

APPLIED DNA SCIENCES INC  
Form 10QSB  
May 15, 2008

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

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

For the Quarterly Period Ended March 31, 2008

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the Transition Period From To

Commission file number 002-90519

APPLIED DNA SCIENCES, INC.  
(Name of small business issuer in its charter)

Nevada  
(State or other jurisdiction of  
incorporation or organization)

59-2262718  
(I.R.S. Employer  
Identification Number)

25 Health Sciences Drive, Suite 113  
Stony Brook, New York  
(Address of Principal Executive Offices)

11790  
(Zip Code)

(631) 444-6861  
(Registrant's telephone number, including area code)

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

Yes  No

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

Yes  No

The number of shares of Common Stock, \$0.001 par value, outstanding on May 13, 2008, was 192,869,937 shares.

Transitional Small Business Disclosure Format (Check one)

Yes  No

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APPLIED DNA SCIENCES, INC  
QUARTERLY REPORT ON FORM 10-QSB FOR THE  
QUARTERLY PERIOD ENDING MARCH 31, 2008

Table of Contents

PART I

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)	1
Condensed Consolidated Balance Sheets	1
Condensed Consolidated Statements of Losses	2
Condensed Consolidated Statements of Cash Flows	3
Notes To Unaudited Condensed Consolidated Financial Statements	4
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS	21
ITEM 3. CONTROLS AND PROCEDURES	38

PART II

ITEM 1. LEGAL PROCEEDINGS	39
ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	41
ITEM 3. DEFAULTS UPON SENIOR SECURITIES	42
ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS	42
ITEM 5. OTHER INFORMATION	42
ITEM 6. EXHIBITS	42
SIGNATURES	44

## PART I. FINANCIAL INFORMATION

## Item 1. FINANCIAL STATEMENTS (UNAUDITED)

APPLIED DNA SCIENCES, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS

	(unaudited) March 31, 2008	September 30, 2007
ASSETS		
Current assets:		
Cash	\$ 878,799	\$ 25,185
Accounts Receivable	89,985	-
Prepaid expenses	25,250	101,000
Restricted cash	-	399,920
Total current assets	994,034	526,105
Property, plant and equipment-net of accumulated depreciation of \$113,568 and \$82,825, respectively	80,285	105,537
Other assets:		
Deposits	8,322	13,822
Capitalized finance costs-net of accumulated amortization of \$193,844	346,156	29,503
Intangible assets:		
Patients, net of accumulated amortization of \$27,854 and \$25,445, respectively (Note B)	6,403	8,812
Intellectual property, net of accumulated amortization and write off of \$7,884,787 and \$7,702,891, respectively (Note B)	1,546,113	1,728,009
Total Assets	\$ 2,981,313	\$ 2,411,788

## LIABILITIES AND DEFICIENCY IN STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable and accrued liabilities	\$ 12,421,031	\$ 13,215,975
Convertible notes payable, net of unamortized discount (Note D)	3,069,360	740,405
Other current liabilities	-	399,920
Total current liabilities	15,490,391	14,356,300

## Commitments and contingencies (Note H)

## Deficiency in Stockholders' Equity- (Note F)

Preferred stock, par value \$0.0001 per share; 10,000,000 shares authorized; 60,000 issued and outstanding	6	6
Common stock, par value \$0.001 per share; 410,000,000 shares authorized; 192,136,603 and 180,281,661 issued and outstanding as of March 31, 2008 and September 30, 2007, respectively	192,136	180,281
Additional paid in capital	131,330,594	128,448,584

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Accumulated deficit	(144,031,814)	(140,573,383)
Total deficiency in stockholders' equity	(12,509,078)	(11,944,512)
Total liabilities and Deficiency in Stockholders' Equity	\$ 2,981,313	\$ 2,411,788

See the accompanying notes to the unaudited condensed consolidated financial statements

1

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

	Three Months Ended March		Six Months Ended March 31,	
	2008	31, 2007	2008	2007
Sales	\$ 207,737	\$ -	\$ 330,904	\$ -
Cost of sales	(46,114)	-	(74,004)	-
Gross Profit	161,623	-	256,900	-
Operating expenses:				
Selling, general and administrative	715,783	1,988,931	2,414,052	4,043,386
Research and development	55,900	39,479	92,226	68,785
Depreciation and amortization	107,244	108,358	215,048	216,237
Total operating expenses	878,927	2,136,768	2,721,326	4,328,408
NET LOSS FROM OPERATIONS	(717,304)	(2,136,768)	(2,464,426)	(4,328,408)
Net loss in revaluation of debt derivative and warrant liabilities	-	(6,387,761)	-	(4,289,290)
Other income	-	-	-	977
Interest expense	(608,383)	(845,709)	(994,005)	(1,424,739)
Net loss before provision for income taxes	(1,325,687)	(9,370,238)	(3,458,431)	(10,041,460)
Income taxes (benefit)	-	-	-	-
NET LOSS	\$ (1,325,687)	\$ (9,370,238)	\$ (3,458,431)	\$ (10,041,460)
Net (loss) per share-basic and fully diluted	\$ (0.01)	\$ (0.08)	\$ (0.02)	\$ (0.08)
Weighted average shares outstanding- Basic and fully diluted	191,517,098	121,162,385	186,798,504	121,091,176

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,	
	2008	2007
Cash flows from operating activities:		
Net loss	\$ (3,458,431)	\$ (10,041,460)
Adjustments to reconcile net loss to net used in operating activities:		
Depreciation and amortization	215,048	216,237
Net loss attributable to repricing of warrants and debt derivatives	-	4,289,290
Amortization of capitalized financing costs	185,847	777,550
Amortization of debt discount attributable to convertible debentures	832,546	1,169,123
Common stock issued in exchange for services rendered	1,040,000	-
Change in assets and liabilities:		
Decrease (increase) in accounts receivable	(89,985)	18,050
Decrease (increase) in prepaid expenses and deposits	81,250	80,000
Decrease (increase) in other assets	-	-
Increase (decrease) in accounts payable and accrued liabilities	(794,669)	2,366,177
Net cash used in operating activities	(1,988,394)	(1,125,033)
Cash flows from investing activities:		
Decrease in restricted cash held in escrow	399,920	-
Acquisition (disposal) of property and equipment, net	(5,492)	(11,039)
Net cash provided by (used in) investing activities	394,428	(11,039)
Cash flows from financing activities:		
Proceeds from issuance of convertible notes	2,447,580	-
Net cash provided by financing activities	2,447,580	-
Net increase in cash and cash equivalents	853,614	(1,136,072)
Cash and cash equivalents at beginning of period	25,185	1,225,304
Cash and cash equivalents at end of period	\$ 878,799	\$ 89,232
Supplemental Disclosures of Cash Flow Information:		
Cash paid during period for interest	-	-
Cash paid during period for taxes	-	-
Non-cash transactions:		
Common stock issued for services	\$ 1,040,000	-

Common stock issued in exchange for previously incurred debt	\$	50,275	\$	16,200
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See the accompanying notes to the unaudited condensed consolidated financial  
statements

3

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Applied DNA Sciences, Inc.  
Notes To Consolidated Financial Statements  
March 31, 2008  
(unaudited)

NOTE A — SUMMARY OF ACCOUNTING POLICIES

General

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-QSB, and therefore, do not include all the information necessary for a fair presentation of financial position, results of operations and cash flows in conformity with generally accepted accounting principles.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six month periods ended March 31, 2008 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2008. The unaudited condensed consolidated financial statements should be read in conjunction with the consolidated September 30, 2007 financial statements and footnotes thereto included in the Company's SEC Form 10-KSB.

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. During the year ended September 30, 2007, the Company transitioned from a development stage enterprise to an operating company. The Company is principally devoted to developing DNA embedded biotechnology security solutions in the United States. To date, the Company has generated minimum sales revenues from its services and products; it has incurred expenses and has sustained losses. Consequently, its operations are subject to all the risks inherent in the establishment of a new business enterprise. For the period from inception through March 31, 2008, the Company has accumulated losses of \$144,031,814.

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

Estimates

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

Revenue Recognition

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

negotiate additional billings with a customer for cost over-runs, the Company may incur losses on individual contracts. All selling, general and administrative costs are treated as period costs and expensed as incurred.

For revenue from product sales, the Company recognizes revenue in accordance with Staff Accounting Bulletin No. 104, REVENUE RECOGNITION ("SAB104"), which superseded Staff Accounting Bulletin No. 101, REVENUE RECOGNITION IN FINANCIAL STATEMENTS ("SAB101"). SAB 101 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the selling price is fixed and determinable; and (4) collectability is reasonably assured. Determination of criteria (3) and (4) are based on management's judgments regarding the fixed nature of the selling prices of the products delivered and the collectability of those amounts. Provisions for discounts and rebates to customers, estimated returns and allowances, and other adjustments are provided for in the same period the related sales are recorded. The Company defers any revenue for which the product has not been delivered or is subject to refund until such time that the Company and the customer jointly determine that the product has been delivered or no refund will be required. At March 31, 2008 the Company did not have any deferred revenue.

Applied DNA Sciences, Inc.  
 Notes To Consolidated Financial Statements  
 March 31, 2008  
 (unaudited)

NOTE A — SUMMARY OF ACCOUNTING POLICIES (continued)

Revenue Recognition (continued)

SAB 104 incorporates Emerging Issues Task Force 00-21 (“EITF 00-21”), MULTIPLE DELIVERABLE REVENUE ARRANGEMENTS. EITF 00-21 addresses accounting for arrangements that may involve the delivery or performance of multiple products, services and/or rights to use assets. The effect of implementing EITF 00-21 on the Company’s financial position and results of operations was not significant.

Cash Equivalents

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

Income Taxes

The Company has adopted Financial Accounting Standard No. 109 (SFAS 109) which requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statement or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Temporary differences between taxable income reported for financial reporting purposes and income tax purposes are insignificant.

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, 2008 property and equipment consist of:

Computer equipment	\$	27,404
Lab equipment		60,464
Furniture		105,985
		193,853
Accumulated Depreciation		(113,568)
Net	\$	80,285

Net Loss Per Share

The Company has adopted Statement of Financial Accounting Standard No. 128, "Earnings Per Share," specifying the computation, presentation and disclosure requirements of earnings per share information. Basic earnings per share has been calculated based upon the weighted average number of common shares outstanding. Stock options and warrants have been excluded as common stock equivalents in the diluted earnings per share because they are either antidilutive, or their effect is not material. Fully diluted shares outstanding were 255,551,691 and 199,215,916 for the six months ended March 31, 2008 and 2007, respectively.

## Stock Based Compensation

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure-an amendment of SFAS 123." This statement amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in APB Opinion No. 25 and related interpretations. Accordingly, compensation expense for stock options is measured as the excess, if any, of the fair market value of the Company's stock at the date of the grant over the exercise price of the related option. The Company has adopted the annual disclosure provisions of SFAS No. 148 in its financial reports for the year ended September 30, 2006 and for the subsequent periods. The Company issued employee unvested employee options as stock-based compensation during the year ended September 30, 2006 and therefore has no unrecognized stock compensation related liabilities ended September 30, 2006. For the year ended September 30, 2007; the Company did not issue any stock based compensation.

Applied DNA Sciences, Inc.  
Notes To Consolidated Financial Statements  
March 31, 2008  
(unaudited)

NOTE A — SUMMARY OF ACCOUNTING POLICIES (continued)

Stock Based Compensation (continued)

On January 1, 2006, we adopted the fair value recognition provisions of Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 123, Accounting for Stock Based Compensation, to account for compensation costs under our stock option plans. We previously utilized the intrinsic value method under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (as amended) ("APB 25"). Under the intrinsic value method prescribed by APB 25, no compensation costs were recognized for our employee stock options because the option exercise price equaled the market price on the date of the grant. Prior to January 1, 2006 we only disclosed the pro forma effects on net income and earnings per share as if the fair value recognition provisions of SFAS 123(R) had been utilized.

In adopting SFAS No. 123(R), the Company elected to use the modified prospective method to account for the transition from the intrinsic value method to the fair value recognition method. Under the modified prospective method, compensation cost is recognized from the adoption date forward for all new stock options granted and for any outstanding unvested awards as if the fair value method had been applied to those awards as of the date of the grant. In the six month period ended March 31, 2008, the Company did not grant employee stock options.

Concentrations of Credit Risk

Financial instruments and related items, which potentially subject the Company to concentrations of credit risk, consist primarily of cash, cash equivalents and trade receivables. The Company places its cash and temporary cash investments with high credit quality institutions. At times, such investments may be in excess of the FDIC insurance limit. The Company periodically reviews its trade receivables in determining its allowance for doubtful accounts. At March 31, 2008, allowance for doubtful receivable was \$0.

Research and Development

The Company accounts for research and development costs in accordance with the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 2 ("SFAS 2"), "Accounting for Research and Development Costs. Under SFAS 2, all research and development costs must be charged to expense as incurred. Accordingly, internal research and development costs are expensed as incurred. Third-party research and development costs are expensed when the contracted work has been performed or as milestone results have been achieved. Company-sponsored research and development costs related to both present and future products are expensed in the period incurred. The Company incurred research and development expenses of \$55,900 and \$92,226 for the three and six month period ended March 31, 2008, respectively and \$39,479 and \$68,785 for the three and six month period ended March 31, 2007, respectively.

Reclassifications

Certain reclassifications have been made in prior year's financial statements to conform to classifications used in the current year.

Advertising

The Company follows the policy of charging the costs of advertising to expense as incurred. The Company charged to operations \$9,118 and \$11,364 for the three and six month period ended March 31, 2008; respectively and \$8,557 as advertising costs for the three and six month period March 31, 2008.

#### Intangible Assets

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

#### Restricted cash / other current liabilities

Restricted cash is comprised of funds deposited into an escrow account pending consummation of the placement of convertible debt as of December 31, 2007 (see Note L) The related obligation is recorded as other current liabilities until consummation.

Applied DNA Sciences, Inc.  
Notes To Consolidated Financial Statements  
March 31, 2008  
(unaudited)

NOTE A — SUMMARY OF ACCOUNTING POLICIES (continued)

Derivative Financial Instruments

The Company's derivative financial instruments consisted of embedded derivatives related to the 10% Secured Convertible Promissory Notes (the "Serial Notes") issued in 2006. These embedded derivatives included certain conversion features, variable interest features, call options and default provisions. The accounting treatment of derivative financial instruments required that the Company record the derivatives and related warrants at their fair values as of the inception date of the Note Agreement (estimated at \$2,419,719) and at fair value as of each subsequent balance sheet date. In addition, under the provisions of EITF Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock," as a result of entering into the Notes, the Company was required to classify all other non-employee stock options and warrants as derivative liabilities and mark them to market at each reporting date. Any change in fair value was recorded as non-operating, non-cash income or expense at each reporting date. If the fair value of the derivatives is higher at the subsequent balance sheet date, the Company recorded a non-operating, non-cash charge. If the fair value of the derivatives is lower at the subsequent balance sheet date, the Company recorded non-operating, non-cash income. Conversion-related derivatives were valued using the Binomial Option Pricing Model with the following assumptions: dividend yield of 0%; annual volatility of 111 to 112%; and risk free interest rate of 4.96 to 5.15% as well as probability analysis related to trading volume restrictions. The remaining derivatives were valued using discounted cash flows and probability analysis. The derivatives were classified as long-term liabilities.

In December 2006, the FASB issued FSP EITF 00-19-2, Accounting for Registration Payment Arrangements ("FSP 00-19-2") which addresses accounting for registration payment arrangements. FSP 00-19-2 specifies that the contingent obligation to make future payments or otherwise transfer consideration under a registration payment arrangement, whether issued as a separate agreement or included as a provision of a financial instrument or other agreement, should be separately recognized and measured in accordance with FASB Statement No. 5, Accounting for Contingencies. FSP 00-19-2 further clarifies that a financial instrument subject to a registration payment arrangement should be accounted for in accordance with other applicable generally accepted accounting principles without regard to the contingent obligation to transfer consideration pursuant to the registration payment arrangement. For registration payment arrangements and financial instruments subject to those arrangements that were entered into prior to the issuance of EITF 00-19-2, this guidance shall be effective for financial statements issued for fiscal years beginning after December 15, 2006 and interim periods within those fiscal years.

In September 2007, the Company exchanged common stock for the remaining Secured Convertible Promissory Notes that contained embedded derivatives such as certain conversion features, variable interest features, call options and default provisions as described above. As a result, the Company reclassified the warrant liabilities recorded in conjunction with the convertible promissory notes to equity as of the conversion date of the related debt. Additionally, the Company has an accumulative accrual of \$11,750,941 in liquidating damages in relationship to the previously outstanding convertible promissory notes and related warrants.

New Accounting Pronouncements

In December 2006, the FASB issued FSP EITF 00-19-2, Accounting for Registration Payment Arrangements ("FSP 00-19-2") which addresses accounting for registration payment arrangements. FSP 00-19-2 specifies that the contingent obligation to make future payments or otherwise transfer consideration under a registration payment

arrangement, whether issued as a separate agreement or included as a provision of a financial instrument or other agreement, should be separately recognized and measured in accordance with FASB Statement No. 5, Accounting for Contingencies. FSP 00-19-2 further clarifies that a financial instrument subject to a registration payment arrangement should be accounted for in accordance with other applicable generally accepted accounting principles without regard to the contingent obligation to transfer consideration pursuant to the registration payment arrangement. For registration payment arrangements and financial instruments subject to those arrangements that were entered into prior to the issuance of EITF 00-19-2, this guidance shall be effective for financial statements issued for fiscal years beginning after December 15, 2006 and interim periods within those fiscal years. The Company adopted FSP 00-19-2 in the preparation of the financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." SFAS 159 permits entities to choose to measure many financial instruments, and certain other items, at fair value. SFAS 159 applies to reporting periods beginning after November 15, 2007. The adoption of SFAS 159 is not expected to have a material impact on the Company's financial condition or results of operations.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations" ("SFAS No. 141(R)"), which establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in an acquiree, including the recognition and measurement of goodwill acquired in a business combination. SFAS No. 141R is effective as of the beginning of the first fiscal year beginning on or after December 15, 2008. Earlier adoption is prohibited and the Company is currently evaluating the effect, if any, that the adoption will have on its financial position, results of operations or cash flows.



Applied DNA Sciences, Inc.  
Notes To Consolidated Financial Statements  
March 31, 2008  
(unaudited)

## NOTE A — SUMMARY OF ACCOUNTING POLICIES (continued)

## New Accounting Pronouncements (continued)

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB No. 51" ("SFAS No. 160"), which will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity within the consolidated balance sheets. SFAS No. 160 is effective as of the beginning of the first fiscal year beginning on or after December 15, 2008. Earlier adoption is prohibited and the Company is currently evaluating the effect, if any, that the adoption will have on its financial position, results of operations or cash flows.

## NOTE B - ACQUISITION OF INTANGIBLE ASSETS

The Company has adopted SFAS No. 142, Goodwill and Other Intangible Assets, whereby the Company periodically tests its intangible assets for impairment. On an annual basis, and when there is reason to suspect that their values have been diminished or impaired, these assets are tested for impairment, and write-downs will be included in results from operations.

The identifiable intangible assets acquired and their carrying value at March 31, 2008 is:

Trade secrets and developed technologies (Weighted average life of 7 years)	\$ 9,430,900
Patents (Weighted average life of 5 years)	34,257
<b>T o t a l A m o r t i z e d i d e n t i f i a b l e i n t a n g i b l e a s s e t s - G r o s s c a r r y i n g v a l u e :</b>	<b>\$ 9,465,157</b>
Less:	
Accumulated Amortization	(2,257,630)
Impairment (See below)	(5,655,011)
Net:	\$ 1,552,516
Residual value:	\$ 0

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

Total amortization expense charged to operations for the three and six month ended March 31, 2008 was \$92,661 and \$184,305, respectively; \$92,661 and \$184,305 for the three and six month period ended March 31, 2007, respectively.

NOTE C – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at March 31, 2008 are as follows:

Accounts payable	\$ 192,485
Accrued consulting fees	102,500
Accrued interest payable	184,123
Accrued penalties relating to registration rights liquidating damages	11,750,941
Other accrued expenses	190,982
Total	\$ 12,421,031

Applied DNA Sciences, Inc.  
Notes To Consolidated Financial Statements  
March 31, 2008  
(unaudited)

## NOTE C — ACCOUNTS PAYABLE AND ACCRUED LIABILITIES (continued)

## Registration Rights Liquidated Damages

In October 2003 and from December 2004 through February 2005, the Company issued Convertible Promissory Notes and attached to the Notes were warrants to purchase the Company's common stock.

The Company agreed to file a registration statement and to be declared effective by the SEC for the common stock underlying the Notes and related warrants as to permit public resale thereof. The registration rights agreement provided for the payment of liquidated damages if the stipulated registration deadlines were not met. The liquidated damages are equal to 3.5% per month, with no limitations.

As of March 31, 2008, the Company has not had a registration statement declared effective relating to the common stock underlying the Notes and related warrants and in accordance with EITF 00-19-2, the Company evaluated the likelihood of achieving registration statement effectiveness. The Company has accrued \$11,750,941 as of March 31, 2008 to account for these potential liquidated damages until the expected effectiveness of the registration statement is achieved.

## NOTE D – PRIVATE PLACEMENT OF CONVERTIBLE NOTES

Convertible notes payable as of March 31, 2008 are as follows:

10% Secured Convertible Notes Payable, related party, dated April 23, 2007, net of unamortized debt discount of \$3,265 (see below)	\$ 96,735
10% Secured Convertible Notes Payable dated June 27, 2007 (See below)	100,000
10% Secured Convertible Notes Payable dated June 27, 2007 (See below)	50,000
10% Secured Convertible Notes Payable, related party, dated June 30, 2007, net of unamortized debt discount of \$25,238 (see below)	224,762
10% Secured Convertible Notes Payable, related party, dated July 30, 2007, net of unamortized debt discount of \$16,546 (see below)	183,454
10% Secured Convertible Notes Payable, dated August 8, 2007, net of unamortized debt discount of \$11,523 (see below)	88,477
10% Secured Convertible Notes Payable, related party, dated September 28, 2007, net of unamortized debt discount of \$90,831 (see below)	209,169
10% Secured Convertible Notes Payable, dated October 4, 2007, net of unamortized debt discount of \$149,894 (see below)	400,106
10% Secured Convertible Notes Payable, dated October 30, 2007, net of unamortized debt discount of \$212,952 (see below)	387,048
10% Secured Convertible Notes Payable, dated November 29, 2007, net of unamortized debt discount of \$353,956 (see below)	646,044
10% Secured Convertible Notes Payable dated December 20, 2007, net of unamortized debt discount of \$145,165 (see below)	304,835
10% Secured Convertible Notes Payable dated January 17, 2008, net of unamortized debt discount of \$167,692 (see below)	282,308
	96,422

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10% Secured Convertible Notes Payable dated March 4, 2008, net of unamortized debt discount of \$153,578

	3,069,360
Less: current portion	(3,069,360)
	\$ -

9

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Applied DNA Sciences, Inc.  
Notes To Consolidated Financial Statements  
March 31, 2008  
(unaudited)

NOTE D — PRIVATE PLACEMENT OF CONVERTIBLE NOTES (continued)

10% Secured Convertible Promissory Note dated April 23, 2007

On April 23, 2007, the Company issued a \$100,000 related party convertible promissory note due April 23, 2008 with interest at 10% per annum due upon maturity. The note is convertible at any time prior to maturity, at the holder's option, at \$0.50 per share. At maturity, the note, including any accrued and unpaid interest, is convertible at \$0.15 per share. The Company has granted the noteholder a security interest in all the Company's assets.

In conjunction with the issuance of the notes, the Company issued 200,000 warrants to purchase the Company's common stock at \$0.50 per share over a five year term.

In accordance with Emerging Issues Task Force Issue 98-5, Accounting for Convertible Securities with a Beneficial Conversion Features or Contingently Adjustable Conversion Ratios ("EITF 98-5"), the Company recognized an embedded beneficial conversion feature present in the Convertible 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 \$13,333 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 Convertible Note. The debt discount attributed to the beneficial conversion feature is amortized over the Convertible Note's maturity period (one year) as interest expense.

In connection with the placement of the Convertible Notes the Company issued non-detachable warrants granting the holders the right to acquire 200,000 shares of the Company's common stock at \$0.50 per share. The warrants expire five years from the issuance. In accordance with Emerging Issues Task Force Issue 00-27, Application of Issue No. 98-5 to Certain Convertible Instruments ("EITF - 0027"), the Company recognized the value attributable to the warrants in the amount of \$40,840 to additional paid in capital and a discount against the Convertible Note. The Company valued the warrants in accordance with EITF 00-27 using the Black-Scholes pricing model and the following assumptions: contractual terms of 5 years, an average risk free interest rate of 4.55%, a dividend yield of 0%, and volatility of 207.45%. The debt discount attributed to the value of the warrants issued is amortized over the Convertible Note's maturity period (one year) as interest expense.

The Company recorded the intrinsic value of the embedded beneficial conversion feature (\$13,333) and warrants (\$40,840) to debt discount, aggregating \$54,173, which will be amortized to interest expense over the term of the Notes. Amortization of \$13,655 and \$27,309 was recorded for the three and six month period ended March 31, 2008.

10% Secured Convertible Promissory Notes dated June 27, 2007

On June 27, 2007, the Company issued \$150,000 convertible promissory notes due June 27, 2007 with interest at 10% per annum due upon maturity. The note is convertible at any time prior to maturity, at the holder's option, at \$0.50 per share. At maturity, the note, including any accrued and unpaid interest, is convertible at \$0.15 per share. The Company has granted the noteholder a security interest in all the Company's assets.

In conjunction with the issuance of the notes, the Company issued 300,000 warrants to purchase the Company's common stock at \$0.50 per share over a five year term. The Company valued the warrants using the Black-Scholes

pricing model and the following assumptions: contractual terms of 5 years, an average risk free interest rate of 4.55%, a dividend yield of 0%, and volatility of 207.45% as a charge against current operations.

*10% Secured Convertible Promissory Note dated June 30, 2007*

On June 30, 2007, the Company issued a \$250,000 related party convertible promissory note due June 30, 2008 with interest at 10% per annum due upon maturity. The note is convertible at any time prior to maturity, at the holder's option, at \$0.50 per share. At maturity, the note, including any accrued and unpaid interest, is convertible at \$0.0877 per share. The Company has granted the noteholder a security interest in all the Company's assets.

In conjunction with the issuance of the notes, the Company issued 500,000 warrants to purchase the Company's common stock at \$0.50 per share over a five year term.

Applied DNA Sciences, Inc.  
Notes To Consolidated Financial Statements  
March 31, 2008  
(unaudited)

NOTE D — PRIVATE PLACEMENT OF CONVERTIBLE NOTES (continued)

10% Secured Convertible Promissory Note dated June 30, 2007 (continued)

In accordance with Emerging Issues Task Force Issue 98-5, Accounting for Convertible Securities with a Beneficial Conversion Features or Contingently Adjustable Conversion Ratios (“EITF 98-5”), the Company recognized an embedded beneficial conversion feature present in the Convertible 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 \$63,454 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 Convertible Note. The debt discount attributed to the beneficial conversion feature is amortized over the Convertible Note’s maturity period (one year) as interest expense.

In connection with the placement of the Convertible Notes the Company issued non-detachable warrants granting the holders the right to acquire 500,000 shares of the Company’s common stock at \$0.50 per share. The warrants expire five years from the issuance. In accordance with Emerging Issues Task Force Issue 00-27, Application of Issue No. 98-5 to Certain Convertible Instruments (“EITF – 0027”), the Company recognized the value attributable to the warrants in the amount of \$38,900 to additional paid in capital and a discount against the Convertible Note. The Company valued the warrants in accordance with EITF 00-27 using the Black-Scholes pricing model and the following assumptions: contractual terms of 5 years, an average risk free interest rate of 4.92%, a dividend yield of 0%, and volatility of 123.8%. The debt discount attributed to the value of the warrants issued is amortized over the Convertible Note’s maturity period (one year) as interest expense.

The Company recorded the intrinsic value of the embedded beneficial conversion feature (\$63,454) and warrants (\$38,900) to debt discount, aggregating \$102,354, which will be amortized to interest expense over the term of the Notes. Amortization of \$25,799 and \$51,598 was recorded for the three and six month period ended March 31, 2008.

10% Secured Convertible Promissory Note dated July 30, 2007

On July 30, 2007, the Company issued a \$200,000 related party convertible promissory note due July 30, 2008 with interest at 10% per annum due upon maturity. The note is convertible at any time prior to maturity, at the holder’s option, at \$0.50 per share. At maturity, the note, including any accrued and unpaid interest, is convertible at \$0.10257 per share. The Company has granted the noteholder a security interest in all the Company’s assets.

In conjunction with the issuance of the notes, the Company issued 400,000 warrants to purchase the Company’s common stock at \$0.50 per share over a five year term.

In accordance with Emerging Issues Task Force Issue 98-5, Accounting for Convertible Securities with a Beneficial Conversion Features or Contingently Adjustable Conversion Ratios (“EITF 98-5”), the Company recognized an embedded beneficial conversion feature present in the Convertible 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 \$33,991 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 Convertible Note. The debt discount attributed to the beneficial conversion feature is amortized over the Convertible Note’s maturity period (one year) as

interest expense.

In connection with the placement of the Convertible Notes the Company issued non-detachable warrants granting the holders the right to acquire 400,000 shares of the Company's common stock at \$0.50 per share. The warrants expire five years from the issuance. In accordance with Emerging Issues Task Force Issue 00-27, Application of Issue No. 98-5 to Certain Convertible Instruments ("EITF - 0027"), the Company recognized the value attributable to the warrants in the amount of \$15,920 to additional paid in capital and a discount against the Convertible Note. The Company valued the warrants in accordance with EITF 00-27 using the Black-Scholes pricing model and the following assumptions: contractual terms of 5 years, an average risk free interest rate of 4.64%, a dividend yield of 0%, and volatility of 72.84%. The debt discount attributed to the value of the warrants issued is amortized over the Convertible Note's maturity period (one year) as interest expense.

The Company recorded the intrinsic value of the embedded beneficial conversion feature (\$33,991) and warrants (\$15,920) to debt discount, aggregating \$49,911, which will be amortized to interest expense over the term of the Notes. Amortization of \$12,444 and \$25,024 was recorded for the three and six month period ended March 31, 2008.



Applied DNA Sciences, Inc.  
Notes To Consolidated Financial Statements  
March 31, 2008  
(unaudited)

NOTE D — PRIVATE PLACEMENT OF CONVERTIBLE NOTES (continued)

10% Secured Convertible Promissory Note dated August 8, 2007

On August 8, 2007, the Company issued a \$100,000 convertible promissory note due August 8, 2008 with interest at 10% per annum due upon maturity. The note is convertible at any time prior to maturity, at the holder's option, at \$0.50 per share. At maturity, the note, including any accrued and unpaid interest, is convertible at \$0.09627 per share. The Company has granted the noteholder a security interest in all the Company's assets.

In conjunction with the issuance of the notes, the Company issued 200,000 warrants to purchase the Company's common stock at \$0.50 per share over a five year term.

In accordance with Emerging Issues Task Force Issue 98-5, Accounting for Convertible Securities with a Beneficial Conversion Features or Contingently Adjustable Conversion Ratios ("EITF 98-5"), the Company recognized an embedded beneficial conversion feature present in the Convertible Note. The Company allocated a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital. The Company recognized and measured an aggregate of \$24,643 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 Convertible Note. The debt discount attributed to the beneficial conversion feature is amortized over the Convertible Note's maturity period (one year) as interest expense.

In connection with the placement of the Convertible Notes the Company issued non-detachable warrants granting the holders the right to acquire 200,000 shares of the Company's common stock at \$0.50 per share. The warrants expire five years from the issuance. In accordance with Emerging Issues Task Force Issue 00-27, Application of Issue No. 98-5 to Certain Convertible Instruments ("EITF - 0027"), the Company recognized the value attributable to the warrants in the amount of \$7,960 to additional paid in capital and a discount against the Convertible Note. The Company valued the warrants in accordance with EITF 00-27 using the Black-Scholes pricing model and the following assumptions: contractual terms of 5 years, an average risk free interest rate of 4.69%, a dividend yield of 0%, and volatility of 92.71%. The debt discount attributed to the value of the warrants issued is amortized over the Convertible Note's maturity period (one year) as interest expense.

The Company recorded the intrinsic value of the embedded beneficial conversion feature (\$24,643) and warrants (\$7,960) to debt discount, aggregating \$32,603, which will be amortized to interest expense over the term of the Notes. Amortization of \$8,128 and \$16,346 was recorded for the three and six month period ended March 31, 2008.

10% Secured Convertible Promissory Note dated September 28, 2007

On September 8, 2007, the Company issued a \$300,000 related party convertible promissory note due September 8, 2008 with interest at 10% per annum due upon maturity. The note is convertible at any time prior to maturity, at the holder's option, at \$0.50 per share. At maturity, the note, including any accrued and unpaid interest, is convertible at \$0.06643 per share. The Company has granted the noteholder a security interest in all the Company's assets.

In conjunction with the issuance of the notes, the Company issued 600,000 warrants to purchase the Company's common stock at \$0.50 per share over a five year term.

In accordance with Emerging Issues Task Force Issue 98-5, Accounting for Convertible Securities with a Beneficial Conversion Features or Contingently Adjustable Conversion Ratios (“EITF 98-5”), the Company recognized an embedded beneficial conversion feature present in the Convertible 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 \$151,604 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 Convertible Note. The debt discount attributed to the beneficial conversion feature is amortized over the Convertible Note’s maturity period (one year) as interest expense.

In connection with the placement of the Convertible Notes the Company issued non-detachable warrants granting the holders the right to acquire 600,000 shares of the Company’s common stock at \$0.50 per share. The warrants expire five years from the issuance. In accordance with Emerging Issues Task Force Issue 00-27, Application of Issue No. 98-5 to Certain Convertible Instruments (“EITF – 0027”), the Company recognized the value attributable to the warrants in the amount of \$32,580 to additional paid in capital and a discount against the Convertible Note. The Company valued the warrants in accordance with EITF 00-27 using the Black-Scholes pricing model and the following assumptions: contractual terms of 5 years, an average risk free interest rate of 4.23%, a dividend yield of 0%, and volatility of 102.39%. The debt discount attributed to the value of the warrants issued is amortized over the Convertible Note’s maturity period (one year) as interest expense.

Applied DNA Sciences, Inc.  
Notes To Consolidated Financial Statements  
March 31, 2008  
(unaudited)

NOTE D — PRIVATE PLACEMENT OF CONVERTIBLE NOTES (continued)

10% Secured Convertible Promissory Note dated September 28, 2007 (continued)

The Company recorded the intrinsic value of the embedded beneficial conversion feature (\$151,604) and warrants (\$32,580) to debt discount, aggregating \$184,184, which will be amortized to interest expense over the term of the Notes. Amortization of \$45,920 and \$92,344 was recorded for the three and six month period ended March 31, 2008.

10% Secured Convertible Promissory Notes dated October 4, 2007

On October 4, 2007, the Company issued \$550,000 convertible promissory notes due October 4, 2008 with interest at 10% per annum due upon maturity. The note is convertible at any time prior to maturity, at the holder's option, into shares of our common stock at a price equal to the greater of (i) 50% of the average price of our common stock for the ten trading days prior to the date of the notice of conversion or (ii) at a weighted average of \$0.070229 per share. At maturity, the note, including any accrued and unpaid interest, is convertible at a weighted average of \$0.070229 per share. The Company has granted the noteholder a security interest in all the Company's assets.

In conjunction with the issuance of the notes, the Company issued 1,100,000 warrants to purchase the Company's common stock at \$0.50 per share over a five year term.

In accordance with Emerging Issues Task Force Issue 98-5, Accounting for Convertible Securities with a Beneficial Conversion Features or Contingently Adjustable Conversion Ratios ("EITF 98-5"), the Company recognized an embedded beneficial conversion feature present in the Convertible 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 \$234,308 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 Convertible Note. The debt discount attributed to the beneficial conversion feature is amortized over the Convertible Note's maturity period (one year) as interest expense.

In connection with the placement of the Convertible Notes the Company issued non-detachable warrants granting the holders the right to acquire 200,000 shares of the Company's common stock at \$0.50 per share. The warrants expire five years from the issuance. In accordance with Emerging Issues Task Force Issue 00-27, Application of Issue No. 98-5 to Certain Convertible Instruments ("EITF - 0027"), the Company recognized the value attributable to the warrants in the amount of \$59,840 to additional paid in capital and a discount against the Convertible Note. The Company valued the warrants in accordance with EITF 00-27 using the Black-Scholes pricing model and the following assumptions: contractual terms of 5 years, an average risk free interest rate of 4.22%, a dividend yield of 0%, and volatility of 103.81%. The debt discount attributed to the value of the warrants issued is amortized over the Convertible Note's maturity period (one year) as interest expense.

The Company recorded the intrinsic value of the embedded beneficial conversion feature (\$234,308) and warrants (\$59,840) to debt discount, aggregating \$294,148, which will be amortized to interest expense over the term of the Notes. Amortization of \$73,336 and \$144,253 was recorded for the three and six month ended March 31, 2008.

10% Secured Convertible Promissory Notes dated October 30, 2007

On October 30, 2007, the Company issued \$650,000 convertible promissory notes due October 30, 2008 with interest at 10% per annum due upon maturity. The note is convertible at any time prior to maturity, at the holder's option, into shares of our common stock at a price equal to the greater of (i) 50% of the average price of our common stock for the ten trading days prior to the date of the notice of conversion or (ii) at a weighted average of \$0.104750019 per share. At maturity, the note, including any accrued and unpaid interest, is convertible at a weighted average of \$0.10590112 per share. The Company has granted the noteholder a security interest in all the Company's assets.

In conjunction with the issuance of the notes, the Company issued 1,300,000 warrants to purchase the Company's common stock at \$0.50 per share over a five year term.

In accordance with Emerging Issues Task Force Issue 98-5, Accounting for Convertible Securities with a Beneficial Conversion Features or Contingently Adjustable Conversion Ratios ("EITF 98-5"), the Company recognized an embedded beneficial conversion feature present in the Convertible 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 \$271,838 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 Convertible Note. The debt discount attributed to the beneficial conversion feature is amortized over the Convertible Note's maturity period (one year) as interest expense.

Applied DNA Sciences, Inc.  
Notes To Consolidated Financial Statements  
March 31, 2008  
(unaudited)

NOTE D — PRIVATE PLACEMENT OF CONVERTIBLE NOTES (continued)

10% Secured Convertible Promissory Notes dated October 30, 2007 (continued)

In connection with the placement of the Convertible Notes the Company issued non-detachable warrants granting the holders the right to acquire 200,000 shares of the Company's common stock at \$0.50 per share. The warrants expire five years from the issuance. In accordance with Emerging Issues Task Force Issue 00-27, Application of Issue No. 98-5 to Certain Convertible Instruments ("EITF - 0027"), the Company recognized the value attributable to the warrants in the amount of \$126,100 to additional paid in capital and a discount against the Convertible Note. The Company valued the warrants in accordance with EITF 00-27 using the Black-Scholes pricing model and the following assumptions: contractual terms of 5 years, an average risk free interest rate of 3.85%, a dividend yield of 0%, and volatility of 108.66%. The debt discount attributed to the value of the warrants issued is amortized over the Convertible Note's maturity period (one year) as interest expense.

On November 19, 2007, a noteholder elected to convert \$50,000 10% Convertible Promissory Note and accrued interest of \$274 to 479,942 shares of the Company's common stock.

The Company recorded the intrinsic value of the embedded beneficial conversion feature (\$271,838) and warrants (\$126,100) to debt discount, aggregating \$397,938, which will be amortized to interest expense over the term of the Notes. Amortization of \$91,409 and \$184,986 was recorded for the three and six month period ended March 31, 2008 inclusive of the write off of the unamortized debt discount relating to the converted note described above.

10% Secured Convertible Promissory Notes dated November 29, 2007

On November 29, 2007, the Company issued \$1,000,000 convertible promissory notes due November 29, 2008 with interest at 10% per annum due upon maturity. The note is convertible at any time prior to maturity, at the holder's option, into shares of our common stock at a price equal to the greater of (i) 50% of the average price of our common stock for the ten trading days prior to the date of the notice of conversion or (ii) at \$0.094431519 per share. At maturity, the note, including any accrued and unpaid interest, is convertible at a weighted average of \$0.094431519 per share. The Company has granted the noteholder a security interest in all the Company's assets.

In conjunction with the issuance of the notes, the Company issued 1,100,000 warrants to purchase the Company's common stock at \$0.50 per share over a five year term.

In accordance with Emerging Issues Task Force Issue 98-5, Accounting for Convertible Securities with a Beneficial Conversion Features or Contingently Adjustable Conversion Ratios ("EITF 98-5"), the Company recognized an embedded beneficial conversion feature present in the Convertible 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 \$376,659 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 Convertible Note. The debt discount attributed to the beneficial conversion feature is amortized over the Convertible Note's maturity period (one year) as interest expense.

In connection with the placement of the Convertible Notes the Company issued non-detachable warrants granting the holders the right to acquire 200,000 shares of the Company's common stock at \$0.50 per share. The warrants expire

five years from the issuance. In accordance with Emerging Issues Task Force Issue 00-27, Application of Issue No. 98-5 to Certain Convertible Instruments (“EITF – 0027”), the Company recognized the value attributable to the warrants in the amount of \$157,200 to additional paid in capital and a discount against the Convertible Note. The Company valued the warrants in accordance with EITF 00-27 using the Black-Scholes pricing model and the following assumptions: contractual terms of 5 years, an average risk free interest rate of 3.42%, a dividend yield of 0%, and volatility of 106.15%. The debt discount attributed to the value of the warrants issued is amortized over the Convertible Note’s maturity period (one year) as interest expense.

The Company recorded the intrinsic value of the embedded beneficial conversion feature (\$376,659) and warrants (\$157,200) to debt discount, aggregating \$533,859, which will be amortized to interest expense over the term of the Notes. Amortization of \$133,099 and \$179,903 was recorded for the three and six month period ended March 31, 2008.

Applied DNA Sciences, Inc.  
Notes To Consolidated Financial Statements  
March 31, 2008  
(unaudited)

NOTE D — PRIVATE PLACEMENT OF CONVERTIBLE NOTES (continued)

10% Secured Convertible Promissory Notes dated December 20, 2007

On December 20, 2007, the Company issued \$450,000 convertible promissory notes due December 20, 2008 with interest at 10% per annum due upon maturity. The note is convertible at any time prior to maturity, at the holder's option, into shares of our common stock at a price equal to the greater of (i) 50% of the average price of our common stock for the ten trading days prior to the date of the notice of conversion or (ii) at \$0.074766323 per share. At maturity, the note, including any accrued and unpaid interest, is convertible at a weighted average of \$0.074766323 per share. The Company has granted the noteholder a security interest in all the Company's assets.

In conjunction with the issuance of the notes, the Company issued 900,000 warrants to purchase the Company's common stock at \$0.50 per share over a five year term.

In accordance with Emerging Issues Task Force Issue 98-5, Accounting for Convertible Securities with a Beneficial Conversion Features or Contingently Adjustable Conversion Ratios ("EITF 98-5"), the Company recognized an embedded beneficial conversion feature present in the Convertible 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 \$151,875 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 Convertible Note. The debt discount attributed to the beneficial conversion feature is amortized over the Convertible Note's maturity period (one year) as interest expense.

In connection with the placement of the Convertible Notes the Company issued non-detachable warrants granting the holders the right to acquire 200,000 shares of the Company's common stock at \$0.50 per share. The warrants expire five years from the issuance. In accordance with Emerging Issues Task Force Issue 00-27, Application of Issue No. 98-5 to Certain Convertible Instruments ("EITF - 0027"), the Company recognized the value attributable to the warrants in the amount of \$49,590 to additional paid in capital and a discount against the Convertible Note. The Company valued the warrants in accordance with EITF 00-27 using the Black-Scholes pricing model and the following assumptions: contractual terms of 5 years, an average risk free interest rate of 3.45%, a dividend yield of 0%, and volatility of 104.51%. The debt discount attributed to the value of the warrants issued is amortized over the Convertible Note's maturity period (one year) as interest expense.

The Company recorded the intrinsic value of the embedded beneficial conversion feature (\$151,875) and warrants (\$49,590) to debt discount, aggregating \$201,465, which will be amortized to interest expense over the term of the Notes. Amortization of \$50,228 and \$56,300 was recorded for the three and six month period ended March 31, 2008.

10% Secured Convertible Promissory Notes dated January 17, 2008

On January 17, 2008, the Company issued \$450,000 convertible promissory notes due January 17, 2009 with interest at 10% per annum due upon maturity. The note is convertible at any time prior to maturity, at the holder's option, into shares of our common stock at a price equal to the greater of (i) 50% of the average price of our common stock for the ten trading days prior to the date of the notice of conversion or (ii) at \$0.07351803 per share. At maturity, the note, including any accrued and unpaid interest, is convertible at a weighted average of \$0.07351803 per share. The Company has granted the noteholder a security interest in all the Company's assets.

In conjunction with the issuance of the notes, the Company issued 900,000 warrants to purchase the Company's common stock at \$0.50 per share over a five year term.

In accordance with Emerging Issues Task Force Issue 98-5, Accounting for Convertible Securities with a Beneficial Conversion Features or Contingently Adjustable Conversion Ratios ("EITF 98-5"), the Company recognized an embedded beneficial conversion feature present in the Convertible 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 \$162,095 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 Convertible Note. The debt discount attributed to the beneficial conversion feature is amortized over the Convertible Note's maturity period (one year) as interest expense.

In connection with the placement of the Convertible Notes the Company issued non-detachable warrants granting the holders the right to acquire 200,000 shares of the Company's common stock at \$0.50 per share. The warrants expire five years from the issuance. In accordance with Emerging Issues Task Force Issue 00-27, Application of Issue No. 98-5 to Certain Convertible Instruments ("EITF - 0027"), the Company recognized the value attributable to the warrants in the amount of \$48,240 to additional paid in capital and a discount against the Convertible Note. The Company valued the warrants in accordance with EITF 00-27 using the Black-Scholes pricing model and the following assumptions: contractual terms of 5 years, an average risk free interest rate of 2.90%, a dividend yield of 0%, and volatility of 102.72%. The debt discount attributed to the value of the warrants issued is amortized over the Convertible Note's maturity period (one year) as interest expense.



Applied DNA Sciences, Inc.  
Notes To Consolidated Financial Statements  
March 31, 2008  
(unaudited)

NOTE D — PRIVATE PLACEMENT OF CONVERTIBLE NOTES (continued)

10% Secured Convertible Promissory Notes dated January 17, 2008

The Company recorded the intrinsic value of the embedded beneficial conversion feature (\$162,095) and warrants (\$48,240) to debt discount, aggregating \$210,335, which will be amortized to interest expense over the term of the Notes. Amortization of \$42,643 was recorded for the three and six month period ended March 31, 2008.

10% Secured Convertible Promissory Notes dated March 4, 2008

On March 4, 2008, the Company issued \$250,000 convertible promissory notes due March 4, 2009 with interest at 10% per annum due upon maturity. The note is convertible at any time prior to maturity, at the holder's option, into shares of our common stock at a price equal to the greater of (i) 50% of the average price of our common stock for the ten trading days prior to the date of the notice of conversion or (ii) at \$0.125875423 per share. At maturity, the note, including any accrued and unpaid interest, is convertible at a weighted average of \$0.125875423 per share. The Company has granted the noteholder a security interest in all the Company's assets.

In conjunction with the issuance of the notes, the Company issued 500,000 warrants to purchase the Company's common stock at \$0.50 per share over a five year term.

In accordance with Emerging Issues Task Force Issue 98-5, Accounting for Convertible Securities with a Beneficial Conversion Features or Contingently Adjustable Conversion Ratios ("EITF 98-5"), the Company recognized an embedded beneficial conversion feature present in the Convertible 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 \$107,496 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 Convertible Note. The debt discount attributed to the beneficial conversion feature is amortized over the Convertible Note's maturity period (one year) as interest expense.

In connection with the placement of the Convertible Notes the Company issued non-detachable warrants granting the holders the right to acquire 200,000 shares of the Company's common stock at \$0.50 per share. The warrants expire five years from the issuance. In accordance with Emerging Issues Task Force Issue 00-27, Application of Issue No. 98-5 to Certain Convertible Instruments ("EITF - 0027"), the Company recognized the value attributable to the warrants in the amount of \$58,350 to additional paid in capital and a discount against the Convertible Note. The Company valued the warrants in accordance with EITF 00-27 using the Black-Scholes pricing model and the following assumptions: contractual terms of 5 years, an average risk free interest rate of 2.53%, a dividend yield of 0%, and volatility of 106.37%. The debt discount attributed to the value of the warrants issued is amortized over the Convertible Note's maturity period (one year) as interest expense.

The Company recorded the intrinsic value of the embedded beneficial conversion feature (\$107,496) and warrants (\$58,350) to debt discount, aggregating \$165,846, which will be amortized to interest expense over the term of the Notes. Amortization of \$12,268 was recorded for the three and six month period ended March 31, 2008.

NOTE E - RELATED PARTY TRANSACTIONS

The Company's current and former officers and shareholders have advanced funds to the Company for travel related and working capital purposes. No formal repayment terms or arrangements existed. There were no advances due at March 31, 2008.

During the years ended September 30, 2007 and 2006, the Company's Chief Executive Officer, or entities controlled by the Company's Chief Executive Officer, has advanced funds to the Company in the form of convertible promissory notes for working capital purposes (see Note D).

During the three and six month period ended March 31, 2008, the Company had sales of \$50,455 and \$68,518 (or 24.3% and 20.7% of total sales), respectively, to an entity whereby the Company's Chief Executive Officer is the President.

#### NOTE F - CAPITAL STOCK

The Company is authorized to issue 410,000,000 shares of common stock, with a \$0.001 par value per share as the result of a shareholder meeting conducted on May 16, 2007. Prior to the May 16, 2007 share increase, the Company was authorized to issue 250,000,000 shares of common stock with a \$0.001 par value per share. In addition, the Company is authorized to issue 10,000,000 shares of preferred stock with a \$0.0001 par value per share. The preferred stock is convertible at the option of the holder into common stock at the rate of twenty-five (25) shares of common for every one share of preferred at the option of the holder .

Applied DNA Sciences, Inc.  
Notes To Consolidated Financial Statements  
March 31, 2008  
(unaudited)

## NOTE F - CAPITAL STOCK (continued)

## Preferred and Common Stock Transactions During the Three Months Ended March 31, 2008:

During the three months ended March 31, 2008, the Company issued 1,375,000 shares of common stock in conjunction with the exercise of warrants

## NOTE G - STOCK OPTIONS AND WARRANTS

## Warrants

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

Exercise Prices	Number Outstanding	Warrants		Weighted Average Exercise Price	Weighted Average Exercisable	Exercisable	
		Outstanding Remaining Contractual Life (Years)	Price			Weighted Average Exercise Price	Exercise Price
\$0.09	16,400,000	3.42	\$	0.09	16,400,000	\$	0.09
\$0.10	105,464	1.29	\$	0.10	105,464	\$	0.10
\$0.20	5,000	.63	\$	0.20	5,000	\$	0.20
\$0.50	25,350,000	3.48	\$	0.50	25,350,000	\$	0.50
\$0.55	9,000,000	0.42	\$	0.55	9,000,000	\$	0.55
\$0.60	8,226,000	1.27	\$	0.60	8,226,000	\$	0.60
\$0.70	200,000	0.78	\$	0.70	200,000	\$	0.70
\$0.75	14,797,000	1.85	\$	0.75	14,797,000	\$	0.75
	74,083,464				74,083,464		

Transactions involving warrants are summarized as follows:

	Number of Shares	Weighted Average Price Per Share
Balance, September 30, 2006	72,369,464	.48
Granted	11,200,000	0.18
Exercised	-	-
Canceled or expired	(1,135,000)	(0.70)
Outstanding at September 30, 2007	82,434,464	0.43
Granted	6,700,000	0.50
Exercised	(2,500,000)	(0.09)
Canceled or expired	(12,551,000)	(0.26)

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Balance, March 31, 2008	74,083,464	\$	0.46
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Applied DNA Sciences, Inc.  
 Notes To Consolidated Financial Statements  
 March 31, 2008  
 (unaudited)

NOTE G - STOCK OPTIONS AND WARRANTS (continued)

Employee Stock Options

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

Options Outstanding			Options Exercisable		
Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ 0.68	3,660,000	3.50			