953,787)	(3,942,765)
Income taxes (benefit)	—	—	—	—
NET LOSS	$ (1,543,882)	$ (2,598,669)	$ (3,953,787)	$ (3,942,765)
Net loss per share-basic and fully diluted	$ (0.00)	$ (0.01)	$ (0.01)	$ (0.01)
Weighted average shares outstanding-				
Basic and fully diluted	583,619,169	351,395,559	536,695,691	350,262,319

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,	
	2012	2011
Cash flows from operating activities:		
Net loss	$(3,953,787)	$(3,942,765)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	197,081	184,716
Fair value of vested options issued to officers, directors and employees	1,174,778	305,769
Amortization of capitalized financing costs	85,975	460,363
Amortization of debt discount attributable to convertible debentures	541,120	986,387
Equity based compensation	58,238	454,582
Common stock issued in settlement of interest	507,939	32,000
Changes in operating assets and liabilities:		
Increase in accounts receivable	(115,056)	(36,209)
Decrease in prepaid expenses and deposits	39,954	93,839
Decrease in accounts payable and accrued liabilities	(379,829)	(29,047)
Net cash used in operating activities	(1,843,587)	(1,490,365)
Cash flows from investing activities:		
Purchase of property and equipment	(47,133)	—
Net cash used in investing activities	(47,133)	—
Cash flows from financing activities:		
Net proceeds from (payments of) related party advances	—	(50,000)
Net proceeds from issuance of convertible notes	—	1,645,500
Net cash provided by financing activities	—	1,595,500
Net increase (decrease) in cash and cash equivalents	(1,890,720)	105,135
Cash and cash equivalents at beginning of period	2,747,294	17,618
Cash and cash equivalents at end of period	$856,574	$122,753
Supplemental Disclosures of Cash Flow Information:		
Cash paid during period for interest	$—	$—
Cash paid during period for taxes	$—	$—
Non-cash transactions:		
Fair value of warrants issued for financing costs	$—	$217,971
Common stock issued in exchange for previously incurred debt	$4,022,000	$352,000

See the accompanying notes to the unaudited condensed consolidated financial statements

APPLIED DNA SCIENCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2012
(unaudited)

NOTE A — SUMMARY OF ACCOUNTING POLICIES

General

The accompanying condensed consolidated financial statements as of March 31, 2012 and for the three and six months ended March 31, 2012 and 2011 are unaudited. These financial statements have been prepared in accordance with Rule S-X of the Securities and Exchange Commission (the "SEC") and with the instructions to Form 10-Q. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month period ended March 31, 2012 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2012. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated September 30, 2011 financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K filed with 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. The Company is principally devoted to developing DNA embedded biotechnology security solutions in the United States and Europe. To date, the Company has generated minimum sales revenues from its services and products; it has incurred expenses and has sustained losses. Consequently, its operations are subject to all the risks inherent in the establishment of a new business enterprise. For the period from inception through March 31, 2012, the Company has accumulated losses of $165,810,214.

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, 2012
(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, 2012 and September 30, 2011, 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, 2012 and September 30, 2011, the Company has deemed that no allowance for doubtful accounts was necessary.

Income Taxes

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

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, 2012 and September 30, 2011, property and equipment consist of:

	March 31, 2012 (unaudited)	September 30, 2011
Computer equipment	$ 33,464	$ 33,464
Lab equipment	181,204	146,101

Furniture	132,435	120,405
Total	347,103	299,970
Accumulated depreciation	226,047	210,862
Net	$ 121,056	$ 89,108

APPLIED DNA SCIENCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2012
(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.

Comprehensive Income (loss)

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

Segment Information

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

Net Loss Per Share

The Company has adopted Accounting Standards Codification subtopic 260-10, Earnings Per Share ("ASC 260-10") which specifies the computation, presentation and disclosure requirements of earnings per share information. Basic earnings per share have been calculated based upon the weighted average number of common shares outstanding. Dilutive common stock equivalents consist of shares issuable upon conversion of convertible notes and the exercise of the Company's stock options and warrants. For the three and six months ended March 31, 2012, 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 669,297,954 and 622,374,476 for the three and six months ended March 31, 2012, respectively. Fully diluted shares outstanding were 466,659,356 and 503,382,600 for the three and six months ended March 31, 2011, respectively.

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, 2012 and 2011 were $1,174,778 and $305,769, respectively.

APPLIED DNA SCIENCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2012
(unaudited)

NOTE A — SUMMARY OF ACCOUNTING POLICIES (continued)

As of March 31, 2012, 127,208,825 employee stock options were outstanding with 71,133,825 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, 2012 included an aggregate of 67% and 70% from one and three customers of the Company's total revenues, respectively.

Four and three customers accounted for 81% and 66% of the Company's revenues earned from sale of products and services for the three and six months ended March 31, 2011, respectively.

One and four customers accounted for 73% and 77% of the Company's total accounts receivable at March 31, 2012 and September 30, 2011, 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 $96,097 and $92,951 for the three month periods ended March 31, 2012 and 2011, respectively, and $174,570 and $113,657 for the six month periods ended March 31, 2012 and 2011, respectively.

Advertising

The Company follows the policy of charging the costs of advertising to expense as incurred. The Company charged to operations $35,296 and $54,904 as advertising costs for the three and six month periods ended March 31, 2012 and $26,142 and $50,482 for the three and six month periods ended March 31, 2011, respectively.

Intangible Assets

The Company amortizes its intangible assets using the straight-line method over their estimated period of benefit. The estimated useful life for patents is five years while other intellectual property uses a seven year useful life. The Company periodically evaluates the recoverability of intangible assets and takes into account events or circumstances that warrant revised estimates of useful lives or that indicate that impairment exists. All of the Company's 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.

APPLIED DNA SCIENCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2012
(unaudited)

NOTE A — SUMMARY OF ACCOUNTING POLICIES (continued)

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 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.

Reclassification

The Company consolidated prior year cost of sales to operating expenses on the Condensed Consolidated Statements of Operations for presentation purposes to conform to the current period’s presentation. These reclassifications had no effect on reported income or losses.

NOTE B - INTANGIBLE ASSETS

Intangible assets acquired and their carrying values at March 31, 2012 and September 30, 2011 are as follows:

	March 31, 2012 (unaudited)	September 30, 2011
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	(3,719,198)	(3,537,302)
Impairment (2006)	(5,655,011)	(5,655,011)
Net:	$ 90,948	$ 272,844
Residual value:	$ 0	$ 0

Total amortization expense charged to operations for the three and six month periods ended March 31, 2012 was $90,948 and $181,896, respectively. Total amortization expense charged to operations for the three and six months ended March 31, 2011 was $90,948 and $181,896, respectively.

NOTE C – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at March 31, 2012 and September 30, 2011 are as follows:

	March 31, 2012 (unaudited)	September 30, 2011
Accounts payable	$ 256,804	$ 165,465
Accrued consulting fees	102,500	102,500
Accrued interest payable	7,233	415,096
Accrued salaries payable	21,695	85,000
Total	$ 388,232	$ 768,061

APPLIED DNA SCIENCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2012
(unaudited)

NOTE D – CONVERTIBLE NOTES

Convertible notes payable as of March 31, 2012 and September 30, 2011 are as follows:

	March 31, 2012 (unaudited)	September 30, 2011
Secured Convertible Note Payable dated June 4, 2010, net of unamortized debt discount of $1,332 (see below)	$ —	$ 223,668
Secured Convertible Notes Payable dated July 15, 2010, net of unamortized debt discount of $26,091 (see below)	—	423,909
Secured Convertible Notes Payable dated November 19, 2010, net of unamortized debt discount of $10,479 (see below)	—	339,521
Secured Convertible Note Payable dated November 30, 2010, net of unamortized debt discount of $45,136 (see below)	—	704,864
Secured Convertible Note Payable dated January 7, 2011, net of unamortized debt discount of $65,159 (see below)	—	684,841
Secured Convertible Notes Payable, dated July 15, 2010, modified January 7, 2011, net of unamortized debt discount of $392,923 (see below)	—	1,104,077
Secured Convertible Note Payable, dated July 11, 2011	250,000	250,000
Total	250,000	3,730,880
Less: current portion	(250,000)	(3,730,880)
Long-term debt- net	$ —	$ —

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 the Company's common stock, par value $.001 per share ("Common Stock"), at a price equal to the greater of (i) 50% of the average price of the 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 the 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.

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 $336 and $1,332 was recorded for the three and six months ended March 31, 2012, respectively; and $975 and $1,971 was recorded for the three and six months ended March 31, 2011, respectively.

In January 2012, the Company issued an aggregate of 6,750,248 shares of Common Stock in settlement of the convertible notes and related accrued interest.

APPLIED DNA SCIENCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2012
(unaudited)

NOTE D – CONVERTIBLE NOTES (continued)

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 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 shares of Common Stock (and not securities issued in a Subsequent Financing (“Subsequent Financing Securities”) or securities issued in a Qualified Financing (the “Qualified Financing Securities”)), at a rate of $0.04405, or as of any conversion date that occurs after the closing of a Subsequent Financing at a rate of 80% of the purchase price paid by investors in the Subsequent Financing. The notes automatically convert at the earlier occurrence of (i) maturity or (ii) Qualified Financing including any accrued and unpaid interest, at a rate as described above. The Company has granted the note holders a security interest in all the Company’s assets and the assets of APDN (B.V.I.) Inc., the Company’s wholly-owned subsidiary.

A “Subsequent Financing” is defined for purposes of this Note D as the issuance and sale by the Company or its affiliates during the term of the promissory note of securities that do not qualify as Qualified Financing. A “Qualified Financing” is defined for purposes of this Note D 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 at least $10,000,000 (before transaction fees and expenses).

In accordance with ASC 470-20, the Company recognized an embedded beneficial conversion feature present in the notes. The Company allocated a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital. The Company recognized and measured an aggregate of $678,774 of the proceeds, which is equal to the intrinsic value of the embedded beneficial conversion feature, to additional paid-in capital and a discount against the notes. The debt discount attributed to the beneficial conversion feature is amortized over the notes’ maturity period (one year) as interest expense.

The Company recorded the intrinsic value of the embedded beneficial conversion feature ($678,774) to debt discount which will be amortized to interest expense over the term of the notes.

On January 7, 2011, upon the completion of a Subsequent Financing, the above described conversion rate changed from $0.04405 to $0.037104 with an extended due date from July 15, 2011 to January 7, 2012 on $1,550,000 of the $2,000,000 issued senior convertible promissory notes. All other terms are remaining the same. Although the conversion rate of the remaining $450,000 senior secured convertible promissory notes remained the same, the due date was extended also to January 7, 2012. In conjunction with the conversion rate and term modifications of the $1,550,000 senior secured convertible promissory notes, the Company wrote off the remaining unamortized debt discount of $331,332 to operations. See below discussion of the restructured senior secured convertible promissory notes.

Amortization of $1,845 and $26,091 was recorded for the three and six months ended March 31, 2012; and $362,865 and $470,920 was recorded for the three and six months ended March 31, 2011, respectively.

In January 2012, the Company issued an aggregate of 11,729,821 shares of Common Stock in settlement of the convertible notes and related accrued interest.

APPLIED DNA SCIENCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2012
(unaudited)

NOTE D – 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 Common Stock 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 (equal to a 20% discount to the average volume, weighted average price of the Common Stock for the ten trading days prior to issuance, which is referred to as the "Common Conversion Price" for purposes of this Note D) or (B) Subsequent Financing Securities at a conversion price equal to 80% of the price per Subsequent Security paid by investors for Subsequent Financing Securities in a Subsequent Financing (which is referred to as the "Subsequent Financing Price" for purposes of this Note D). 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 applicable Common Conversion Price, (B) Subsequent Financing Securities at a conversion price equal to 80% of the Subsequent Financing Price, or (C) 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 (which is referred to as the "Qualified Financing Price" for purposes of this Note D).

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 Common Stock, Subsequent Financing Securities or Qualified Financing Securities (collectively, "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 $10,479 was recorded for the six months ended March 31, 2012; and $18,861 and $27,663 was recorded for the three and six months ended March 31, 2011, respectively.

In November 2011, the Company issued an aggregate of 11,693,102 shares of Common Stock in settlement of the convertible notes and related accrued interest.

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APPLIED DNA SCIENCES, INC.
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NOTE D – 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 Common Stock 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 (the applicable Common Conversion Price) or (B) Subsequent Financing Securities at the Subsequent Financing Price. 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 applicable Common Conversion Price, (B) Subsequent Financing Securities at a conversion price equal to 80% of the Subsequent Financing Price, or (C) Qualified Financing Securities at a conversion price equal to 80% of the Qualified Financing Price.

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 $45,136 was recorded for the six months ended March 31, 2012; and $66,595 and $89,533 was recorded for the three and six months ended March 31, 2011, respectively.

On November 30. 2011, the Company issued an aggregate of 26,716,321 shares of Common Stock in settlement of the convertible notes and related accrued interest.

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NOTE D – 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 Common Stock determined by dividing (i) the principal amount of the Note, together with any and all accrued and unpaid interest and penalties, by (ii) a conversion price of $ 0.05529 (the applicable Common Conversion Price) or (B) Subsequent Financing Securities at a conversion price equal to 80% of the Subsequent Financing Price. The 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 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 applicable Common Conversion Price, (B) Subsequent Financing Securities at a conversion price equal to 80% of the Subsequent Financing Price, or (C) Qualified Financing Securities at a conversion price equal to 80% of the Qualified Financing Price.

Pursuant to a joinder agreement, the noteholder became party to the registration rights agreement, dated as of July 15, 2010 (the "Registration Rights Agreement"), with the Company, pursuant to which the Company has agreed to prepare and file a registration statement with the SEC to register under the Securities Act resales from time to time of the Conversion Shares issued or issuable upon conversion or redemption of the Note. The Company is 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). The Company will be required to pay penalties to the noteholder in the event that these deadlines are not met.

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 favor of Etico Capital, LLC, as Collateral Agent for the Purchasers named therein pursuant to security agreements dated as of July 15, 2010, to which the noteholder became party pursuant to joinder agreements.

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.

Amortization of $4,607 and $65,159 was recorded for the three and six months ended March 31, 2012; and $54,628 was recorded for the three and six months ended March 31, 2011, respectively.

In January 2012, the Company issued an aggregate of 14,921,324 shares of Common Stock in settlement of the convertible notes and related accrued interest.

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NOTE D – 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 Common Stock 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 (the applicable Common Conversion Price) or (B) Subsequent Financing Securities at a conversion price equal to 80% of Subsequent Financing Price. 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 applicable Common Conversion Price, (B) Subsequent Financing Securities at a conversion price equal to 80% of the Subsequent Financing Price, or (C) Qualified Financing Securities at a conversion price equal to 80% of the Qualified Financing Price. The effect of this refinancing was recognized as “debt modification” in the financial statements.

The notes bear interest at the rate of 10% per annum and are 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 notes. Amortization of $26,854 and $392,923 was recorded for the three and six months ended March 31, 2012 and $340,990 was recorded for the three and six month periods ended March 31, 2011.

On October 26, 2011, the Company issued 1,497,826 shares of Common Stock in settlement of $50,000 of convertible notes and related accrued interest.

In January 2012, the Company issued an aggregate of 44,778,815 shares of Common Stock in settlement of the remaining convertible notes and related accrued interest.

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NOTE D – CONVERTIBLE NOTES (continued)

Adjustment of Conversion Price of Certain 10 % Senior Secured Convertible Promissory Notes dated July 15, 2010.

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.

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

On June 11, 2011, the Company issued a $250,000 related party convertible promissory note due July 11, 2012 with interest at 4% per annum due upon maturity. The note is convertible at any time prior to maturity, at the holder’s option, into shares of Common Stock at $0.0585 per share. At maturity, the note, including any accrued and unpaid interest, is automatically convertible at $0.0585 per share. The Company has granted the note holder a security interest in all the Company’s assets.

The embedded conversion feature present in the note equaled the fair value of the underlying Common Stock at the date of issuance, therefore the Company did not record a beneficial conversion feature.

NOTE E - RELATED PARTY TRANSACTIONS

The Company’s current and former officers and stockholders advance funds to the Company for travel related and working capital purposes. As of March 31, 2012 and September 30, 2011, there were no advances outstanding.

NOTE F - CAPITAL STOCK

The Company is authorized to issue 1,350,000,000 shares of Common Stock as the result of a vote of stockholders conducted on January 27, 2012 which effected an increase in the authorized shares of Common Stock from 800,000,000 to 1,350,000,000. 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, 2012 and September 30 2011, there were 591,413,316 and 473,325,859 shares of Common Stock issued and outstanding, respectively.

During the six month periods ended March 31, 2012 and 2011, the Company has expensed $58,238 and $454,582 related to stock based compensation, respectively.

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NOTE G - STOCK OPTIONS AND WARRANTS

Warrants

The following table summarizes the changes in warrants outstanding and the related prices for the shares of 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 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	5.67	$ 0.03088	2,428,756	$ 0.03088
$ 0.03283	533,116	5.64	$ 0.03283	533,116	$ 0.03283
$ 0.04	3,000,000	3.42	$ 0.04	3,000,000	$ 0.04
$ 0.04405	3,007,946	5.29	$ 0.04405	3,007,946	$ 0.04405
$ 0.04750	7,578,978	6.29	$ 0.04750	7,578,978	$ 0.04750
$ 0.05529	1,356,484	5.78	$ 0.05529	1,356,484	$ 0.05529
$ 0.06	12,000,000	2.88	$ 0.06	12,000,000	$ 0.06
$ 0.07	75,000	2.58	$ 0.07	75,000	$ 0.07
$ 0.071	1,000,000	2.82	$ 0.071	-	$ 0.071
$ 0.09	9,900,000	4.42	$ 0.09	9,900,000	$ 0.09
$ 0.10	1,500,000	099	$ 0.10	1,500,000	$ 0.10
$ 0.50	10,700,000	0.74	$ 0.50	10,700,000	$ 0.50
	53,080,280			52,080,280	

Transactions involving warrants are summarized as follows:

	Number of Shares	Weighted Average Price Per Share
Balance, September 30, 2010	69,207,946	$ 0.237
Granted	11,897,334	0.044
Exercised	—	
Cancelled or expired	(22,900,000)	(0.384)
Balance at September 30, 2011	58,205,280	$ 0.140
Granted	1,075,000	0.071
Exercised	—	—
Cancelled or expired	(6,200,000)	(0.041)
Balance, March 31, 2012	53,080,280	$ 0.15

Transactions involving warrants are summarized as follows:

On October 31, 2011, warrants totaling 75,000 were issued in connection with services. The warrants are exercisable for three years from the date of issuance at an exercise price of $0.07 per share with vesting immediately. The fair value of the warrants of $1,363 was determined using the Black Scholes Option Pricing Model with the following assumptions: dividend yield $-0-, volatility of 157.69% and risk free rate from 0.41% and were charged to current period operations.

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On January 25, 2012, warrants totaling 1,000,000 were issued in connection with services. The warrants are exercisable for three years from the date of issuance at an exercise price of $0.071 per share and will vest in full on the first anniversary of the date of grant. The fair value of the warrants of $56,875 was determined using the Black Scholes Option Pricing Model with the following assumptions: dividend yield $-0-, volatility of 147.53% and risk free rate from 0.81% and were charged to current period 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 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 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. On November 30, 2011, 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 thereunder to 350,000,000 and the number of shares of Common Stock that can be covered by awards made to any participant in any calendar year to 50,000,000, which was approved by our stockholders at the 2012 annual meeting of stockholders held on January 27, 2012.

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 Common Stock. As of March 31, 2012, a total of 9,675,000 shares have been issued and options to purchase 127,208,825 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 Common Stock issued to employees of the Company under the 2005 Incentive Stock Plan:

	Options Outstanding			Options Exercisable	
Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 0.05	29,000,000	3.16	$ 0.05	29,000,000	$ 0.05
$ 0.0585	50,000,000	6.29	$ 0.0585	12,500,000	$ 0.0585
$ 0.06	30,100,000	3.25	$ 0.06	15,000,000	$ 0.06
$ 0.065	634,825	4.68	$ 0.065	634,825	$ 0.065
$ 0.068	5,724,000	4.67	$ 0.068	5,724,000	$ 0.068
$ 0.07	2,850,000	3.11	$ 0.07	1,125,000	$ 0.07
$ 0.08	2,000,000	3.76	$ 0.08	500,000	$ 0.08
$ 0.09	1,500,000	4.42	$ 0.09	1,500,000	$ 0.09
$ 0.11	5,400,000	1.21	$ 0.11	5,400,000	$ 0.11
	127,208,825		$ 0.06	71,383,825	$ 0.06

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APPLIED DNA SCIENCES, INC.
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Transactions involving stock options issued to employees are summarized as follows:

	Number of Shares		Weighted Average Exercise Price Per Share
Outstanding at October 1, 2010	66,900,000	$	0.06
Granted	53,750,000		0.06
Exercised	—		
Cancelled or expired	—		
Outstanding at September 30, 2011	120,650,000	$	0.06
Granted	6,558,825		0.067
Exercised	—		
Canceled or expired	—		
Outstanding at March 31, 2012	127,208,825	$	0.06

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

During the three months ended March 31, 2012, the Company granted an aggregate of 200,000 options to purchase Common Stock at exercise prices from $0.06 to $0.07 per share for five years to employees, vesting 25% per year on each anniversary of grant. The fair values of options was determined using the Black Scholes Option Pricing Model with the following assumptions: dividend yield $-0-, volatility of 149.81% to 152.56% and risk free rate from 0.82% to 1.13%.

The Company recorded $389,059 and $1,174,778 as stock compensation expense for the three and six month periods ended March 31, 2012, respectively, and $157,230 and $305,769 for the three and six month periods ended March 31, 2011, respectively, for the vesting portion of all employee options outstanding.

NOTE H- COMMITMENTS AND CONTINGENCIES

Operating leases

The Company leases office space under an operating lease in Stony Brook, New York for its corporate use renewable annually. Total lease rental expenses for the three and six month periods ended March 31, 2012 were $64,535 and $110,302, respectively. Total lease rental expenses for the three and six month periods ended on March 31, 2011 were $36,036 and $71,998, respectively.

Employment and Consulting Agreements

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

Litigation

From time to time, the Company may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. Litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business.

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

On May 18, 2011, the Company was served with a complaint in a lawsuit brought by Demodulation, Inc. against the Company, Corning Incorporated, Alfred University, and Alfred Technology Resources, Inc. On July 8, 2011, the Company filed a motion to dismiss the complaint. In response, on August 3, 2011, Demodulation, Inc. filed an amended complaint. Demodulation, Inc. alleges that it was unable to bring its microwire technology to market due to the wrongful acts of defendants, who allegedly conspired to steal Demodulation, Inc.'s trade secrets and other intellectual property and to interfere in its business opportunities. Of the 17 claims alleged in the amended complaint, five are asserted against the Company, including alleged misappropriation of trade secrets, antitrust violations, civil RICO, and patent infringement. The Company believes these claims are without merit. On September 10, 2011, Alfred University filed a motion to transfer the action from the District of New Jersey to the Western District of New York. On December 22, 2011, the Court denied the motion. On January 27, 2012, the Company filed a motion to dismiss the amended complaint for failure to state a claim and on other grounds. The Company intends to vigorously defend the action.

NOTE I - GOING CONCERN

The accompanying unaudited condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the accompanying unaudited condensed consolidated financial statements at March 31, 2012, the Company incurred a net loss for the six month period ended March 31, 2012 of approximately $4.0 million and has an accumulated deficit of $166 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 that management's actions will result in profitable operations or the resolution of its liquidity problems. The accompanying unaudited condensed consolidated financial statements do not include any adjustments that might result should the Company be unable to continue as a going concern.

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

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

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

We believe it is important to communicate our expectations. However, forward looking statements involve risks and uncertainties and our actual results and the timing of certain events could differ materially from those discussed in forward-looking statements as a result of certain factors, including those set forth under “Risk Factors,” “Business” and elsewhere in our Annual Report on Form 10-K for the fiscal year ended September 30, 2011. All forward-looking statements and risk factors included in this document are made as of the date hereof, based on information available to us as of the date thereof, and we assume no obligations to update any forward-looking statement or risk factor, unless we are required to do so by law.

Introduction

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

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

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

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.

Recent Developments

digitalDNA. We have launched a new product called digitalDNA™, which is a DNA-secured form of the QR ("quick read") code. digitalDNA is a new security tool that utilizes the flexibility of mobile communications, the instant accessibility of secure, cloud-based data, and the absolute certainty of DNA to make item tracking and authentication fast, easy and definitive, while providing the opportunity to create a new and exciting customer interface. The product uses forensic authentication of a botanical DNA marker, sequence-encrypted within a secure QR code, and physically included within the ink used to digitally print the code. The resulting pattern or "rune" can be scanned via an Apple-approved app with an iPhone to assure originality. These mobile scans can be performed anywhere along the supply chain without limit. Tracking information is fed into "tunable algorithms" that use pattern recognition to automatically identify supply-chain risks, for counterfeits or product diversion. Rapid-reading reporters, associated with the DNA marker, are also embedded in the ink, and prevent the secure code from being digitally copied.

The digitalDNA platform is designed to meet compliance specifications defined by the PCI (Payment Card Industry) Security Standards Council, the new and strict standards developed for handling credit card transactions, and HIPAA (Health Insurance Portability and Accountability Act), the stringent requirements for protecting personal health information.

We acquired rights to certain software and intellectual property pursuant to an agreement we entered into with DivineRune Inc., a secure cloud-computing specialist, in January this year. DivineRune was issued a 3 year warrant to purchase one million shares of our common stock, par value $.001 per share ("Common Stock") as compensation for a license to DivineRune's patent portfolio. We will also share revenues on any future sales of products generated as a result of this agreement. We expect that the partnership will enhance and extend our core anti-counterfeiting, anti-diversion, and security systems into the digital track-and-trace sphere. James A. Hayward, our President, Chairman and Chief Executive Officer, and Yacov Shamash, a member of our Board of Directors, were among the early investors in DivineRune where Mr. Sayan is the founder and CEO. In addition, Dr. Hayward and Dr. Shamash both serve on the Board of Directors of Softheon, a document security company, where Mr. Sayan is the Founder, CEO and Chairman of the Board.

Plan of Operations

General

To date, the substantial portion of our revenues have been generated from sales of our 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 from sales of our SigNature Program, Cashield, DNANet, SmartDNA, BioMaterial Genotyping and digitalDNA. We have developed or are currently attempting to develop business in the following target markets: cash-in-transit, semiconductor authentication, textile and apparel authentication, secure documents, pharmaceuticals, consumer products, fine wine, art and collectibles, and digital and recording media. Our developments in the cash-in-transit, semiconductor authentication 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:

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

Revenue Recognition

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

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

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

ASC 605-10 incorporates Accounting Standards Codification subtopic 605-25, Multiple-Element Arraignments ("ASC 605-25"). ASC 605-25 addresses accounting for arrangements that may involve the delivery or performance of multiple products, services and/or rights to use assets. The effect of implementing ASC05-25 on our financial position and results of operations are not significant.

Allowance for Uncollectible Receivables

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

Fair Value of Intangible Assets

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

We evaluate the recoverability of long-lived assets based upon forecasted undiscounted cash flows. Should impairment in value be indicated, the carrying value of intangible assets will be adjusted, based on estimates of future discounted cash flows resulting from the use and ultimate disposition of the asset. ASC 360-10 also requires assets to be disposed of be reported at the lower of the carrying amount or the fair value less costs to sell.

Use of Estimates

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

Comparison of Results of Operations for the Three Months Ended March 31, 2012 and 2011

Revenues

For the three months ended March 31, 2012, we generated $518,402 in revenues from operations principally from the sales of authentication services. For the three months ended March 31, 2011, we generated $140,443 in revenues from operations. The increase in sales for the three months ended March 31, 2012 compared to the three months ended March 31, 2011 was primarily caused by our continued sales efforts in expanding our product usage in our target markets.

Costs and Expenses

Selling, General and Administrative

Selling, general and administrative expenses increased from $1,619,355 for the three months ended March 31, 2011 to $1,824,646 for the three months ended March 31, 2012. The increase of $205,291, or 13%, is primarily attributable to the cost of stock based compensation incurred in the current period compared to the same period last year.

Research and Development

Research and development expenses increased from $92,951 for the three months ended March 31, 2011 to $96,097 for the three months ended March 31, 2012. The increase of $3,146 is attributable to additional research and development activity needed with current operations.

Depreciation and Amortization

In the three months ended March 31, 2012, depreciation and amortization increased by $6,815 from $91,893 for the three months ended March 31, 2011 to $98,708 for the three months ended March 31, 2012. The increase is attributable to acquisition of recent property and equipment.

Total Operating Expenses

Total operating expenses increased to $2,019,451 for the three months ended March 31, 2012 from $1,804,199 for the three months ended March 31, 2011, or an increase of $215,252 primarily attributable to an increase in equity based compensation and in R&D expenditures.

Interest Expenses

Interest expense for the three months ended March 31, 2012 decreased by $892,080 to $42,833 from $934,913 for the three months ended March 31, 2011. The decrease in interest expense was due to conversion of our debt and related reduction in our non cash amortization of debt discounts associated with our issued convertible notes.

Net Income (Loss)

Net loss for the three months ended March 31, 2012 decreased to $1,543,882 from a net loss of $2,598,669 for the three months ended March 31, 2011 primarily attributable to factors described above.

Comparison of Results of Operations for the Six Months Ended March 31, 2012 and 2011

Revenues

For the six months ended March 31, 2012, we generated $1,035,306 in revenues from operations principally from the sales of authentication services. For the six months ended March 31, 2011, we generated $458,260 in revenues from operations. The increase in sales for the six months ended March 31, 2012 compared to the six months ended March 31, 2011 was primarily caused by our continued sales efforts in expanding our product usage in our target markets.

Costs and Expenses

Selling, General and Administrative

Selling, general and administrative expenses increased from $2,948,564 for the six months ended March 31, 2011 to $3,977,074 for the six months ended March 31, 2012. The increase of $1,028,510, or 35%, is primarily attributable to the cost of stock based compensation and other operating costs incurred in the current period compared to the same period last year.

Research and Development

Research and development expenses increased from $113,657 for the six months ended March 31, 2011 to $174,570 for the six months ended March 31, 2012. The increase of $60,913 is attributable to additional research and development activity needed with current operations.

Depreciation and Amortization

In the six months ended March 31, 2012, depreciation and amortization increased by $12,365 from $184,716 for the six months ended March 31, 2011 to $197,081 for the three months ended March 31, 2012. The increase is attributable to acquisition of recent property and equipment.

Total Operating Expenses

Total operating expenses increased to $4,348,725 for the six months ended March 31, 2012 from $3,246,937 for the six months ended March 31, 2011, or an increase of $1,101,788 primarily attributable to an increase in equity based compensation, other operating costs and in R&D expenditures.

Interest Expenses

Interest expense for the six months ended March 31, 2012 decreased by $513,720 to $640,368 from $1,154,088 for the six months ended March 31, 2011. The decrease in interest expense was due to conversion of our debt and related reduction in our non cash amortization of debt discounts associated with our issued convertible notes.

Net Income (Loss)

Net loss for the six months ended March 31, 2012 increased to $3,953,787 from a net loss of $3,942,765 for the six months ended March 31, 2011 primarily attributable to factors described above.

Liquidity and Capital Resources

Our liquidity needs consist of our working capital requirements, indebtedness payments and research and development expenditure funding. Historically, we have financed our operations through the sale of equity and convertible debt as well as borrowings from various credit sources. In fiscal 2010 and 2011 as well as in prior fiscal years, we have relied in part on cash infusions from our President, Chairman and Chief Executive Officer, James A. Hayward, in order to fund our operations. During fiscal 2011, Dr. Hayward provided $750,000 in new loans. Dr. Hayward has not had to provide new loans during the six months ended March 31, 2012. In the absence of third party investment, 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, 2012, we had working capital of $565,503. For the six months ended March 31, 2012, we used net cash flow in operating activities of $1,843,587 consisting primarily of year to date loss of $3,953,787. Non cash adjustments included $824,176 in depreciation and amortization charges, $1,233,016 for equity based compensation and $507,939 for settlement of accrued interest. Additionally, we had a net increase in operating assets of $75,102 and a net decrease in operating liabilities of $379,829.

Cash flows used in investing activities for the six months ended March 31, 2012 was $47,133 from the acquisition of equipment. No cash was provided (or used) by financing activities for the six months ended March 31, 2012.

We expect capital expenditures to be less than $200,000 in fiscal 2012. Our primary investments will be in laboratory equipment to support prototyping and our authentication services.

Exploitation of potential revenue sources 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 our 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 July 2012. 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 8, 2011, that we have incurred operating losses in the last two years, and that we are dependent upon management’s ability to develop profitable operations and raise additional capital. These factors among others may raise substantial doubt about our ability to continue as a going concern.

Recent Debt and Equity Financing Transactions

Fiscal 2010

During the year ended September 30, 2010, we issued and sold an aggregate principal amount of $2,545,000 in secured convertible promissory notes bearing interest at 10% per annum to “accredited investors,” as defined in regulations promulgated under the Securities Act. On January 7, 2012, all principal and interest accrued on such promissory notes has been converted pursuant to their terms into shares of our Common Stock at a conversion price equal to a 20% discount to the average volume, weighted average price of our Common Stock for the ten trading days prior to issuance.

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Fiscal 2011

During the year ended September 30, 2011, 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 Common Stock 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 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"). The conversion prices of the notes range between $0.03088 and $0.05529. A "Subsequent Financing" is the sale of our 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 of our securities in a single transaction resulting in gross proceeds of at least $10 million (before transaction fees and expenses). 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, Subsequent Financing Securities or Qualified Financing Securities pursuant to their terms, our obligations under the notes will be secured by a lien on all our assets, including the assets of APDN (B.V.I.) Inc., our wholly-owned subsidiary.

In addition, on July 15, 2011, we closed a private placement of Common Stock. We issued and sold 105,263,158 shares of Common Stock at a purchase price of $0.0475 per share to accredited investors for gross proceeds of $5,000,000.

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

We presently do not have any available credit, bank financing or other external sources of liquidity. Due to our brief history and historical operating losses, our operations have not been a material source of liquidity. We will need to obtain additional capital in order to expand operations and become profitable. We intend to pursue the building of a re-seller network outside the United States, and if successful, the re-seller agreements would constitute a source of liquidity and capital over time. In order to obtain capital, we may need to sell additional shares of 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 July 2012. We have no commitments for any future funding, and may not be able to obtain additional financing or grants on terms acceptable to us, if at all, in the future. If we are unable to obtain additional capital this would restrict our ability to grow and may require us to curtail or discontinue our business operations. Additionally, while a reduction in our business operations may prolong our ability to operate, that reduction would harm our ability to implement our business strategy. If we can obtain any equity financing, it may involve substantial dilution to our then existing stockholders.

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

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

Product Research and Development

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

Acquisition of Plant and Equipment and Other Assets

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

Number of Employees

We currently have 22 full-time employees and three part-time employees, including two in management, 14 in operations, 8 in sales and marketing and 1 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 8, 2011, 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 will be available. The accompanying unaudited 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.

We are a smaller reporting company as defined by Rule 12b-2 under the Exchange Act of 1934, as amended (the "Exchange Act") and are not required to provide the information required under this item.

Item 4. - Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q, we conducted an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, 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, the Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2012, our disclosure controls and procedures were effective to ensure that the information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Changes in Internal Control over Financial Reporting

During the fiscal quarter ended March 31, 2012, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II - Other Information

Item 1. – Legal Proceedings

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. Litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business.

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

As previously reported in our Annual Report on Form 10-K for the fiscal year ended September 30, 2011, on May 18, 2011, we were served with a complaint in a lawsuit brought by Demodulation, Inc. against us, Corning Incorporated, Alfred University, and Alfred Technology Resources, Inc. On July 8, 2011, we filed a motion to dismiss the complaint. In response, on August 3, 2011, Demodulation, Inc. filed an amended complaint. Demodulation, Inc. alleges that it was unable to bring its microwire technology to market due to the wrongful acts of defendants, who allegedly conspired to steal Demodulation, Inc.'s trade secrets and other intellectual property and to interfere in its business opportunities. Of the 17 claims alleged in the amended complaint, five are asserted against us, including alleged misappropriation of trade secrets, antitrust violations, civil RICO, and patent infringement. We believe these claims are without merit. On September 10, 2011, Alfred University filed a motion to transfer the action from the District of New Jersey to the Western District of New York. On December 22, 2011, the Court denied the motion. On January 27, 2012, we filed a motion to dismiss the amended complaint for failure to state a claim and on other grounds. We intend to vigorously defend the action.

Item 2. – Unregistered Sales of Equity Securities and Use of Proceeds

As further described above under "Management's Discussion and Analysis—Recent Developments," we have an agreement with DivineRune, Inc., or DivineRune, whereby DivineRune agreed to license certain software and intellectual property to us. Under the terms of this agreement, on January 25, 2012, we issued warrants to purchase 1,000,000 shares of our Common Stock to DivineRune. The warrants are exercisable for three years from the date of issuance at an exercise price of $0.071 per share and will vest in full on the first anniversary of the date of grant. These restricted securities were issued pursuant to an exemption from registration provided under Section 4(2) of the Securities Act of 1933, as amended, because they were issued in a transaction not involving any public offering.

Item 6 – Exhibits

4.1*	Applied DNA Sciences, Inc. 2005 Stock Incentive Plan, as amended as of January 27, 2012, and form of employee stock option agreement thereunder
10.1*	Software Distribution Agreement, dated as of January 25, 2012, between Applied DNA Sciences, Inc and DivineRune Inc.
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)
101 INS***	XBRL Instance Document
101 SCH***	XBRL Taxonomy Extension Schema Document
101 CAL***	XBRL Taxonomy Extension Calculation Linkbase Document
101 LAB***	XBRL Extension Label Linkbase Document
101 PRE***	XBRL Taxonomy Extension Presentation Linkbase Document

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* Filed herewith.
** Furnished herewith.
*** In accordance with Rule 406T of Regulation S-T, the information in Exhibit 101 is furnished and deemed not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Exchange Act of 1934, and otherwise is not subject to liability under these sections and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such filing.

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 15, 2012

/s/ JAMES A. HAYWARD, PH. D.
James A. Hayward, Ph. D.
Chief Executive Officer
(Duly authorized officer)

/s/ KURT H. JENSEN
Kurt H. Jensen
Chief Financial Officer
(Duly authorized officer and
principal financial officer)