METWOOD INC
Form 10KSB
September 29, 2006

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

FORM 10-KSB

[X] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended June 30, 2006

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from________to________

Commission fle number 000-05391

METWOOD, INC.
(Name of small business issuer in its charter)

NEVADA	**83-0210365**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

819 Naff Road, Boones Mill, VA 24065
(Address of principal executive offices)

(540) 334-4294
(Issuer’s telephone number)

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

Securities registered under Section 12(g) of the Exchange Act:
$0.001 Par Value Common Voting Stock
(Title of Class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15 (d) of the Exchange Act during the past 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 X No __

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or an amendment to this Form 10-KSB. [ ]

State issuer's revenues for its most recent fiscal year: $4,242,123

As of September 27, 2006 there were 11,923,999 common shares outstanding, and the aggregate market value of the common shares (based upon the average of the bid price ($.35) reported by brokers) held by non-affiliates was approximately $1,144,256.

Transitional Small Business Disclosure Format (check one): Yes [ ] No [X]

METWOOD, INC. AND SUBSIDIARY
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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-KSB contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to the financial condition, results of operations, business strategies, operating efficiencies or synergies, competitive positions, growth opportunities for existing products, and plans and objectives of management. Statements that are not historical in nature and which include such words as "anticipate," "estimate," "should," "expect," believe," "intend," and similar expressions are intended to identify forward-l statements for the purpose of the safe harbor provided by Section 21E of the Exchange Act and Section 27A of the Securities Act.

PART I

Item 1. Description of Business

Business Development

We were incorporated under the laws of the State of Wyoming on June 19, 1969. Following an involuntary dissolution for failure to file an annual report, we were reinstated as a Wyoming corporation on October 14, 1999. On January 28, 2000, we, through a majority shareholder vote, changed its domicile to Nevada through a merger with EMC Energies, Inc., a Nevada corporation. The Plan of Merger provided for the dissenting shareholders to be paid the amount, if any, to which they would be entitled under the Wyoming Corporation Statutes with respect to the rights of dissenting shareholders. We also changed our par value to $.001 and the amount of authorized common stock to 100,000,000 shares.

Prior to 1990, we were engaged in the business of exploring for and producing oil and gas in the Rocky Mountain and mid-continental areas of the United States. We liquidated substantially all of its assets in 1990 and were dormant until June 30, 2000, when it acquired, in a stock for-stock, tax-free exchange, all of the outstanding common stock of a privately held Virginia corporation, Metwood, Inc. ("Metwood"), which was incorporated in 1993. See Form 8-K and attached exhibits filed August 11, 2000. Metwood has been in the metal and metal/wood construction materials manufacturing business since 1992. Following the acquisition, we approved a name change from EMC Energies, Inc. to Metwood, Inc.

Effective January 1, 2002, Metwood acquired certain assets of Providence Engineering, PC ("Providence"), a professional engineering firm with customers in the same proximity as Metwood, paying $60,000 in cash and issuing 290,000 Metwood common shares to the two Providence shareholders (one of whom was also an officer and existing shareholder of Metwood prior to the acquisition). These shares were valued at the closing quoted stock price of $1.00 per share at the effective date of the purchase. On October 15, 2002, $15,000 additional cash was paid to one shareholder in exchange for the shareholder's surrender of 15,000 shares of Metwood stock, and $50,000 was paid to that shareholder in two installments of $25,000 each (on January 15, 2004 and April 15, 2004) for 275,000 shares. All of the originally issued 290,000 shares of Metwood stock have thus been repurchased as of June 30, 2004. The initial purchase transaction was accounted for under the purchase method of accounting.

The consolidated company ("the Company, We, Us, Our") provides construction-related products and engineering services to residential customers and contractors, commercial contractors, developers and retail enterprises, primarily in southwestern Virginia.

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Principal Products or Services and Markets

Metwood — Residential builders are aware of the superiority of steel framing vs. wood framing, insofar as steel framing is lighter; stronger; termite, pest, rot and fire resistant; and dimensionally more stable in withstanding induced loads. Although use of steel framing in residential construction has generally increased each year since 1980, many residential builders have been hesitant to utilize steel due to the need to retrain framers and subcontractors who are accustomed to a "stick-built" construction method where components are laid out and assembled with nails and screws. Our founders, Robert Callahan and Ronald Shiflett, saw the need to combine the strength and durability of steel with the convenience and familiarity of wood and wood fasteners.

Our primary products and services are:

- Girders and headers
- Floor joists
- Floor joist reinforcers
- Roof and floor trusses and rafters
- Metal framing
- Square structural columns
- Garage, deck and porch concrete pour over systems
- Garage and post-and-beam buildings
- Engineering, design and custom building services

Metwood manufactures light-gage steel construction materials, usually combined with wood or wood fasteners, for use in residential and commercial applications in place of more conventional wood products, which are inferior in terms of strength and durability. The steel and steel/wood products allow structures to be built with increased load strength and structural integrity and fewer support beams or support configurations, thereby allowing for structural designs that are not possible with wood-only products.

Providence — Extensively involved in ongoing product research and development for Metwood, Providence also offers its customers civil engineering capabilities which include rezoning and special use submissions; erosion and sediment control and storm-water management design; residential, commercial, and religious facility site development design; and utility design, including water, sewer and onsite treatment systems. Providence's staff is familiar with construction practices and has been actively involved in construction administration and inspection on multiple projects.

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Providence also performs a variety of structural design and analysis work, successfully providing solutions for many projects, including retaining walls, residential framing, commercial building framing, light-gage steel fabrication drawings, metal building retrofits and additions, mezzanines, and seismic anchors and restraints.

Providence has designed numerous foundations for a variety of structures. Its foundation design expertise includes metal building foundations, traditional building construction foundations, atypical foundations for residential structures, tower foundations, and sign foundations for a variety of uses and applications.

Providence has also designed and drafted full building plans for several applications. When subcontracting with local professional firms, Providence has the ability to provide basic architectural, mechanical, electrical, and detailed civil and structural design services for these facilities.

Providence has reviewed designs by manufacturers for a variety of structures and structural components, including retaining walls, radio towers, tower foundations, sign foundations, timber trusses, light-gage steel trusses, and light-gage steel beams. This service enables clients to take generic designs and have them certified and approved for construction in the desired locality.

Distribution Methods of Products and Services

Our sales are primarily retail, directly to contractors and do-it-yourself homeowners in Virginia and North Carolina. Approximately 30% of our sales are wholesale to lumberyards, home improvement stores, hardware stores, and plumbing and electrical suppliers in Virginia and North Carolina. Metwood relies primarily on its own sales force to generate sales; additionally, however, our distributors in Virginia, New York, Oklahoma, Arizona and Colorado and also utilizes the salespeople of wholesale yards stocking our products as an additional sales force. We are in discussions with national engineered I-joist manufacturers who are interested in marketing our products and expect to announce affiliations with these companies in the near future. Metwood intends to continue expanding the wholesale marketing of its unique products to retailers, to increase dealer sales, and to license our technology and products to increase its distribution outside of Virginia, North Carolina and the South.

Status of Publicly Announced New Products or Services

We have acquired four new patents through assignment from Robert Callahan and Ronald Shiflett, the patent holders. All four patents reflect various modifications to our Joist Reinforcing Bracket which will make it even easier for tradesmen to insert utility conduits through wood joists.

Seasonality of Market

Our sales are subject to seasonal impacts, as its products are used in residential and commercial construction projects which tend to be at peak levels in Virginia and North Carolina between the months of March and October. Accordingly, our sales are greater in its fourth and first fiscal quarters. We build an inventory of its products throughout the winter and spring to support its sales season. Due to the Seasonality of our Local Market, we are continuing our efforts to expand into markets that are not so seasonally impacted. We have shipped projects to Florida, Georgia, South Carolina, Arizona, Washington, and more. These markets have some seasonality, but increased exposure in these markets will help maintain stonger sales year around.

Competition

Nationally, there are over one hundred manufacturers of the types of products produced by us. However, the majority of these manufacturers are using wood-only products or products without metal reinforcement. Metwood has identified only one other manufacturer in the United States that manufactures a wood-metal floor truss similar to that of us. However, Metwood has often found that its products are the only ones that will work within many customers' design specs.

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Sources and Availability of Raw Materials and the Names of Principal Suppliers

All of the raw materials used by us are readily available on the market from numerous suppliers. The light-gage metal used by us is supplied primarily by Dietrich Industries, Marino-Ware, Telling Industries, Wheeling Corrugating, and Consolidated Systems, Inc. Our main sources of lumber are BlueLinx, Lowe's, 84 Lumber Company and Smith Mountain Building Supply. Gerdau Amersteel, Descosteel and Adelphia Metals provide the majority of our rebar. Because of the number of suppliers available to us, its decisions in purchasing materials are dictated primarily by price and secondarily by availability. We do not anticipate a lack of supply to affect its production; however, a shortage might cause us to pass on higher materials prices to its buyers.

Dependence on One or a Few Major Customers

Presently we do not have any one customer whose loss would have a substantial impact on our operations.

Patents

We have eight U.S. Patents:

U.S. Patent No. 5,519,977, "Joist Reinforcing Bracket," a bracket that reinforces wooden joists with a hole for the passage of a utility conduit. We refer to this as its floor joist patch kit.

U.S. Patent No. 5,625,997, "Composite Beam," a composite beam that includes an elongated metal shell and a pierceable insert for receiving nails, screws or other penetrating fasteners.

U.S. Patent No. 5,832,691, a continuation in part of U.S. Patent No. 5,625,997, "Composite Beam," a composite beam that includes an elongated metal shell and a pierceable insert for receiving nails, screws or other penetrating fasteners.

U.S. Patent No. 5,921,053, "Internally Reinforced Girder with Pierceable Nonmetal Components," a girder that includes a pair of "c" -shaped members secured together so as to form a hollow box which permits the girder to be secured within a building structure with conventional fasteners such as nails, screws and staples.

U.S. Patent Nos. D472,791S; D472,792S; D472,793S; and D477,210S, all modifications of Metwood's Joist Reinforcing Bracket, which will be used for repairs of wood I-joists.

Each of these patents was originally issued to the inventors our founders, Robert Callahan and Ronald B. Shiflett, who licensed these patents to us.

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Need for Government Approval of Principal Products

Our products must either be sold with an engineer's seal or applicable building code approval. Our chief engineer has obtained professional licensure in several states, which permits products not building code approved to be sold and used with his seal. We expect his licensure in a growing number of states to greatly assist in the uniform acceptability of its products as it expands to new markets. Currently, we are seeking International Code Council ("ICC") code approval on its joist reinforcers and beams. Once that approval is obtained, the products can be used in all fifty states and will eliminate the need for an engineer's seal on individual products. To date, our 2x10 floor joist reinforcer has received both Bureau Officials Code Association approval (2001) and ICC approval (2004).

Time Spent During the Last Two Fiscal Years on Research and Development Activities

Approximately fifteen percent of our time and resources have been spent during the last two fiscal years researching and developing its metal/wood products, new product lines, and new patents.

Costs and Effects of Compliance with Environmental Laws

We do not incur any costs to comply with environmental laws. It is an environmentally friendly business in that its products are fabricated from recycled steel.

Number of Total Employees and Number of Full-Time Employees

We had thirty-seven employees at June 30, 2006, thirty-five of whom were full time.

Item 2. Description of Property

During the year ended June 30, 2005, we sold our facilities to a related party for $600,000 and subsequently leased the facilities back under a long-term lease agreement. We now lease our facilities in Boones Mill, Virginia, which consist of corporate offices, warehouses, a garage/vehicle maintenance building, and other multi-use buildings. The condition of these buildings is excellent.

We do not invest in real estate or interests in real estate, real estate mortgages or securities of or interests in persons primarily engaged in real estate activities and therefore have no policies related to such investments.

Item 3. Legal Proceedings

We are not a party to any legal proceedings, nor, to the best of its knowledge, is any such proceedings threatened or contemplated.

Item 4. Submission of Matters to a Vote of Security Holders

None.

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PART II

Item 5. Market for Common Equity and Related Stockholder Matters

Because there is no active trading market for Metwood, Inc. common stock, it is difficult to determine the market value of the stock. Based on the average bid price for our common stock at September 27, 2006 of $.35 per share (average asking price of $.70), the market value of shares held by non-affiliates would be $1,144,256. There are no preferred shares authorized.

We are listed on the OTC Bulletin Board of the National Association of Securities Dealers ("NASD") under the symbol "MTWD.OB."

Set forth below are the high and low bid prices for our common stock for the last two years:

Quarter Ended	High Bid	Low Bid
September 2004	$0.51	$0.90
December 2004	$0.51	$1.10
March 2005	$0.60	$1.01
June 2005	$0.60	$1.40
September 2005	$1.48	$1.10
December 2005	$0.81	$1.25
March 2006	$0.91	$1.10
June 2006	$0.90	$1.03

Holders

The number of holders of record of our common stock as of September 27, 2006 was 1,117. This number does not include an indeterminate number of stockholders whose shares are held by brokers in street name. The number of stockholders has been substantially the same during the past ten years.

Dividends

Per the negative covenants in the line-of-credit agreements, we are restricted from paying dividends until the debt is repaid. We have not paid any dividends on its common stock and do not intend to pay dividends in the foreseeable future.

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Item 6. Management's Discussion and Analysis or Plan of Operation

Plan of Operation

We anticipate that the next twelve months will be a period of continued growth as it seeks to further expand its presence in new markets throughout the United States through increased numbers of distributors, licensees and dealers. ICC code approval is being sought for our joist reinforcers and beams and is expected to be obtained within the coming fiscal year. If this approval is obtained, product marketability would be greatly enhanced and would likely lead to higher demand.

Higher product demand would likely increase the need for more capital as inventory requirements grew, which could be met through borrowing or a stock offering. No decision has been made at the present time, however, as to which means might be used to raise capital.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Below are selected financial data for the years ended June 30, 2006 and 2005:

		2006		2005
Revenues	$	4,242,123	$	4,181,280
Net income	$	171,160	$	120,995
Net income per common share	$	0.01	$	0.01
Weighted average common shares outstanding		11,894,593		11,876,204
At June 30, 2006 and 2005:				
Total assets	$	2,375,931	$	2,145,088
Working capital	$	1,342,988	$	1,256,383
Shareholders' equity	$	1,951,213	$	1,765,519
**Less than $.01				

No dividends have been declared or paid during the periods presented.

Results of Operations Fiscal 2006 Compared with Fiscal 2005

Revenues and Cost of Sales — Consolidated gross sales increased $60,843, or 2%, for the year ended June 30, 2006 ("fiscal 2006") compared to the year ended June 30, 2005 ("fiscal 2005"). Construction sales consisted of product sales, engineering, delivery and installation fees. Engineering sales consisted of fees for engineering services. Gross profit decreased $73,869 (4%) from fiscal 2005 to fiscal 2006.

The increase in construction revenues was due to several factors, including adding inside sales support for outside sales reps, thereby freeing up the reps to make more daily contacts; increased marketing efforts, such as regular seminars for building inspectors and architects on our systems and services; and strengthened dealer relationships. Also, product prices were raised in the third quarter to compensate for the increasing cost of steel. In addition, we experienced heightened demand for our pour over systems for fiscal 2006 compared to fiscal 2005 which had the added benefit of increasing related installation fees. Growth in engineering sales resulted from both higher demand and quicker turnaround time on jobs.

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Cost of sales rose $134,712 overall (6%) in fiscal 2006 compared to fiscal 2005. On the construction side, cost of sales increased $201,374 (9%), while cost of engineering sales decreased $66,662 (30%). The rise in construction costs was due primarily to the higher steel prices we faced in fiscal 2006. However, efforts were made to secure as much steel as possible just prior to the new higher prices taking effect, thereby alleviating some of the impact of those increases. We anticipate that steel prices will continue to be high for the foreseeable future.

Administrative expenses — These costs increased $247,605, or 20%, to $1,461,583 in fiscal 2006 from $1,213,978 in fiscal 2005. The increase was due primarily to higher advertising and marketing, insurance and payroll costs. The increase is mainly attributable to an increase in payroll costs from $575,904 in fiscal 2005 to $692,372 in fiscal 2006 or an increase of $116,468 (20%). We hired new personnel to capacitate the increase in sales and new customers in fiscal 2006.

Other Income (Expense) — Due to the sale of our facilities in fiscal 2005 as mentioned above, we recorded a loss on the sale in the amount of $372,011 for fiscal 2005. Interest expense amounted to $-0- in fiscal 2006 compared to $16,296 in fiscal 2005, a decrease of $16,296 and reflective of a complete repayment of our notes payable with the bank in fiscal 2005.

Income Taxes — In fiscal 2006 our income tax expense was $89,145 compared to income tax expense of $63,599 in fiscal 2005. We increased our deferred tax liability by $18,193 in fiscal 2006. The primary components of the deferred tax liability relate to timing differences between book and tax depreciation and the treatment of goodwill amortization.,

Liquidity and Capital Reserves — Cash flows provided by operations in fiscal 2006 were $84,986 versus cash flows provided by operations in fiscal 2005 of $250,415, a change of $165,429. The decrease in cash flows from operations was primarily attributable to higher net income attributable to the loss on the sale of our facilities in fiscal 2005 and an increase in inventory which required cash outlays. We also used $231,115 for capital improvements and purchases of fixed assets, while approximately $600,000 was recouped from asset disposals in fiscal 2005. Financing activities in fiscal 2006 provided $11,402 compared to $540,895 used in fiscal 2005. The main use of funds in 2005 was due to a net decrease in borrowings under our line-of-credit agreement of $422,000 attributable to the repayment of the notes payable in fiscal 2005. We also repaid all notes payables in fiscal 2005.

We have historically funded its cash needs through operating income and credit line draws as needed. It will continue to rely on sales revenue as its main source of liquidity and will incur debt primarily to fund inventory purchases as sales growth produces increased product demand. Liquidity needs that cannot be met by current sales revenue may also arise in certain unusual circumstances such as has previously occurred when rain and snow significantly slowed construction activity and resulted in a corresponding decline in demand for our products. In those circumstances, debt may be added to meet our fixed costs and to maintain inventory in anticipation of a spurt in product demand that generally occurs once a weather-related slowdown has ended.

On a long-term basis, we also anticipate that product demand will increase considerably as it continues to expand its marketing and advertising campaign, which may include the use of television, radio, print and internet advertising. Efforts are well underway to increase the number of out-of-state sales representatives/brokers who will market our products throughout the country. As sales increase, we can add a second shift to meet the additional product demand without having to use funds to expand its production facilities. If additional cash becomes necessary to fund its growth, we may raise this capital through an additional follow-on stock offering rather than taking on more debt. However, there can be no assurance that we will be able to obtain additional equity or debt financing in the future. If we are unable to raise additional capital as needed, our growth potential will be adversely affected, and we would have to significantly modify its plans.

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Item 7. Financial Statements

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REPORT OF INDEPENDENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Metwood, Inc.
819 Naff Road
Boones Mill, Virginia 24065

We have audited the accompanying consolidated balance sheet of Metwood, Inc. (a Nevada corporation) and its wholly-owned subsidiary as of June 30, 2006 and the related consolidated statements of income, stockholders' equity, and cash flows for the two years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Metwood, Inc. and its wholly owned subsidiary as of June 30, 2006, and the consolidated results of its operations and its cash flows for the two years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Bongiovanni & Associates, P.A.
Bongiovanni & Associates, P.A.
Cornelius, North Carolina
September 15, 2006

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METWOOD, INC. AND WHOLLY OWNED SUBSIDIARY
Balance Sheet
At June 30, 2006

ASSETS

CURRENT ASSETS		
Cash and Cash Equivalents	$	99,880
Accounts Receivable, net of Allowance of $8,000		493,640
Inventory		982,971
Prepaid Expenses and Other Current Assets		84,061
TOTAL CURRENT ASSETS		1,660,552
FIXED ASSETS		
Leasehold Improvements		119,233
Furniture, Fixtures and Equipment		75,851
Computer Hardware, Software & Peripherals		152,335
Machinery and Shop Equipment		266,806
Vehicles		312,430
		926,655
Accumulated Depreciation		(464,364)
Net Fixed Assets		462,291
OTHER ASSETS		
Goodwill		253,088
TOTAL ASSETS	$	2,375,931
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts Payable	$	213,162
Accrued Expenses		37,814
Customer Deposits		5,000
Income Taxes Payable		61,588
TOTAL CURRENT LIABILITIES		317,564
LONG-TERM LIABILITIES		
Deferred Income Taxes, Net	$	107,154
COMMITMENT - NOTE D and G		
STOCKHOLDERS' EQUITY		
Common Stock ($.001 par value, 100,000,000 shares authorized:		
11,905,299 shares issued and outstanding at June 30, 2006)		11,905
Common Stock Not Yet Issued ($.001 par value, 18,700 shares)		19
Additional Paid-in-Capital		1,319,317

Retained Earnings		619,972
TOTAL STOCKHOLDERS' EQUITY		1,951,213
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	2,375,931

See notes to consolidated audited financial statements and auditors' report

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METWOOD, INC. AND WHOLLY OWNED SUBSIDIARY
Income Statements
For the Years Ending June 30, 2006 and 2005

		2006		2005
REVENUES AND COST OF SALES:				
Construction Sales	$	4,030,648	$	3,838,966
Engineering Sales		211,475		342,314
Gross Sales		4,242,123		4,181,280
Cost of Construction Sales		2,382,542		2,181,168
Cost of Engineering Sales		156,450		223,112
Gross Cost of Sales		2,538,992		2,404,280
Gross Profit		1,703,131		1,777,000
ADMINISTRATIVE EXPENSES:				
Advertising		218,452		145,296
Construction/Bidding Data		11,419		14,813
Depreciation		52,212		53,817
Insurance		68,074		53,652
Office Expense		51,034		52,563
Payroll Expense		692,372		575,904
Professional Fees		42,390		43,073
Research and Development		8,000		6,920
Telephone		34,924		28,695
Travel		35,270		24,518
Vehicle Expense		34,834		28,477
Other		212,602		186,250
TOTAL EXPENSES		1,461,583		1,213,978
OPERATING INCOME		241,548		563,022
Loss on Sale of Fixed Assets		(866)		(372,011)
Other Income (Expense)		19,623		(6,417)
Income Before Income Taxes		260,305		184,594
Income Taxes		(89,145)		(63,599)
Net Income	$	171,160	$	120,995
Net Income Per Common Share				
Basic & Fully Diluted	$	0.01	$	0.01
Weighted Average Common				
Shares Outstanding		11,894,593		11,876,204

See notes to consolidated audited financial statements and auditors' report

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METWOOD, INC. AND WHOLLY OWNED SUBSIDIARY
Statement of Stockholders' Equity
For the Years Ending June 30, 2006 and 2005

	Common Shares (000's)	Common Stock ($.001 Par)	Common Shares Not Yet Issued (000's)	Common Stock Not Yet Issued ($.001 Par)	Additional Paid-in Capital	Retained Earnings
Balances, July 1, 2004	11,863	$ 11,863	-0-	-0-	$ 1,296,738	$ 327,817
Net income for year	-0-	-0-	-0-	-0-	-0-	120,995
Common stock subscribed but not yet issued	-0-	-0-	8	8	-0-	-0-
Issuance of common stock for services rendered	3	3	-0-	-0-	1,967	-0-
Issuance of common stock subscribed	12	12	-0-	-0-	6,113	-0-
Balances, June 30, 2005	11,878	$ 11,878	8	$ 8	$ 1,304,818	$ 448,812
Net income for year	-0-	-0-	-0-	-0-	-0-	171,160
Common stock subscribed but not yet issued	-0-	-0-	19	19	5,946	-0-
Issuance of common stock for services rendered	9	9	-0-	-0-	3,126	-0-
Issuance of common stock subscribed	18	18	(11)	(11)	5,427	-0-
Balances, June 30, 2006	11,905	$ 11,905	16	$ 16	$ 1,319,317	$ 619,972

See notes to consolidated audited financial statements and auditors' report

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METWOOD, INC. AND WHOLLY OWNED SUBSIDIARY
Statements of Cash Flows
For the Years Ending June 30, 2006 and 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 171,160	$ 120,995
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	112,967	108,536
Bad debt expense	1,220	8,855
Provision for deferred income taxes	18,193	(9,947)
Loss on sale of fixed assets	866	372,011
Common stock issued for services	3,135	1,970
(Increase) decrease in operating assets:		
Accounts receivable	(10,829)	(80,258)
Inventory	(253,510)	(96,236)
Prepaid expenses and other current assets	(15,838)	(40,874)
Recoverable income taxes	30,666	(30,666)
Increase (decrease) in operating liabilities:		
Accounts payable, accrued expenses and customer deposits	(13,314)	(65,462)
Current income taxes payable	40,270	(38,509)
NET CASH PROVIDED BY OPERATING ACTIVITIES	84,986	250,415
CASH FLOWS FROM INVESTING ACTIVITIES:		
Disposals of fixed assets	-	600,000
Expenditures for fixed assets	(231,115)	(112,649)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(231,115)	487,351
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	11,402	6,125
Borrowings from (repayment of) notes payable	-	(125,020)
Net borrowings from (repayment of) line of credit	-	(422,000)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	11,402	(540,895)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(134,727)	196,871
CASH AND CASH EQUIVALENTS:		
Beginning of year	234,607	37,736

End of year	$	99,880	$	234,607

See notes to consolidated audited financial statements and auditors' report

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METWOOD, INC. AND WHOLLY OWNED SUBSIDIARY
Consolidated Notes To Audited Financial Statements
For the Years Ended June 30, 2006 and 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business Activity - Metwood, Inc. (the Company) was organized under the laws of the State of Virginia on April 7, 1993.

Effective June 30, 2000, the Company entered an Agreement and Plan of Reorganization to acquire the majority of the outstanding common stock of a publicly held shell corporation. The acquisition resulted in a tax-free exchange for federal and state income tax purposes. Upon acquisition, the name of the shell corporation was changed to Metwood, Inc. (a Nevada corporation). Metwood, Inc. (a Virginia corporation) became a wholly owned subsidiary of Metwood, Inc. (a Nevada corporation). The transaction was accounted for as a reverse merger in accordance with Accounting Principles Board (“APB”) Opinion No. 16 wherein the stockholders of Metwood, Inc. (a Virginia corporation) retained the majority of the outstanding common stock of the Company after the merger. The publicly traded shell corporation did not have a material operating history for several years prior to the merger.

Effective January 1, 2002, the Company acquired certain assets of Providence Engineering, PC (“Providence”), a professional engineering firm with customers in the same proximity as the Company. The total purchase price of $350,000 was paid with $60,000 in cash and with 290,000 shares of the Company’s common stock to the two Providence shareholders. These shares were valued at the closing active quoted market price of the stock at the effective date of the purchase, which was $1 per share. One of the shareholders of Providence was also an officer and existing shareholder of the Company prior to the acquisition. The transaction was accounted for under the purchase method of accounting, and the purchase price was allocated as follows:

Accounts receivable	$ 75,000
Fixed assets	45,000
Goodwill	230,000
Total	$ 350,000

During the year ended June 30, 2003, liabilities assumed at the date of acquisition were identified and paid. The amount of the liabilities paid was $23,088 and has been added to goodwill.

The consolidated company provides construction-related products and engineering services to residential customers and contractors, commercial contractors, developers and retail enterprises, primarily in southwestern Virginia.

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METWOOD, INC. AND WHOLLY OWNED SUBSIDIARY
Consolidated Notes To Audited Financial Statements
For the Years Ended June 30, 2006 and 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Basis of Presentation — The financial statements include the accounts of Metwood, Inc. (a Nevada corporation) and its wholly owned subsidiary, Metwood Inc. (a Virginia corporation) prepared in accordance with accounting principles generally accepted in the United States of America and pursuant to the rules and regulations of the Securities and Exchange Commission. All significant intercompany balances and transactions have been eliminated.

Fair Value of Financial Instruments - The carrying amounts reported in the consolidated balance sheet for cash, accounts receivable, inventory, prepaid expenses and other current assets, accounts payable, accrued expenses and customer deposits approximate fair values based on the short-term maturity of these instruments.

Accounts Receivable — The Company grants credit in the form of unsecured accounts receivable to its customers based on an evaluation of their financial condition. The Company performs ongoing credit evaluations of its customers. The estimate of the allowance for doubtful accounts, which is charged off to bad debt expense, is based on management's assessment of current economic conditions and historical collection experience with each customer. At June 30, 2006 allowance for doubtful accounts was approximately $8,000. Specific customer receivables are considered past due when they are outstanding beyond their contractual terms and are charged off to the allowance for doubtful accounts when determined uncollectible. For the years ended June 30, 2006 and 2005, the bad debt expense was $1,220 and $8,855, respectively.

Fixed Assets - Fixed assets are recorded at cost and include expenditures that substantially increase the productive lives of the existing assets. Maintenance and repair costs are expensed as incurred. Depreciation is provided using the straight-line method. Depreciation of fixed assets is calculated over management prescribed recovery periods that range from three to thirty years.

When a fixed asset is disposed of, its cost and related accumulated depreciation are removed from the accounts. The difference between undepreciated cost and the proceeds from disposition is recorded as a gain or loss.

Management's Use of Estimates — The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. At June 30, 2006, the significant estimates used by management include the valuation of its goodwill. Actual results could differ from those estimates.

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METWOOD, INC. AND WHOLLY OWNED SUBSIDIARY
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NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Cash and Cash Equivalents — For purposes of the Consolidated Statements of Cash Flows, the Company considers liquid investments with an original maturity of three months or less to be cash equivalents. The Company maintains its cash in bank deposit accounts, which, at times, may exceed the federally insured limit of $100,000. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

Revenue Recognition — Revenue is recognized when goods are shipped and earned or when services are performed, provided collection of the resulting receivable is probable. If any material contingencies are present, revenue recognition is delayed until all material contingencies are eliminated. Further, no revenue is recognized unless collection of the applicable consideration is probable.

Income Taxes — Income taxes are accounted for in accordance with SFAS No. 109, “Accounting for Income Taxes.” A deferred tax asset or liability is recorded for all temporary differences between financial and tax reporting and for net operating loss carry forwards, where applicable. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or the entire deferred tax asset will not be realized. Deferred tax assets and liabilities are adjusted for the effect of changes in tax laws and rates on the date of enactment.

Earnings Per Common Share — Basic earnings per share amounts are based on the weighted average shares of common stock outstanding. If applicable, diluted earnings per share would assume the conversion, exercise or issuance of all potential common stock instruments such as options, warrants and convertible securities, unless the effect is to reduce a loss or increase earnings per share. This presentation has been adopted for the years presented. There were no adjustments required to net income for the years presented in the computation of diluted earnings per share.

Advertising — The Company expenses advertising costs as incurred. However, certain expenditures are treated as prepaid (such as trade show fees) if they are for goods or services which will not be received until after the end of the accounting period, and they are subsequently recognized as expenses in those periods in which the goods or services are received.

Inventory - Inventory, consisting of metal and wood raw materials located in the Company’s leased premises and is stated at the lower of cost or market using the first-in, first-out (FIFO) method.

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NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Patents — The Company has been assigned several key product patents developed by certain Company officers. No value has been recorded in the Company's financial statements because the fair value of the patents was not determinable within reasonable limits at the date of assignment.

Research and Development — The Company performs research and development on its metal/wood products, new product lines, and new patents. Costs, if any, are expensed as they are incurred. For the years ended June 30, 2006 and 2005, the expenses relating to research and development were $8,000 and $6,920, respectively.

Goodwill — In June 2001 the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." This statement requires that goodwill and intangible assets deemed to have an indefinite life not be amortized. Instead, such assets are to be tested for impairment annually or immediately if conditions indicate that such an impairment could exist. Transition to the new rules of SFAS 142 requires the completion of a transitional impairment test of goodwill within the first year of adoption. The Company adopted the provisions of SFAS 142 beginning July 1, 2002 and completed the transitional impairment test of goodwill as of July 1, 2002 and again as of June 30, 2005 and 2006 using discounted cash flow estimates and found no goodwill impairment.

Recent Accounting Pronouncements - In June 2006, the Financial Accounting Standards Board ("FASB") ratified the provisions of Emerging Issues Task Force ("EITF") Issue No. 06-3, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (that is, Gross versus Net Presentation)." EITF Issue No. 06-3 requires that the presentation of taxes within revenue-producing transactions between a seller and a customer, including but not limited to sales, use, value added, and some excise taxes, should be on either a gross (included in revenue and cost) or a net (excluded from revenue) basis.

In addition, for any such taxes that are reported on a gross basis, a company should disclose the amounts of those taxes in interim and annual financial statements for each period for which an income statement is presented if those amounts are significant. The disclosure of those taxes can be done on an aggregate basis. EITF Issue No. 06-3 is effective for fiscal years beginning after December 15, 2006, which will be our third quarter of fiscal 2007. The Company expects that the adoption of EITF Issue No. 06-3 will not have a material impact on its consolidated results of operations or financial position.

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NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Recent Accounting Pronouncements (Cont.) - On July 13, 2006, the FASB released FIN 48, "Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement 109." FIN 48 requires companies to evaluate and disclose material uncertain tax positions it has taken with various taxing jurisdictions. The Company is currently reviewing FIN 48 and is unable to determine the effect, if any, that FIN 48 will have to our consolidated operating results, consolidated financial position, or future consolidated cash flows.

NOTE B - SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental disclosures of cash flow information for the years ended June 30, 2006 and 2005 are summarized as follows:

		2006		2005
Cash paid for :				
Income taxes	$	21,318	$	141,917
Interest	$	—	$	16,296
Supplemental disclosures of non-cash investing and financing activities:				

NOTE C - RELATED PARTY TRANSACTIONS

For the years ended June 30, 2006 and 2005, the Company had sales of $47,831 and $129,234 to its shareholder and CEO, Robert Callahan, respectively. As of June 30, 2006, the related receivable with Mr. Callahan was $-0-.

NOTE D - COMMITMENT

During the year ended June 30, 2003, the Company implemented a stock-based incentive compensation plan for its employees. Participating employees have an after-tax deduction withheld by the Company throughout the calendar year. As of December 31 of each year, the employee is considered vested in the plan, and the Company will match the participating employee's withheld amounts. The Company may also make a discretionary contribution based upon pay incentives or attendance. Periodically, the Company will purchase restricted stock on behalf of the employee in the amount of his withholdings, the Company's match, and any discretionary contributions.

As of June 30, 2006, the Company had ten participating employees who withheld an amount immaterial to the consolidated financial statements. No accrual for the Company's match has been made in the current year.

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NOTE E - SHORT-TERM BORROWINGS AND CREDIT ARRANGEMENTS

The Company has available a $600,000 revolving line of credit with a local bank. Interest is payable monthly on the outstanding balance at the prime lending rate, which was 8.0% as of June 30, 2006. The note is secured by accounts receivable, equipment, general intangibles, inventory, and fixtures and furniture and is personally guaranteed by the Company's CEO. The balance outstanding as of June 30, 2006 was $-0- because the Company fully repaid the line of credit with the proceeds from the sale of its facilities during the year ended June 30, 2005. See footnote G below for discussion of the sale.

In addition, the Company fully repaid its bank notes payable and credit corporation note in full during the year ended June 30, 2005 with the proceeds from the sale of its facilities.

NOTE F - EQUITY

During the years ended June 30, 2006 and 2005, the Company issued 9,500 and 3,300 common shares in payment for services valued at $3,135 and $1,970, respectively. The common shares were valued at the fair market value of the shares at the time of issuance as determined by a third party source.

NOTE G - SALE OF FIXED ASSETS AND RELATED OPERATING LEASE

During the year ended June 30, 2005, the Company entered into a sales and leaseback transaction with a related party. The Company sold its various buildings at its corporate headquarters which house its manufacturing plants, executive offices, and other buildings for $600,000 in cash. The Company simultaneously entered into a commercial lease agreement with this entity whereby the Company is committed to lease back these same properties for $6,200 per month over a ten year term expiring on December 31, 2014. Rent expense charged to operations for the years ended June 30, 2006 and 2005 was $78,000 and $37,300, respectively.

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NOTE G - SALE OF FIXED ASSETS AND RELATED OPERATING LEASE (CONT.)

Future minimum rental payments as of June 30, 2006 in the aggregate and for each of the five succeeding years and thereafter are as follows:

Year	Amount
2007	$ 74,400
2008	74,400
2009	74,400
2010	74,400
2011	74,400
Thereafter	260,400
	$ 634,400

NOTE H - INCOME TAXES

The components of income tax expense for the years ended June 30, 2006 and 2005 consist of:

	2006	2005
Current:		
Federal	$ 58,869	$ 46,785
State	12,067	6,867
	70,936	53,652
Deferred:		
Federal	14,247	5,111
State	3,962	4,836
	18,209	9,947
Total income tax expense	$ 89,145	$ 63,599

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NOTE H - INCOME TAXES (CONT.)

The reconciliation of the provision for income taxes at the U. S. federal statutory income tax rate of 39% to the Company's income taxes for the years ending June 30, 2006 and 2005 is as follows:

Income before income taxes	$	260,305	$	184,594
Income tax expense computed at the statutory rate		101,519		71,992
State income tax, net of federal tax effect		14,637		6,867
Non-deductible expenses		(2,575		(1,693)
Tax-exempt state workforce development funding		—		(4,086)
Effect of graduated income tax rates		24,436		(9,481)
Total income tax expense	$	89,145	$	63,599

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for federal and state income tax purposes. Deferred tax liabilities at June 30, 2006 were $107,154, net of deferred tax assets of $-0-. The components of these amounts are as follows:

Depreciation	$ 82,810
Amortization of goodwill	25,376
Restricted stock compensation	(1,032)
Net deferred tax liabilities	$ We have also identified and are further examining opportunities to collaborate with companies and universities to develop a new line of detection technologies that will provide faster and more convenient ways to authenticate our

SigNature DNA Markers.

Target Potential High-Volume Markets

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

Pursue Strategic Acquisitions and Alliances

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

Target Markets

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

Art & Collectibles

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

Ÿ A signed certificate or statement of authenticity from a respected authority or expert on the artist;
Ÿ An exhibition or gallery sticker attached to the art or collectible;
Ÿ An original sales receipt;
Ÿ A film or recording of the artist talking about the art or collectible;
Ÿ An appraisal from a recognized authority or expert on the art or collectible; and
Ÿ Letters or papers from recognized experts or authorities discussing the art or collectible.

Cash-in-Transit

Cash-in-transit businesses transport and store bank notes and ATM cassettes. In the U.K. alone, there is an estimated £500 billion being transported each year, or £1.4 billion per day. The nature of this business makes cash-in-transit an attractive target for criminals, and as a result the industry invests in excess of £100 million per year in security equipment and devices. Currently, a system of cash degradation, using a smoke or liquid dye to permanently mark and essentially destroy stolen bank notes, is used. The incidence of cash-in-transit based crime has increased over 170% in London since 2006, according to the Metropolitan Police and the UK boasts the highest levels of cash-in-transit crime in Europe.

We are able to incorporate our SigNature DNA Markers in cash degradation ink that is used in the cash-in-transit industry. This solvent-based ink marks bank notes if the cash box is compromised and has the ability to penetrate the bank notes rapidly and permanently. We believe our SigNature DNA Markers are more resilient and detectable than other competing products.

Fine Wine

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

Ÿ Verifed authenticity increases potential customers’ confidence in the product and their purchase decision;
Ÿ For the vintner, the SigNature and BioMaterial Genotyping solutions can strengthen brand support and recognition, and offers the potential for improved marketability and sales; and
Ÿ SigNature DNA Markers can be embedded in bottles, labels, or both at the winery, and easily authenticated at the location of the wine distributor or auctioneer; BioMaterial Genotyping allows the identification of wine based on the varietal of grape and the region where it is grown.

Consumer Products

Counterfeit items are a significant and growing problem with all kinds of consumer packaged goods, especially in the retail and apparel industries. According to the World Customs Organization, up to $12 billion worth of clothing and accessories worldwide are fake, and Interpol reported $3 billion worth of fragrances and cosmetics are counterfeit each year. In the United States, $1.29 billion dollars worth of seizures and losses were incurred resulting from counterfeit of apparel and other consumer products. We have developed and are currently marketing a number of solutions aimed at brand protection and authentication for the retail and apparel industries, including the clothing, accessories, fragrances and cosmetics segments. Our SigNature DNA solution can be used by manufacturers in these industries to combat counterfeiting and piracy of primary, secondary and tertiary packaging, as well as the product itself, and to track products that have been lost in transit, whether misplaced or stolen.

Digital and Recording Media

The digital and recording media industry, including the segment that records computer software on compact discs, faces significant threats from piracy and the counterfeiting and distribution of imitation media or software. In 2008 the Business Software Alliance ("BSA") reported that in 2007, the United States software industry lost $8.9 billion as a result of software piracy, an increase of $1.6 billion over the previous year. An independent study conducted by IDC for the BSA reported that 33 percent of software in the United States is unlicensed. Our SigNature DNA Markers can be embedded onto digital and recording media products, such as CDs, DVDs, videotapes and computer software, as well as the packaging of these products.

Pharmaceuticals

The pharmaceutical industry also faces major problems relative to counterfeit, diluted, or falsely labeled drugs that make their way through healthcare systems worldwide, posing a health threat to patients and a financial threat to drugmakers and distributors. As a result, the pharmaceutical industry and regulators are examining emerging anti-counterfeit technologies, including RFID tags and EPCs to help stem the wave of counterfeit drugs and better track legitimate drugs from manufacturing through the supply chain. Our SigNature DNA Markers can easily be embedded directly into pharmaceutical packaging or into RFID tags or EPCs attached to packaging, and since they are ingestible, may be applied as part of a unit dose. In its 2004 report “Combating Counterfeit Drugs,” the U.S. Food and Drug Administration noted that authentication technologies for pharmaceuticals (such as color-shifting inks, holograms, taggants, or chemical markers embedded in a drug or its label) have been sufficiently perfected that they can now serve as a critical component of a layered approach to control counterfeit drugs. The U.S. Food and Drug Administration’s 2004 Report acknowledged the importance of using one or more authentication technologies for drug products.

Secure Documents/Homeland Security

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

- passports;
- lawful permanent resident, or “green” cards;
- visas;
- drivers’ licenses;
- Social Security cards;
- military identification cards;
- national transportation cards;
- security cards for access to sensitive physical locations; and
- other important identity cards, official documents and security-related cards.

Textile and Apparel Authentication

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

Our Technology

Every living organism has a unique DNA code that determines the character and composition of its cells. The core technologies of our business allow us to use the DNA of everyday plants to mark objects in a unique manner that we believe can only be replicated at great expense, and then identify these objects by detecting the absence or presence of the DNA.

SigNature DNA Encryption

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

SigNature DNA Encapsulation

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

SigNature DNA Embedment

Our patented embedment system allows us to incorporate our SigNature DNA Markers into a broad variety of media, such as petroleum and petroleum derivatives, inks, dyes, laminates, glues, threads, and textiles.

SigNature DNA Authentication

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

Products and Services

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

Creating a Customer or Product-Specific SigNature DNA Marker

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

Embedding the SigNature DNA Marker

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

SigNature DNA Ink: Our SigNature DNA Ink can be applied directly or on a label that is then affixed to the product or item. SigNature DNA Ink is highly durable and degradation resistant. SigNature DNA Ink can be visible (colored) or invisible. This makes it possible to mark products with a visible, or overt, and/or invisible, or covert, SigNature DNA Marker on any tangible surface such as a label. The location of covert Signature DNA Markers on a product are recorded and stored in a secure database. Similar media like varnish and paints can also be used instead of ink. Sporting event tickets have been prototyped using our SigNature DNA Ink. In addition, our SigNature DNA Ink is being tested in government documents, auto parts, luxury goods and consumer products. Other examples of where our SigNature DNA Inks can be used include:

- Ÿ artwork and collectibles (paintings, artifacts, antiques, stamps, coins, documents, collectibles and memorabilia);
- Ÿ corporate documents: (confidential, date and time dependent documents or security clearance documents);

Ÿ financial instruments (currency, stock certificates, checks, bonds and debentures);
Ÿ retail items (event tickets, VIP tickets, clothing labels, luxury products);
Ÿ pharmaceuticals (tablet, capsule and pill surface printing); and
Ÿ other miscellaneous items (lottery tickets, inspection stamps, custom seals, passports and visas, etc.).

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

AzSure™ Security Ink: We have developed AzSure bank note marking ink at the request of our cash-in-transit customer. This security ink is being marketed to governments and industry to protect bank notes and other financial instruments. We believe the unique visible and fluorescent blue signature of our highly substantive dye/DNA system distinguishes AzSure from all other dyes used within the cash-in-transit industry.

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

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

SigNature DNA Detection and Product Authentication

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

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

Level 2 Forensic DNA Authentication: When a forensic level of authentication is necessary, we offer in-field or in-house forensic DNA authentication with a handheld battery powered PCR-based device that will confirm authentication sequences in approximately 10 minutes.

Sales and Marketing

As of February 18 , 2009, we had three employees engaged in sales and marketing. We expect to hire additional sales directors and/or consultants to assist us with sales and marketing efforts with respect to our 6 target vertical markets.

Research and Development

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

Manufacturing

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

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Commercial Agreements and Distribution of our Products

HPT Agreement. On March 19, 2007, we entered into a Technology Reseller Agreement (the “HPT Agreement”) with HPT International, LLC (“HPT”). In the HPT Agreement we agreed to supply our SigNature DNA Markers to HPT to be affixed onto HPT’s holograms, Nylon 6 tags and other plastic or metal food tags. HPT has been granted exclusive rights to affix our SigNature DNA Markers onto its tagging products for distribution to its customers in the United States in the poultry and kosher foods markets, and non-exclusive rights to attach our SigNature DNA Markers onto its tagging products for distribution to its customers worldwide. We will receive a fee for each SigNature DNA Marker that is attached to an HPT product and distributed to a third party, and for each forensic level authentication test that we perform at HPT’s request. HPT has been granted exclusive rights in the U.S. poultry and kosher foods markets with respect to new customers through March 18, 2008. After that date, HPT will lose its exclusive rights if it does not realize certain sales goals or does not agree to certain minimum purchases during the subsequent year of the agreement. Under the HPT Agreement, HPT has the right to permanent exclusivity in the U.S. poultry and kosher foods markets if it realizes its sales goals for the first two years under the HPT Agreement and achieves an additional milestone to be agreed by us and HPT prior to March 18, 2009.

IIMAK Agreement. On April 18, 2007, we entered into a Joint Development and Marketing Agreement with International Imaging Materials, Inc., or IIMAK. In this agreement with IIMAK, the parties agreed to jointly develop thermal transfer ribbons incorporating our SigNature DNA Markers to help prevent counterfeiting and product diversion for an initial six (6) month period. Upon the successful development of commercially feasible ribbons incorporating SigNature DNA Markers, we will be paid royalties based on a calculation of net receipts by IIMAK from sales of such products. We will receive the exclusive right to supply DNA taggants to IIMAK and IIMAK will receive the exclusive right to manufacture and sell such products worldwide. In February 2008, we completed the joint development stage of this agreement and initiated pilot manufacturing of IIMAK thermal transfer ribbons embedded with SigNature DNA.

Champion Thread: On May 8, 2007, we entered into a Product Development, Marketing and Distribution Agreement with Champion Thread Company, or Champion Thread. Under the terms of the Agreement, Champion Thread has been granted exclusive worldwide rights to be the reseller for the thread, yarn, woven labels, and printed labels for textiles markets for an initial period of four years with automatic annual renewals thereafter, subject to either party’s right not to renew. We will be paid certain royalties on all sales made by Champion Thread.

Printcolor Screen Ltd. Agreement. On May 30, 2007, we entered into a Technology Reseller Agreement with Printcolor Screen Ltd., or Printcolor. Under the terms of the agreement, we have been granted the exclusive right to supply our SigNature DNA Markers to Printcolor and Printcolor has been granted rights to affix our SigNature DNA Markers onto Printcolor products for distribution to its customers for an initial period of three years. This initial period will automatically renew for successive one year periods unless terminated earlier. We will be paid certain fees based on purchase orders received from Printcolor.

Supima Cotton Agreement. On June 27, 2007, we entered into a Feasibility Study Agreement with Supima, a non-profit organization for the promotion of U.S. pima cotton growers. In connection with the agreement we undertook a study of the feasibility of establishing a method or methods to authenticate and identify U.S. produced pima cotton fibers. We received payments from Supima upon signing of the agreement and in installments beginning on July 6, 2007 through completion of the feasibility study. The feasibility study was successfully completed in the first quarter of 2008. We plan to begin a preliminary launch of authentication services in 2009 and we may in the future offer authentication services to member companies of Supima (as well as non-member companies) to confirm the Supima cotton content of textile items such as apparel and home fashion products. We are obligated to pay Supima a percentage of any fees that we receive from such companies for authentication services we provide them. We are also obligated to pay Supima fifty percent of the aggregate amount of payments that we received from Supima for the feasibility study out of any fees we receive from providing authentication services. In addition, until the earlier of either (i) five years or (ii) the repayment to Supima of fifty percent of the aggregate amount of payments that we received from Supima for the feasibility study, we are obligated to pay Supima a fee for each authentication service that we provide. The agreement may be terminated by us or Supima after sixty (60) days upon fourteen (14) days prior written notice.

Textile Centre of Excellence. On August 11, 2008, we entered into an Agreement with Huddersfield and District Textile Training Company Limited. We have agreed to undertake a study to demonstrate how our SigNature DNA can be used to authenticate textiles at all points of the supply chain through to the end user. In addition, this study will demonstrate the integration of SigNature DNA with existing manufacturing processes to produce threads, labels and fabrics manufactured by Yorkshire-based companies. The funding for Phase I of the study, which runs through December 2008, totals £50,000. Upon successful completion of Phase I of the study, we anticipate beginning Phase II, which could result in continued funding.

Biowell Agreement. In the first half of 2005, Biowell Technology, Inc. (“Biowell”) transferred substantially all of its intellectual property to Rixflex Holdings Limited, a British Virgin Islands company, and on July 12, 2005, Rixflex Holdings Limited merged with and into our wholly-owned subsidiary APDN (B.V.L.) Inc., a British Virgin Islands company. The shareholders of Rixflex Holdings Limited recieved 36 million shares of our common stock in consideration of this merger. In connection with the acquisition of this Biowell intellectual property, we terminated our existing license agreement and on July 12, 2005, we entered into a license agreement with Biowell, under which we granted Biowell an exclusive license to sell, market, and sub-license certain of our products in Australia, certain countries in Asia and certain Middle Eastern countries. By letter dated November 1, 2007, we terminated Biowell’s rights as license with respect to Australia, China and certain other countries in Asia because of Biowell’s failure to pay us certain fees, payments or consideration in connection with the grant of the license. In addition, we terminated the exclusivity of the license with respect to certain Middle Eastern and other Asian countries because of Biowell’s failure to meet certain minimum annual net sales in each of the various countries coverred by the license.

Competition

The principal markets for our offerings are intensely competitive. We compete with many existing suppliers and new competitors continue to enter the market. Many of our competitors, both in the United States and elsewhere, are major pharmaceutical, chemical and biotechnology companies, or have strategic alliances with such companies, and many of them have substantially greater capital resources, marketing experience, research and development staff, and facilities than we do. Any of these companies could succeed in developing products that are more effective than the products that we have or may develop and may be more successful than us in producing and marketing their existing products. Some of our competitors that operate in the anti-counterfeiting and fraud prevention markets include: Applied Optical Technologies, Authentix, ChemTAG, Collectors Universe Inc., Collotype, Data Dot Technology, Digimarc Corp., DNA Technologies, Inc., ID Global, Informium AG, Inksure Technologies, Kodak, L-1 Identity Solutions, Manakoa, SmartWater Technology, Inc., Sun Chemical Corp, Tracetag and Warnex.

Some examples of competing security products include:

Ÿ fingerprint scanner (a system that scans fingerprints before granting access to secure information or facilities);
Ÿ voice recognition software (software that authenticates users based on individual vocal patterns);
Ÿ cornea scanner (a scanner that scan the iris of a user’s eye to compare with data in a computer database);
Ÿ face scanner (a scanning system that use complex algorithms to distinguish one face from another);
Ÿ integrated circuit chip & magnetic strips (integrated circuit chips that receive and, if authentic, send a correct electric signal back to the reader, and magnetic strips that contain information, both of which are common components of debit and credit cards);
Ÿ optically variable microstructures (these include holograms, which display images in three dimensions and are generally difficult to reproduce using advanced color photocopiers and printing techniques, along with other devices with similar features);
Ÿ elemental taggants and fluorescence (elemental taggants are various unique substances that can be used to mark products and other items, are revealed by techniques such as x-ray fluorescence); and
Ÿ radioactivity & rare molecules (radioactive substances or rare molecules which are uncommon and readily detected).

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

Ÿ product performance, features and liability;
Ÿ price;

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

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

Proprietary Rights

We believe that our 7 patents, 14 patents pending, 2 registered trademarks, and 2 registered trademarks pending, which are described in the table below, and our trademarks, trade secrets, copyrights and other intellectual property rights are important assets for us.

Patents Issued:

Patent Name	Patent No:	Assignee of Record	Dated Issued	Jurisdiction
Nucleic Acid as Marker for Product Anticounterfeiting and Identification	89108443	APDN (B.V.I.) Inc.	March 17, 2000	Taiwan
Method of using ribonucleic acid as product antifake mark and for verification	00107580.2	Rixflex Holdings Limited (2)	February 2, 2005	China
EppenLocker (A Leakage-Prevention Apparatus of Microcentrifuge)	89204158	APDN (B.V.I.) Inc.	March 10, 2000	Taiwan
Multiple Tube Structure for Multiple PCR in a Closed Container	89210575	APDN (B.V.I.) Inc.	June 20, 2000	Taiwan
A Device for Multiple Polymerase Chain Reactions In a Closed Container and a Method of Using Thereof	89111477	APDN (B.V.I.) Inc.	June 12, 2000	Taiwan
Method for Mixing Nucleic Acid in Water Insoluble Media and Application Thereof	921221973	APDN (B.V.I.) Inc.	August 11, 2003	Taiwan
A Method of Utilizing Nucleic Acids as Markers for Product Anti-Counterfeit Labeling and Verification	US 7,115,301 B2	Rixflex Holdings Limited (2)	October 3, 2006	United States

Patents Pending:

Patent Name	Application No.	Filed in the Name of	Dated Filed	Jurisdiction
Method for Mixing Nucleic Acid in Water Insoluble Media and Application Thereof	2002-294229	Biowell (1)	August 31, 2002	Japan
	03007023.9	Rixflex Holdings Limited (2)	March 27, 2003	EU
	10/645,602	Rixflex Holdings Limited (2)	August 22, 2003	United States
Method of dissolving nucleic acid in water insoluble medium and its application	03155949.2	APDN (B.V.I.) Inc.	August 27, 2003	China

Novel nucleic acid based steganography system and application thereof	10/909,431	Rixflex Holdings Limited (2)	August 3, 2004	United States
Cryptic method of secret information carried in DNA molecule and its deencryption method	921221490	APDN (B.V.I.) Inc.	August 6, 2003	Taiwan
A novel nucleic acid based steganography system and application thereof	03127517.6	Biowell (1)	August 6, 2003	China
	61387/2004	Rixflex Holdings Limited (2)	August 4, 2004	Korea

Patent Name	Application No.	Filed in the Name of	Dated Filed	Jurisdiction
A novel method for coding based on nucleic acids and utility thereof	04018374.1	Rixflex Holdings Limited (2)	August 3, 2004	EU
	1-2004-00742	Rixflex Holdings Limited (2)	August 4, 2004	Vietnam
A novel nucleic acid based steganography system and applications thereof	092819	Rixflex Holdings Limited (2)	August 4, 2004	Thailand
	PI20043145	Biowell (1)	August 4, 2004	Malaysia
	2004-225987	Rixflex Holdings Limited (2)	August 2, 2004	Japan
	P-00200400374	Rixflex Holdings Limited (2)	August 4, 2004	Indonesia
	764/CHE/2004	Rixflex Holdings Limited (2)	August 4, 2004	India
Method for classifying group ID of shoppers and transferring the shopping discount to group development funds development	92119302	APDN (B.V.I.) Inc.	July 15, 2003	Taiwan
Method for transferring feedback foundation capable of identifying multiple objects	03150071.4	APDN (B.V.I.) Inc.	July 31, 2003	China
Method of Classifying Group ID of Shoppers and Transferring the Shopping Discount to Group Development Funds	PI20042889	Rixflex Holdings Limited (2)	August 4, 2004	Malaysia
	092217	Rixflex Holdings Limited (2)	July 12, 2004	Thailand
	2004-200730	Biowell (1)	July 7, 2004	Japan

System and Method for authenticating multiple components associated with a particular product.	11/437,265 PCT/US2006/019660	APDN (B.V.I.) Inc. APDN (B.V.I.) Inc.	May 19, 2005 May 19, 2006	US PCT
System and Method for Marking Textiles with Nucleic Acid	10/825,968	APDN (B.V.I.) Inc.	April 15, 2004	United States
System and Method for Marking Textiles with Nucleic Acids	Publication #20050112610	APDN (B.V.I.) Inc	4/16/2003	United States
System and Method for Authenticating Multiple Components Associated with a Particular Good	Publication # 22070048761	APDN (B.V.I.) Inc	5/20/2005	United States
System and Method for Secure Document Printing and Detection	Application # 60/874,425	APDN (B.V.I.) Inc	12/12/2006	United States
System and Method for Authenticating Tablets	Application #60/877,875	APDN (B.V.I.) Inc	12/26/2006	United States
System and Method for Authenticating Sports Identification Goods	Application # 60/877,869	APDN (B.V.I.) Inc.	12/29/2006	United States

Patent Name	Application No.	Filed in the Name of	Dated Filed	Jurisdiction
Optical Reporter Compositions	11/954,030	APDN (B.V.I.) Inc.	12/11/2007	United States
Methods for Covalent Linking of Optical Reporters	11/954,009	APDN (B.V.I.) Inc.	12/11/2007	United States
Method for Authenticating Articles with Optical Reporters	11/954,038	APDN (B.V.I.) Inc.	12/11/2007	United States
Method for Secure Document Printing and Detection	11/954,044	APDN (B.V.I.) Inc.	12/11/2007	United States
Method for Authenticating Sports Identification Goods	11/954,051	APDN (B.V.I.) Inc.	12/11/2007	United States
Method for Authenticating Tablets	11/954,055	APDN (B.V.I.) Inc.	12/11/2007	United States

(1) All patents in the name of and patent applications filed in the name of Biowell have been assigned to our wholly-owned subsidiary APDN (B.V.I.) Inc., and we are making efforts to ensure APDN (B.V.I.) is the assignee or filer of record, as the case may be.

(2) All patents in the name of and patent applications filed in the name of Rixflex Holdings Limited, which merged into APDN (B.V.I.) Inc. on July 12, 2005, have been assigned to APDN (B.V.I.) Inc., and we are making efforts to ensure APDN (B.V.I.) is the assignee or filer of record, as the case may be.

Trademarks Issued:

Trademark	Registration No:	Registered Owner	Registration Date	Jurisdiction
APPLIED DNA and model molecule design	846354	Applied DNA Sciences Inc.	August 13, 2004	Mexico
APPLIED DNA and model molecule design	846711	Applied DNA Sciences Inc.	August 16, 2004	Mexico
APPLIED DNA and model molecule design	3392818	Applied DNA Sciences Inc.	March 21, 2005	European Community
BIOWELL and Design	3,155,578	Rixflex Holdings Limited (1)	October 17, 2006	United States
BIOWELL and Design	2,675,941	Rixflex Holdings Limited (1)	January 21, 2003	United States

BIOWELL and Design	2,611,291	Rixflex Holdings Limited (1)	August 27, 2002	United States
BIOWELL and Design	4101159010000	Biowell (2)	May 4, 2005	South Korea
BIOWELL and Design	4,819,252	Rixflex Holdings Limited (1)	November 19, 2004	Japan

(1) All registered trademarks in the name of Rixflex Holdings Limited have been assigned to APDN (B.V.I.) Inc., and we are making efforts to ensure APDN (B.V.I.) Inc. is the registered owner.

(2) All registered trademarks in the name of Biowell have been assigned to APDN (B.V.I.) Inc., and we are making efforts to ensure APDN (B.V.I.) Inc. is the registered owner.

Trademarks Pending:

Trademark	Application No:	Owner	Filing Date	Jurisdiction
APPLIED DNA	76/549,861	APDN (B.V.I.) Inc.	September 22, 2003	United States
SIGNATURE	78/871,967	APDN (B.V.I.) Inc.	April 28, 2006	United States
FIBERTYPING	77/488,647	APDN (B.V.I.) Inc.	June 2, 2008	United States
PIMATYPING	77/488,531	APDN (B.V.I.) Inc.	June 2, 2008	United States

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

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

Purchase of Intellectual Property and License Agreement with Biowell

In the first half of 2005, Biowell Technology, Inc. (“Biowell”) transferred substantially all of its intellectual property to Rixflex Holdings Limited, a British Virgin Islands company, and on July 12, 2005, Rixflex Holdings Limited merged with and into our wholly-owned subsidiary APDN (B.V.I.) Inc., a British Virgin Islands company. The shareholders of Rixflex Holdings Limited received 36 million shares of our common stock in consideration of this merger. In connection with the acquisition of this Biowell intellectual property, we terminated our existing license agreement and, on July 12, 2005, we entered into a license agreement with Biowell, under which we granted Biowell an exclusive license to sell, market, and sub-license certain of our products in Australia, certain countries in Asia and certain Middle Eastern countries. By letter dated November 1, 2007, we terminated Biowell's rights as licensee with respect to Australia, China and certain other countries in Asia because of Biowell's failure to pay us certain fees, payments or consideration in connection with the grant of the license. In addition, we terminated the exclusivity of the license with respect to certain Middle Eastern and other Asian countries because of Biowell's failure to meet certain minimum annual net sales in each of the various countries covered by the license.

Employees

We currently have 13 full-time employees and two part-time employees, including two in management, nine in operations, three in sales and marketing and one in investor relations. None of our employees are covered by collective bargaining agreements, and we believe our relations with our employees are favorable.

Description of Properties

We maintain our principal office at 25 Health Sciences Drive, Suite 113, Stony Brook, New York 11790. We moved our principal office to the Long Island High Technology Incubator, which is located on the campus of Stony Brook University, in December 2005. We believe that our current office space and facilities are sufficient to meet our present needs and do not anticipate any difficulty securing alternative or additional space, as needed, on terms acceptable to us.

Legal Proceedings

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

Douglas A. Falkner v. Applied DNA Sciences, Inc./N.C. Industrial Commission File No. 585698

Plaintiff Douglas Falkner ("Falkner") filed a worker's compensation claim in North Carolina for an alleged work-related neck injury that he alleges occurred on January 14, 2004. Falkner worked as Business Development and Operations Manager at our sole East Coast office at the time of the alleged injury. Plaintiff Falkner was the only employee employed by us in North Carolina at the time of the alleged injury and we have employed no other employees in North Carolina at any other time. The claim has been denied and is being defended on several grounds, including the lack of both personal and subject matter jurisdiction. Specifically, we contend that we did not employ the requisite minimum number of employees in North Carolina at the time of the alleged injury and that the company is therefore not subject to the North Carolina Workers' Compensation Act. The claim was originally set for hearing in January 2007, but was continued to allow the parties to engage in further discovery.

Douglas A. Falkner v. Applied DNA Sciences, Inc. (Los Angeles County Superior Court Case No. BC 386557):

Falkner filed a claim on March 3, 2008 asserting counts for breach of contract under his employment agreements dated March 10, 2003 and June 16, 2003 and wrongful discharge in violation of public policy. The relief sought includes compensatory damages in an aggregate amount of approximately $1.7 million, unspecified exemplary and punitive damages, and attorneys' fees. We have filed a motion for summary judgment that will be heard on February 19, 2009. The trial is currently set for March 24, 2009. We intend to vigorously defend against the claims asserted against us.

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

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

Available Information

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

MANAGEMENT

DIRECTORS AND EXECUTIVE OFFICERS

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

Name	Age	Title	Board of Directors
James A. Hayward	55	Chief Executive Officer, President, and Chairman of the Board	Director
Kurt Jensen	51	Chief Financial Officer	
Ming-Hwa Benjamin Liang	45	Secretary and Strategic Technology Development Officer	
Sanford R. Simon	65		Director
Yacov Shamash	58		Director

Directors are elected to serve until the next annual meeting of stockholders and until their successors are elected and qualified. Currently there are three seats on our board of directors.

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

James A. Hayward - Chief Executive Officer

Dr. James A. Hayward has been our Chief Executive Officer since March 17, 2006 and our President and the Chairman of the Board of Directors since June 12, 2007. He was previously our acting Chief Executive Officer since October 5, 2005. From January 2006 until August 2008, Dr. Hayward served as the part-time President of Dr. Suwelack Skin and Healthcare, a private company that manufactures biological matrices for wound care and skin care in Billerbeck, Germany. Since June 2004, Dr. Hayward has been the Chairman of Evotope Biosciences, Inc., a drug development company based in Stony Brook, New York. Since 2001, Dr. Hayward has been a director of Q-RNA, Inc., a biotech company based in New York, New York. Since 2000, Dr. Hayward has been a General Partner of Double D Venture Fund, a venture capital firm based in New York, New York. Between 1990 and July 2004, Dr. Hayward was the Chairman, President and CEO of The Collaborative Group, Ltd., a provider of products and services to the biotechnology, pharmaceutical and consumer-product industries based in Stony Brook, New York. Dr. Hayward received his bachelor’s degree in Biology and Chemistry from the State University of New York at Oneonta in 1976, his Ph.D. in Molecular Biology from the State University of New York at Stony Brook in 1983, and an honorary Doctor of Science from Stony Brook in 2000. Dr. Hayward has served on the boards of the Council on Biotechnology, the Long Island Association, the Stony Brook Foundation, The Research Foundation of State University of New York Board of Directors, the New York Biotechnology Association, the Long Island Life Sciences Initiative and the Ward Melville Heritage Organization.

Kurt Jensen - Chief Financial Officer

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

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

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

Yacov Shamash - Director

Dr. Yacov Shamash has been a member of the board of directors since March 17, 2006. Dr. Shamash is Vice President of Economic Development at the State University of New York at Stony Brook. Since 1992, he has been the Dean of Engineering and Applied Sciences and the Harriman School for Management and Policy at the University, and Founder of the New York State Center for Excellence in Wireless Technologies at the University. Dr. Shamash developed and directed the NSF Industry/University Cooperative Research Center for the Design of Analog/Digital Integrated Circuits from 1989 to 1992 and also served as Chairman of the Electrical and Computer Engineering Department at Washington State University from 1985 until 1992. Dr. Shamash also serves on the Board of Directors of Keytronic Corp., Netsmart Technologies, Inc., American Medical Alert Corp., and Softheon Corp.

Sanford R. Simon - Director

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

EXECUTIVE COMPENSATION

Overview

We currently have three named executive officers, Dr. James A. Hayward, our Chief Executive Officer, President and Chairman of the Board of Directors, Mr. Kurt H. Jensen, who was appointed our Chief Financial Officer on December 21, 2007, and Dr. Ming-Hwa Ben Liang, our Chief Technology Officer and Secretary.

Our Board of Directors has not adopted or established a formal policy or procedure for determining the amount of compensation paid to our executive officers. No pre-established, objective performance goals or metrics have been used by the Board of Directors in determining the compensation of our executive officers. Dr. Hayward is involved in the Board's deliberations regarding executive compensation and provides recommendations with respect to his and the compensation of Mr. Jensen and Dr. Liang based on, among other things, our financial and operating performance and prospects and the contributions made by Mr. Jensen and Dr. Liang to the success of the Company.

Summary Compensation Table

The following table sets forth the compensation of our principal executive officer and our two other executive officers for the two fiscal years ended September 30, 2008. We refer to these executive officers as our "named executive officers."

Name and Principal Position (a)(1)	Year (b)	Salary ($)(2) (c)	Bonus ($) (d)	Stock Awards ($) (e)	Option Awards ($)(3) (f)	Non-Equity Incentive Plan Compensation ($) (g)	Non-qualified Deferred Compensation Earnings ($) (h)	All Other Compensation ($) (i)	Total ($) (j)
James A. Hayward Chairman, President and	2008	—	—	—	1,666,000	—	—	—	1,666,000
Chief Executive Officer	2007	—	—	—	—	—	—	—	—
Kurt H. Jensen	2008	135,871	—	—	490,000	—	—	—	625,871
Chief Financial Officer	2007	108,077	—	—	—	—	—	—	108,077
Ming-Hwa Liang Chief Technology Officer	2008	123,382	—	—	686,000	—	—	—	806,382
and Secretary	2007	103,027	—	—	—	—	—	—	103,027

(1) We have no employment agreements with our named executive officers.

(2) Dr. Hayward has elected not to receive cash compensation until there is an improvement in the Company's financial and operating performance and prospects.

(3) The amounts in column (f) represent the grant date fair value under SFAS 123R based on the average of the bid and asked prices of our common stock on the grant date. The grant date for the stock options was June 17, 2008, and the average of the bid and asked prices of our common stock was $0.11. The grant date fair value for the stock options was $0.098. The options granted to the named executive officers vested with respect to 25% of the underlying shares

on the date of grant, and the remaining will vest ratably each anniversary thereafter until fully vested on the third anniversary of the date of grant. The exercise of the stock options by the named executive officers was subject to stockholder approval, which was obtained at the 2008 annual meeting of stockholders held on December 16, 2008.

Outstanding Equity Awards at Fiscal Year-End

The following table shows information concerning outstanding equity awards as of September 30, 2008 held by the Named Executive Officers.

			Option Awards		
Name (a)	Number of Securities Underlying Unexercised Options (#) Exercisable (1)	Number of Securities Underlying Unexercised Options (#) Unexercisable (1)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($) (1)	Option Expiration Date (1)
James A. Hayward	0	17,000,000		$0.11	6/17/2013
Kurt H. Jensen		500,000		$0.09	9/01/2011
	0	5,000,000		$0.11	6/17/2013
Ming-Hwa Liang	0	7,000,000		$0.11	6/17/2013

(1) On June 17, 2008, the Board of Directors of the Company granted nonstatutory stock options under the 2005 Incentive Stock Plan to certain key employees, including our named executive officers. The options granted to the named executive officers vested with respect to 25% of the underlying shares on the date of grant, and the remaining will vest ratably each anniversary thereafter until fully vested on the third anniversary of the date of grant. The exercise of the stock options by the named executive officers was subject to stockholder approval, which was obtained at the 2008 annual meeting of stockholders held on December 16, 2008.

Pension Benefits

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

Nonqualified Contribution Plans

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

Deferred Compensation

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

Employment Agreements

We have no employment agreements with our named executive officers.

Payment of Post-Termination Compensation

We do not have change-in-control agreements with any of our executive officers, and we are not obligated to pay severance or other enhanced benefits to executive officers upon termination of their employment.

Director Compensation Table for Fiscal 2008

We currently have no policy in effect for providing compensation to our directors for their services on our Board of Directors. During the year ended September 30, 2008, we did not provide any cash compensation to our directors for their service on our Board of Directors.

The following table sets forth summary information concerning compensation paid or accrued to the members of our Board of Directors (other than Dr. Hayward, our Chief Executive Officer, who is a named executive officer) for services rendered to us in all capacities for the fiscal year ended September 30, 2008.

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards ($)(1)	All Other Compensation ($)	Total ($)
Yacov Shamash	$ —	$ —	$ 49,000	$ —	$ 49,000
Sanford R. Simon	$ —	$ —	$ 49,000	$ —	$ 49,000

(1) The amount reported in column (l) represents the grant date fair value under SFAS 123R based on the average of the bid and asked prices of our common stock on the grant date. The grant date for the stock options was June 17, 2008, and the average of the bid and asked prices of our common stock was $0.11. The grant date fair value for the stock options was $0.098.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Since September 30, 2007, we issued and sold an aggregate principal amount of $650,000 in secured convertible promissory notes bearing interest at 10% per annum and warrants to purchase an aggregate of 1,300,000 shares of our common stock to James A. Hayward, our President, Chairman and Chief Executive Officer.

On October 21, 2008, we issued and sold to James A. Hayward a $500,000 principal amount secured promissory note ("October Note") bearing interest at a rate of 10% per annum and a warrant ("October Warrant") to purchase 1,000,000 shares of our common stock. The October Note and accrued but unpaid interest thereon is convertible into shares of our common stock at a price of $0.50 per share by the holder at any time from October 21, 2008, through October 20, 2009, and shall automatically convert on October 21, 2009 at a conversion price of $0.026171520 per share, which is equal to a 30% discount to the average volume, weighted average price of our common stock for the ten trading days prior to issuance. At any time prior to conversion, we have the right to prepay the October Note and accrued but unpaid interest thereon upon 3 days prior written notice (during which period the holder can elect to convert the note). The October Warrant is exercisable for a four-year period commencing on October 21, 2009, and expiring on October 20, 2013, at a price of $0.50 per share. The October Warrant may be redeemed at our option at a redemption price of $0.01 upon the earlier of (i) October 20, 2011, and(ii) the date our common stock has traded on The Over the Counter Bulletin Board at or above $1.00 per share for 20 consecutive trading days.

Until the principal and interest under the October Note is paid in full, or converted into our common stock, the October Note will be secured by a security interest in all of our assets.

On January 29, 2009, we issued and sold to James A. Hayward a $150,000 principal amount secured promissory note (“January Note”) bearing interest at a rate of 10% per annum and a warrant (“January Warrant”) to purchase 300,000 shares of our common stock. The January Note and accrued but unpaid interest thereon shall automatically convert on January 29, 2010 at a conversion price of $0.033337264 per share, which is equal to a 20% discount to the average volume, weighted average price of our common stock for the ten trading days prior to issuance, and are convertible into shares of our common stock at the option of the noteholder at any time prior to such automatic conversion at a price equal to the greater of (i) 50% of the average price of our common stock for the ten trading days prior to the date of the notice of conversion and (ii) the automatic conversion price. In addition, any time prior to conversion, we have the irrevocable right to repay the unpaid principal and accrued but unpaid interest under the January Note on three days written notice (during which period the holder can elect to convert the note). The January Note bears interest at the rate of 10% per annum and is due and payable in full on January 29, 2010. Until the principal and accrued but unpaid interest under the January Note are paid in full, or converted into our common stock, the January Note will be secured by a security interest in all of our assets. The January Warrant is exercisable for a four-year period commencing on January 29, 2010, and expiring on January 28, 2014, at a price of $0.50 per share. The January Warrant may be redeemed at our option at a redemption price of $0.01 upon the earlier of (i) January 29, 2012, and (ii) the date our common stock has been quoted on The Over the Counter Bulletin Board at or above $1.00 per share for 20 consecutive trading days.

Director Independence

Although our securities are not currently listed on a national securities exchange or in an inter-dealer quotation system, which would subject us to the listing standards pertaining to director independence, the Board of Directors has determined that Drs. Shamash and Simon, representing two of our three directors, are “independent” as defined by the listing standards of the Nasdaq Stock Market, constituting a majority of independent directors of our Board of Directors as required by the rules of the Nasdaq Stock Market. The Board of Directors considers in its evaluation of independence whether any director has a relationship with us that could interfere with the exercise of independent judgment in carrying out his responsibilities of a director.

We currently have no policy regarding entering into transactions with affiliated parties.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding the shares of our common stock beneficially owned as of February 18 , 2009, (i) by each person who is known to us to beneficially own more than 5% of the outstanding common stock, (ii) by each of the executive officers named in the table under “Executive Compensation” and by each of our directors, and (iii) by all officers and directors as a group.

NAME AND ADDRESS OF BENEFICIAL OWNER	TITLE OF CLASS	NUMBER OF SHARES OWNED (1)(2)	PERCENTAGE OF CLASS (3)
James A. Hayward 25 Health Sciences Drive, Suite 113 Stony Brook, New York 11790	Common Stock	25,989,840 (4)	9.63%
Yacov Shamash 25 Health Sciences Drive, Suite 113 Stony Brook, New York 11790	Common Stock	375,000 (5)	*
Kurt Jensen 25 Health Sciences Drive, Suite 113 Stony Brook, New York 11790	Common Stock	1,830,000 (6)	*
Ben Liang 25 Health Sciences Drive, Suite 113 Stony Brook, New York 11790	Common Stock	373,650 (7)	*
Sanford R. Simon 25 Health Sciences Drive, Suite 113 Stony Brook, New York 11790	Common Stock	375,000 (5)	*
All directors and officers as a group (5 persons)	Common Stock	30,693,490 (8)	10.73%

* indicates less than one percent

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

(2) Does not include unvested shares subject to options granted on June 17, 2008 pursuant to the 2005 Incentive Stock Plan, which vested with respect to 25% of the underlying shares on the date of grant and will vest with respect to the remaining shares ratably on each anniversary thereafter until fully

vested on the third anniversary of the date of grant, including 12,750,000 to James A. Hayward, 375,000 to Yacov Shamash, 3,750,000 to Kurt H. Jensen, 5,250,000 to Ben Liang and 375,000 to Sanford R. Simon.

(3) Based upon 255,224,880 shares of common stock outstanding as of February 18 , 2009.

(4) Includes 14,750,000 shares underlying currently exercisable warrants.

(5) Includes 375,000 shares underlying a currently exercisable warrant.

(6) Includes 40,000 shares held by a spouse and 1,750,000 immediately exercisable options.

(7) Includes 275,392 shares held by spouse and 1,750,000 immediately exercisable options.

(8) Includes 19,000,000 shares underlying currently exercisable options and warrants.

DESCRIPTION OF SECURITIES

Our current authorized capital stock consists of 410,000,000 shares of common stock, par value $0.001 per share, of which 255,224,880 shares were issued and outstanding as of February 18 , 2009, and 10,000,000 shares of preferred stock, par value $0.001 per share, none of which were issued and outstanding as of the same date.

COMMON STOCK

The holders of common stock are entitled to one vote for each share held of record on all matters to be voted on by the stockholders. The holders of common stock are entitled to receive dividends ratably when, as and if declared by the board of directors out of funds legally available therefore. In the event of our liquidation, dissolution or winding up, the holders of common stock are entitled to share equally and ratably in all assets remaining available for distribution after payment of liabilities and after provision is made for each class of stock, if any, having preference over the common stock. Holders of common stock have no preemptive, subscription, redemption or conversion rights. The outstanding shares of common stock are validly issued, fully paid and non-assessable.

We have engaged American Stock Transfer & Trust Company, located in Brooklyn, New York, as independent transfer agent or registrar.

PREFERRED STOCK

Under our Certificate of Incorporation, the Board of Directors is authorized, subject to any limitations prescribed by the laws of the State of Delaware, but without any further action by our stockholders, to provide for the issuance of up to 10,000,000 shares of preferred stock in one or more series, to establish from time to time the number of shares to be included in such series, to fix the designations, powers, preferences and rights of the shares of each such series and any qualifications, limitations or restrictions thereof, and to increase or decrease the number of shares of any such series (but not below the number of shares of such series then outstanding) without any further vote or action by the stockholders. The board of directors may authorize and issue preferred stock with voting or conversion rights that could adversely affect the voting power or other rights of the holders of common stock.

OPTIONS

There are currently options outstanding that have been issued to our officers, directors and employees to purchase 5,660,000 shares of our common stock pursuant to our 2005 Incentive Stock Plan. In addition, in connection with an amendment to the 2005 Incentive Stock Plan adopted by the Board of Directors on June 17, 2008, which will increase 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, options to purchase a total of 37,750,000 shares were granted under the 2005 Incentive Stock Plan to certain key employees and non-employee directors. The effectiveness of the share increase amendment and the exercise of these stock options by the key employees was subject to stockholder approval, which was obtained at the 2008 annual meeting of stockholders held on December 16, 2008.

WARRANTS

In connection with a private placement of convertible promissory notes in January and February of 2005, we issued warrants to purchase a total up to 14,742,000 shares of our common stock. The warrants are exercisable until five years from the date of issuance at a purchase price of $0.75 per share. The registration statement of which this prospectus forms a part registers the resale of the common stock issuable upon exercise of these warrants.

In connection with a private placement of a promissory note in November, 2005, we have issued warrants to purchase a total of up to 5,500,000 shares of our common stock exercisable at an exercise price of $0.50 per share at any time until five years from their date of issuance to certain persons designated by the noteholder. Each of these warrants provide for customary adjustments to the exercise price of and shares subject to the warrant, including upon a subdivision or combination of our common stock, but no such adjustment will be made to either the exercise price or the number of shares subject to these warrants in the event that we effect a reverse-split, or combination, of our common stock within three years from their date of issuance. The registration statement of which this prospectus forms a part registers the resale of the common stock issuable upon exercise of these warrants.

In connection with a private placement of secured convertible notes that was completed on March 8, 2006, we have issued warrants to purchase a total of up to 3,000,000 shares of our common stock. The warrants are exercisable until five years from the date of issuance at a purchase price of $0.50 per share. The registration statement of which this prospectus forms a part registers the resale of the common stock issuable upon exercise of these warrants.

In connection with the closing of first and second tranches of the Offshore Offering described under "Convertible Securities" below, on May 2, 2006, and June 15, 2006, respectively, we issued warrants to purchase a total of 7,900,000 shares of our common stock, exercisable five years from the date of issuance at a purchase price of $0.50 per share. The registration statement of which this prospectus forms a part registers the resale of the common stock issuable upon exercise of these warrants.

On September 1, 2006, we issued warrants to purchase an aggregate of 18,900,000 shares of our common stock exercisable for a period of five years commencing on September 1, 2006, at a price of $0.09 per share, the closing price of our common stock on the date of issuance. Each such warrant provides its holder unlimited piggyback registration rights with respect to any registration statement we file. These warrants include a warrant to purchase an aggregate of 6,400,000 shares of our common stock that was issued to James A. Hayward, our President, Chairman and Chief Executive Officer, and a warrant to purchase 6,000,000 shares of our common stock that was issued to Timpix International Limited, a British Virgin Islands corporation, and warrants to purchase an aggregate of 6,000,000 shares of our common stock that were issued to entities affiliated with Arjent, our placement agent. The Company also issued a warrant to purchase 250,000 shares of our common stock to each of Sanford R. Simon and Yacov Shamash, each of whom is one of our directors. Each of these warrants is exercisable for a period commencing on March 17, 2007, and expiring on August 31, 2011, at a price of $0.09 per share, the closing price of our common stock on the date of issuance of the warrants, and provide its holder unlimited piggyback registration rights with respect to any registration statement filed by the Company. On February 10, 2008 one of the warrants to purchase an aggregate of 2,500,000 shares of our common stock was exercised using the cashless provision to purchase 1,375,000 shares. The registration statement of which this prospectus forms a part registers the resale of the common stock issuable upon exercise of certain of these warrants.

In addition, we also have outstanding (i) warrants to purchase 105,464 shares of common stock at $0.10 per share, (ii) warrants to purchase 5,000 shares of common stock at $0.20 per share, (iii) warrants to purchase 7,550,000 shares of common stock at $0.50 per share, (iv) warrants to purchase 8,226,000 shares of common stock at $0.60 per share, (v) warrants to purchase 200,000 shares of common stock at $0.70 per share, and (vi) warrants to purchase 55,000 shares of common stock at $0.75 per share.

CONVERTIBLE SECURITIES

We sold $1.465 million in convertible promissory notes to 13 investors in December 2004. Each promissory note was automatically convertible into shares of our common stock, at a price of $0.50 per share, upon the closing of a private placement for $1 million or more. On January 28, 2005, we closed upon a private placement transaction in excess of $1 million and the promissory notes converted into an aggregate of 2,930,000 shares of common stock. The registration statement of which this prospectus forms a part registers the resale of the common stock issued upon conversion of these promissory notes.

We conducted a private placement in January and February 2005 in which we sold $7.371 million of secured convertible promissory notes bearing interest at 10% per annum to 61 investors. These promissory notes automatically converted into shares of our common stock, at a price of $0.50 per share, upon the filing of this registration statement. The registration statement of which this prospectus forms a part registers the resale of the common stock issued upon conversion of these promissory notes.

We completed a private placement on March 8, 2006, in which we sold an aggregate of 30 units of our securities, (i) a $50,000 principal amount secured convertible promissory note bearing interest at 10% per annum, and (ii) a warrant to purchase 100,000 shares of our common stock, for aggregate gross proceeds of $1.5 million. The notes and interest accrued thereon are convertible into shares of our common stock at a price of $0.50 per share by the holder anytime from issuance through the first anniversary of issuance of the notes and automatically convert on the maturity date at a

20% discount to the average bid price for our common stock for the ten trading days prior to conversion. The registration statement of which this prospectus forms a part registers the resale of the common stock issued upon conversion of these promissory notes.

In March, 2006 we commenced the Offshore Offering of up to 140 units, at a price of $50,000 per unit, for a maximum offering of $7 million for sale to “accredited investors” who are not “U.S. persons.” These units consist of (i) a $50,000 principal amount secured convertible promissory note, and (ii) a warrant to purchase 100,000 shares of our common stock at a price of $0.50 per share. The notes and accrued but unpaid interest thereon are convertible into shares of our common stock at a price of $0.50 per share by the holder of the notes at any time from their date of issuance through the first anniversary of such date and shall automatically convert on such anniversary at a 20% discount to the average of the closing bid prices of our common stock on trading days during the 12 months prior to such conversion. On May 2, 2006, we closed on the first tranche of the Offshore Offering in which we sold 20 units for aggregate gross proceeds of $1,000,000. We paid Arjent Limited $375,000 in commissions, fees and expenses from these gross proceeds. On June 15, 2006, we completed the second tranche of the Offshore Offering in which we sold 59 units for aggregate gross proceeds of $2,950,000. We paid Arjent Limited $442,500 in commissions, fees and expenses from these gross proceeds. The registration statement of which this prospectus forms a part registers the resale of the common stock issued upon conversion of these promissory notes.

REGISTRATION RIGHTS

Pursuant to the terms of a registration rights agreement with respect to common stock underlying convertible notes and warrants we issued in private placements in November and December, 2003, December, 2004, and January and February, 2005, if we did not have a registration statement registering the shares underlying these convertible notes and warrants declared effective on or before June 15, 2005, we are obligated to pay liquidated damages in the amount of 3.5% per month of the face amount of the notes, which equals $367,885, until the registration statement is declared effective. At our option, these liquidated damages can be paid in cash or unregistered shares of our common stock. To date we have decided to pay certain of these liquidated damages in common stock, although any future payments of liquidated damages may, at our option, be made in cash. If we decide to pay such liquidated damages in cash, we would be required to use our limited working capital and potentially raise additional funds. If we decide to pay the liquidated damages in shares of common stock, the number of shares issued would depend on our stock price at the time that payment is due. Based on the closing market prices of $0.66, $0.58, $0.70, $0.49, $0.32 and $0.20 for our common stock on July 15, 2005, August 15, 2005, September 15, 2005, October 17, 2005, November 15, 2005 and December 15, 2005, respectively, we issued a total of 3,807,375 shares of common stock in liquidated damages from August, 2005 to January, 2006 to persons who invested in the January and February, 2005 private placements. The issuance of shares upon any payment by us of further liquidated damages will have the effect of further diluting the proportionate equity interest and voting power of holders of our common stock, including investors in this offering.

We paid liquidated damages in the form of common stock only for the period from June 15, 2005 to December 15, 2005, and only to persons who invested in the January and February, 2005 private placements. We believe that we have no enforceable obligation to pay liquidated damages to holders of any shares we agreed to register under the registration rights agreement for periods after the first anniversary of the date of issuance of such shares, since they were eligible for resale under Rule 144 of the Securities Act during such periods, and such liquidated damages are grossly inconsistent with actual damages to such persons. Nonetheless, as of February 18 , 2008 we have accrued approximately $12.0 million in penalties representing further liquidated damages associated with our failure to have the registration statement declared effective by the deadline, and have included this amount in accounts payable and accrued expenses. On July 24, 2008, the SEC declared effective our registration statement with respect to common stock underlying convertible notes and warrants we issued in private placements in November and December, 2003, December, 2004, and January and February, 2005. On July 24, 2008, the SEC declared effective our registration statement with respect to common stock underlying convertible notes and warrants we issued in private placements in November and December, 2003, December, 2004, and January and February, 2005.

In June 2005, we issued to Trilogy Capital Partners, Inc. a warrant to purchase 7,500,000 shares of our common stock at a price of $0.55 per share and Joff Pollon (“Pollon”) a warrant to purchase 1,500,000 shares of our common stock at a price of $0.55 per share. In connection with the issuance of those warrants we also agreed to file a registration statement with the SEC with respect to the shares underlying such warrants no later than the earlier to occur of: (i) 15 days following the effectiveness of this Registration Statement, or (ii) September 15, 2005. As of the date hereof we have not filed a registration statement with respect to the shares of our common stock underlying the warrants we issued to Trilogy and Pollon.

On November 3, 2005, we issued and sold a promissory note in the principal amount of $550,000 to Allied International Fund, Inc. ("Allied"). Allied in turn financed a portion of its making of this loan by borrowing $450,000 from certain persons, including $100,000 from James A. Hayward, our President, Chairman and Chief Executive Officer. The terms of the promissory note provided that we issue upon the funding of the note warrants to purchase 5,000,000 shares of our common stock at an exercise price of $0.50 per share to certain persons designated by Allied. On November 9, 2005, we issued nine warrants to Allied and eight other persons to purchase an aggregate of 5,500,000 shares of our common stock at an exercise price of $0.50 per share. These warrants included a warrant to purchase 1,100,000 shares that was issued to James A. Hayward, our President and Chairman, Chief Executive Officer. Each such warrant provides its holder the broadest possible unlimited piggyback registration rights with respect to any registration statement filed by the Company.

In connection with the private placement that we completed on March 8, 2006, we have agreed to file a registration statement to effect the registration of 100% of our shares of common stock issuable upon conversion of the notes and exercise of the warrants within 30 days of the registration statement , which was declared effective by the SEC on July 24, 2008. We have agreed to use our reasonable best efforts to cause the registration statement of which this prospectus is a part being to be declared effective no later than 180 days after the date of the initial filing. If we fail to file a registration statement with the SEC on or before July 22, 2008, the holders will be entitled to liquidated damages from Applied DNA Operations Management, Inc. in an amount equal to 2% per month for each month that we are delinquent in filing the registration statement.

As part of the Offshore Offering we have offered to enter into, and with respect to the closing of the first and second tranches of the Offshore Offering on May 2, 2006 and June 15, 2006 have entered into, a registration rights agreement with purchasers of notes and warrants in that offering that provides that we will prepare and file a registration statement with the SEC covering the common stock underlying the notes and the warrants sold in the Offshore Offering within 30 days of the registration statement of which this prospectus is a part being declared effective by the SEC, and use our reasonable best efforts to have the registration statement declared effective by the SEC by no later than 180 days after filing. These obligations to file and have the registration statement declared effective would terminate as to any holder of the units upon the earlier of the date: (a) when all of such holder’s common stock underlying the notes and the warrants may be sold during a single three month period under Rule 144 of the Securities Act; and (b) when all of such holder’s common stock underlying the notes and the warrants may be transferred under Rule 144(k) of the Securities Act, unless such holder later becomes our affiliate (as defined in Rule 144 of the Securities Act) in which case our obligation shall be revived until such holder’s rights otherwise terminate under clause (a) above.

On September 1, 2006, we issued warrants to purchase an aggregate of 18,900,000 shares of the our common stock, including to James A. Hayward, our President, Chairman and Chief Executive Officer, Timpix International Limited, a British Virgin Islands corporation, entities affiliated with Arjent, our placement agent, and Sanford R. Simon and Yacov Shamash, each of whom is one of our directors. Each of these warrants provides its holders unlimited piggyback registration rights with respect to any registration statement filed by the Company in the future.

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INDEMNIFICATION FOR SECURITIES ACT LIABILITIES

Our Certificate of Incorporation provides to the fullest extent permitted by Delaware law that our directors or officers shall not be personally liable to us or our stockholders for damages for breach of such director's or officer's fiduciary duty. The effect of this provision of our Certificate of Incorporation is to eliminate our rights and our stockholders (through stockholders' derivative suits on behalf of our company) to recover damages against a director or officer for breach of the fiduciary duty of care as a director or officer (including breaches resulting from negligent or grossly negligent behavior), except under certain situations defined by statute. We believe that the indemnification provisions in our Certificate of Incorporation are necessary to attract and retain qualified persons as directors and officers.

Insofar as indemnification for liabilities arising under the Securities Act, may be permitted to directors, officers or persons controlling us pursuant to the foregoing provisions, or otherwise, we have been advised that in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

PLAN OF DISTRIBUTION

The selling stockholders and any of their respective pledgees, donees, assignees and other successors-in-interest may, from time to time, sell any or all of their shares of common stock on any stock exchange, market or trading facility on which the shares are traded or in private transactions. These sales may be at fixed or negotiated prices. The selling stockholders may use any one or more of the following methods when selling shares:

- ordinary brokerage transactions and transactions in which the broker-dealer solicits the purchaser;
- block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- privately-negotiated transactions;
- short sales that are not violations of the laws and regulations of any state or the United States;
- broker-dealers may agree with the selling stockholders to sell a specified number of such shares at a stipulated price per share;
- through the writing of options on the shares;
- a combination of any such methods of sale; and
- any other method permitted pursuant to applicable law.

The selling stockholders may also sell shares under Rule 144 under the Securities Act, if available, rather than under this prospectus. The selling stockholders shall have the sole and absolute discretion not to accept any purchase offer or make any sale of shares if they deem the purchase price to be unsatisfactory at any particular time.

The selling stockholders may also engage in short sales against the box, puts and calls and other transactions in our securities or derivatives of our securities and may sell or deliver shares in connection with these trades.

The selling stockholders or their respective pledgees, donees, transferees or other successors in interest, may also sell the shares directly to market makers acting as principals and/or broker-dealers acting as agents for themselves or their customers. Such broker-dealers may receive compensation in the form of discounts, concessions or commissions from the selling stockholders and/or the purchasers of shares for whom such broker-dealers may act as agents or to whom they sell as principal or both, which compensation as to a particular broker-dealer might be in excess of customary commissions. Market makers and block purchasers purchasing the shares will do so for their own account and at their own risk. It is possible that a selling stockholder will attempt to sell shares of common stock in block transactions to market makers or other purchasers at a price per share which may be below the then market price. The selling stockholders cannot assure that all or any of the shares offered in this prospectus will be issued to, or sold by, the selling stockholders. VC Arjent, a registered broker-dealer; Michael Morris, Susan Diamond and Ronald Heineman, all of whom are employees of VC Arjent, are an “underwriter” as that term is defined under the Securities Act, the Securities Exchange Act of 1934, as amended, and the rules and regulations of such acts. Further, the other selling stockholders and any brokers, dealers or agents, upon effecting the sale of any of the shares offered in this prospectus, may be deemed to be “underwriters.” In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the shares purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act.

We are required to pay all fees and expenses incident to the registration of the shares, including fees and disbursements of counsel to the selling stockholders, but excluding brokerage commissions or underwriter discounts.

The selling stockholders, alternatively, may sell all or any part of the shares offered in this prospectus through an underwriter. No selling stockholder has entered into any agreement with a prospective underwriter and there is no assurance that any such agreement will be entered into.

The selling stockholders may pledge their shares to their brokers under the margin provisions of customer agreements. If a selling stockholder defaults on a margin loan, the broker may, from time to time, offer and sell the pledged shares. The selling stockholders and any other persons participating in the sale or distribution of the shares will be subject to applicable provisions of the Securities Exchange Act of 1934, as amended, and the rules and regulations under such act, including, without limitation, Regulation M. These provisions may restrict certain activities of, and limit the timing of purchases and sales of any of the shares by, the selling stockholders or any other such person. In the event that the selling stockholders are deemed affiliated purchasers or distribution participants within the meaning of Regulation M, then the selling stockholders will not be permitted to engage in short sales of common stock. Furthermore, under Regulation M, persons engaged in a distribution of securities are prohibited from simultaneously engaging in market making and certain other activities with respect to such securities for a specified period of time prior to the commencement of such distributions, subject to specified exceptions or exemptions. In regards to short sells, the selling stockholder can only cover its short position with the securities they receive from us upon conversion. In addition, if such short sale is deemed to be a stabilizing activity, then the selling stockholder will not be permitted to engage in a short sale of our common stock. All of these limitations may affect the marketability of the shares.

We have agreed to indemnify the selling stockholders, or their transferees or assignees, against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the selling stockholders or their respective pledgees, donees, transferees or other successors in interest, may be required to make in respect of such liabilities.

If the selling stockholders notify us that they have a material arrangement with a broker-dealer for the resale of the common stock, then we would be required to amend the registration statement of which this prospectus is a part, and file a prospectus supplement to describe the agreements between the selling stockholders and the broker-dealer.

PENNY STOCK

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

- that a broker or dealer approve a person’s account for transactions in penny stocks; and
- the broker or dealer receive from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased.

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

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

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

- sets forth the basis on which the broker or dealer made the suitability determination; and
- that the broker or dealer received a signed, written agreement from the investor prior to the transaction.

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

SELLING STOCKHOLDERS

The table below sets forth information concerning the resale of the shares of common stock by the selling stockholders. We will not receive any proceeds from the resale of the common stock by the selling stockholders. We will receive proceeds from the exercise of warrants held by certain of the selling stockholders, if and when exercised. Assuming all the shares registered below are sold by the selling stockholders, none of the selling stockholders will continue to own any shares of our common stock.

The following table also sets forth the name of each person who is offering the resale of shares of common stock by this prospectus, the number of shares of common stock beneficially owned by each person, the number of shares of common stock that may be sold in this offering and the number of shares of common stock each person will own after the offering, assuming they sell all of the shares offered.

For the table set forth below, the following persons have investment and voting control over the shares owned by the respective entities:

Entity	Control Person
AS Capital Partners	Michael Coughlan
Avonwoods Ltd.	C. Rand
Basso Private Opportunity Holding Fund Ltd.	Howard I. Fischer
Basso Multi-Strategy Holding Fund Ltd.	Howard I. Fischer
F Berdon Comp.	Frederick Berdon
Beston Worldwide Ltd	Michael Ben-Jacob
Blumfield Investments	M. Kraus
Clear Mountain Holdings	Raul Garrido Garibaldo
Cordilliera Funds	Stephen J. Carter
Double U Master Fund	David Sims
Equilibrium Solutions	Johnny Vage
Gemini Master Funds	Steve Winters
GSSF Master Fund	E.B. Lyon IV
Guerilla IRA L.P.	Leigh Curry
ID Federman Holdings LTD	Iris Federman
KA Steel Chemical	Kenneth Steel Jr.
Lone Star Equity	Mark A. Bogina
Melton Management	Yehuda Breitkops
Odin Partners LP	John A. Gibbons
Omega Capital Small Cap	Abraham Sylverin
P.R. Diamonds	Pinkus Reisz
Provident Master Fund	Steven Winters
Rock Capital Partners, LLC	Howard Chalfin
Rabbi Scheinerman KBY LLC	Rabbi Scheinerman
Vestal Venture Capital	Allan Lyons
Whalehaven	Evan Schemenauer
Wolfson Trust	Franchesca Wolfson
Allied International Fund	Rosemary DePalo
Alzeon Ventures	George Davenzo
Boyce Equities Ltd.	AR Boyce
BWSIPP A.D. Smith Trust	Andrew Smith
Fidecs Trust Company Limited	Sebastian Moerman

Global Asset Management	Robert Fallah
Gold Group International Limited	PG Unadkat
Saudry LLC	Gary Schonwald
Scotford Trust	Brian Smith
W.T. Johnson & Sons (Huddersfield) Limited	PTA Johnson

Name of Selling Security Holder	Beneficial Ownership Prior to Offering (1) Shares	Percentage (2)	Shares Offered		Beneficial Ownership After Offering (1)	Percentage (2)
Adrian Davidescu	451,639	*	400,000	(4)	51,639	*
Alex Verjovski	100,000	*	100,000	(3)	—	*
Alexander J. Lapatka	57,500	*	50,000	(16)	7,500	*
Alexander Stolin	270,984	*	240,000	(17)	30,984	*
Angela Chen Sabella	230,000	*	120,000	(17)	110,000	*
Arthur Priver	289,948	*	250,379	(18)	39,569	*
AS Capital Partners	51,250	*	50,000	(16)	1,250	*
Avindam Rapaport	112,909	*	100,000	(16)	12,909	*
Avonswood Ltd.	1,303,275	*	800,000	(9)	503,275	*
Basso Multi-Strategy Holding Fund Ltd.	1,769,305	*	1,463,350	(19)	305,955	*
Basso Private Opportunity Holding Fund Ltd.	442,768	*	361,437	(20)	81,331	*
Bestin Worldwide Ltd	57,500	*	50,000	(16)	7,500	*
Blumfield Investments	200,000	*	200,000	(4)	—	*
Chaim Stern	1,954,400	*	1,500,000	(21)	454,400	*
Clear Mountain Holdings	338,728	*	300,000	(22)	38,728	*
Cordilliera Funds	500,000	*	500,000	(11)	—	*
David and Jeanette Defoto	225,819	*	200,000	(3)	25,819	*
David Cohen	225,819	*	200,000	(3)	25,819	*
Double U Master Fund	400,000	*	400,000	(9)	—	*
Doug Bowen	155,417	*	138,758	(23)	16,659	*
Edward M Rotter	2,113,102	*	1,700,000	(24)	413,102	*
Eileen Patterson	28,750	*	25,000	(25)	3,750	*
Equilibrium Solutions	112,909	*	100,000	(16)	12,909	*
Eric Okamoto	523,901	*	464,000	(26)	59,901	*
Eric Yaoz	120,000	*	120,000	(17)	—	*
Eser Tuman	201,515	*	201,515	(16)	—	*
Eugene Gross	200,000	*	200,000	(4)	—	*
Evan B. Azriliant	62,909	*	50,000	(16)	12,909	*
F Berdon Comp.	216,719	*	200,000	(3)	16,719	*
Franchesca Wolfson	14,375	*	12,500	(27)	1,875	*
Frederick Frank	256,515	*	201,515	(16)	55,000	*
Frederick Sandvick	125,819	*	100,000	(3)	25,819	*
Gemini Master Funds	325,819	*	200,000	(3)	125,819	*
GSSF Master Fund	500,000	*	500,000	(11)	—	*
Guerilla IRA L.P.	383,551	*	206,515	(28)	177,036	*
Harry/Temy/Ark Zelcer	100,000	*	100,000		—	*
Houston Muthart	387,834	*	362,015	(22)	25,819	*
JD Federman Holdings LTD	624,506	*	600,000	(8)	24,506	*
Jack Basch	300,000	*	300,000		—	*
Jacob and Linda Davidowitz JTWROS	400,000	*	400,000		—	*
Jeanine Fehn	270,984	*	240,000	(17)	30,984	*
Jeffery Kessler	104,508	*	25,000	(25)	79,508	*
Jerry Silva	500,000	*	500,000		—	*

Joel Schindler	50,000	*	50,000	(16)	—	*
Joseph Digiacamo	25,000	*	25,000	(25)	—	*
Joseph Henn	14,375	*	12,500	(27)	1,875	*
Joseph Iorio	50,000	*	50,000	(24)	—	*
Joseph Prezioso	251,638	*	200,000	(4)	51,638	*

Name of Selling Security Holder	Beneficial Ownership Prior to Offering (1) Shares	Percentage (2)	Shares Offered		Beneficial Ownership After Offering (1)	Percentage (2)
Joseph Rozehzadeh	251,639	*	200,000	(4)	51,639	*
Judith Barclay	200,000	*	200,000	(4)	—	*
KA Steel Chemical	25,000	*	25,000	(25)	—	*
Kenneth Reichelle	165,163	*	150,379	(29)	14,784	*
Kenneth Steel Jr.	25,000	*	25,000	(25)	—	*
Kyle Morgan	225,819	*	200,000	(3)	25,819	*
Lon E Bell	15,000	*	7,500	(30)	7,500	*
Lone Star Equity	200,000	*	200,000	(4)	—	*
Marcovich Tibo	112,909	*	100,000	(16)	12,909	*
Marvin Numeroff	434,834	*	401,515	(22)	33,319	*
Mary Anne Gray	50,000	*	50,000	(16)	—	*
Melton Management	200,000	*	200,000	(4)	—	*
Michael Glazer	16,875	*	12,500	(27)	4,375	*
Michael Mangan	50,000	*	50,000	(16)	—	*
Michael Nizza	28,555	*	25,000	(25)	3,555	*
Mordechai Bank	225,819	*	200,000	(3)	25,819	*
Nicholas Giustino	151,659	*	125,000	(31)	26,659	*
Notzer Chesed	201,138	*	200,000	(4)	1,138	*
Odin Partners LP	57,500	*	50,000	(16)	7,500	*
Omega Capital Small Cap	705,901	*	600,000	(14)	105,901	*
P.R. Diamonds	120,000	*	120,000		—	*
Paul Masters IRA	108,750	*	100,000	(3)	8,750	*
Paul Reyes-Guerra	33,750	*	25,000	(25)	8,750	*
Peter Wiesel	225,819	*	200,000	(3)	25,819	*
Phil Westridge	25,000	*	25,000	(25)	—	*
Platinum Partners	200,000	*	200,000	(4)	—	*
Provident Master Fund	845,814	*	690,900	(14)	154,914	*
Rabbi Scheinerman KBY LLC	62,909	*	50,000	(16)	12,909	*
Raymond Mikulich	643,849	*	603,030	(4)	40,819	*
Richard Neslund	1,129,095	*	1,000,000	(11)	129,095	*
Richard Swier Jr.	67,746	*	60,000	(32)	7,746	*
Robert & Claudia Quinn	101,629	*	50,379	(27)	51,250	*
Rochelle Gold	377,456	*	300,000	(8)	77,456	*
Rock Capital Partners, LLC	377,456	*	300,000	(8)	77,456	*
Sem Viktori	270,984	*	240,000	(17)	30,984	*
Shatashvili Sharona	117,650	*	100,000	(3)	17,650	*
Stewart Taylor	55,008	*	51,258	(25)	3,750	*
Thomas Iovino	100,000	*	100,000	(3)	—	*
Tony Manual	225,819	*	200,000	(3)	25,819	*
Vestal Venture Capital	50,000	*	50,000	(16)	—	*
Wayne Grubb	50,000	*	50,000	(16)	—	*
Whalehaven	1,129,095	*	1,000,000	(11)	129,095	*
William L. Jiler	52,254	*	50,379	(9)	1,875	*
Wolfson Trust	14,375	*	12,500	(9)	1,875	*

Alan Crawford Muir	200,000	*	200,000	(4)	—	*
Alan M Brookes	759,404	*	759,404	(3)	—	*
Alan Marcus Brookes	300,000	*	300,000	(8)	—	*
Allied International Fund	1,100,000	*	1,100,000	(12)	—	*

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Name of Selling Security Holder	Beneficial Ownership Prior to Offering (1) Shares	Percentage (2)	Shares Offered		Beneficial Ownership After Offering (1)	Percentage (2)
Alzeon Ventures	400,000	*	400,000	(9)	—	*
Andrew John Allan Dewar	100,000	*	100,000	(3)	—	*
Anthony Woodward	162,500	*	162,500		—	*
Bashir Jafferali Dhalla	100,000	*	100,000	(3)	—	*
Boyce Equities Ltd.	812,978	*	812,978	(9)	—	*
Brian Cognet	300,000	*	300,000	(8)	—	*
BWSIPP A.D. Smith Trust	603,244	*	603,244	(3)	—	*
Chaim Stern	454,400	*	454,400	(10)	—	*
Charles & Linda Moss	100,000	*	100,000	(3)	—	*
Chris Mercer	1,518,807	*	1,518,807	(4)	—	*
Christopher P. Mercer	729,150	*	729,150	(9)	—	*
Clive D. Reader	100,000	*	100,000	(3)	—	*
Darren M. Avey	200,000	*	200,000	(4)	—	*
David A Donner	227,200	*	227,200	(5)	—	*
David Ledsom	2,175,626	*	2,175,626	(14)	—	*
Douglas Green	100,000	*	100,000	(3)	—	*
Douglas Roberts	100,000	*	100,000	(3)	—	*
Fidecs Trust Company Limited	300,000	*	300,000	(8)	—	*
Gary Schonwald	779,857	*	732,500	(9)	47,357	*
Geoffrey Walton	100,000	*	100,000	(3)	—	*
Giampiero Mazza	100,000	*	100,000	(3)	—	*
Global Asset Management	4,413,741	1.73	4,100,000	(15)	313,741	*
Gold Group International Limited	2,175,626	*	2,175,626	(14)	—	*
Howard King	100,000	*	100,000	(3)	—	*
Ian Ruperti	100,000	*	100,000	(3)	—	*
Ian Taylor	1,518,807	*	1,518,807	(4)	—	*
James A. Hayward	25,989,840	10.18	7,500,000	(13)	18,489,840	5.43
James Reilly	200,000	*	200,000	(4)	—	*
Jeremy Wickins	100,000	*	100,000	(3)	—	*
John J.S. Marston	100,000	*	100,000	(3)	—	*
John Michael Lippitt	100,000	*	100,000	(3)	—	*
Joshua Gladtke	162,500	*	162,500		—	*
Kazimerz Librowski	759,404	*	759,404	(3)	—	*
Marc Van Buggenhout	603,244	*	603,244	(3)	—	*
Martin Keeling	100,000	*	100,000	(3)	—	*
Michael Connel	2,197,018	*	2,197,018	(11)	—	*
Michael Corry	759,404	*	759,404	(3)	—	*
Michael Mogridge	100,000	*	100,000	(3)	—	*
Michael Morris	454,400	*	454,400	(10)	—	*
Paul John Thomas Gilbert	100,000	*	100,000	(3)	—	*
Pete Shaw	2,278,211	*	2,278,211	(8)	—	*
Peter Alan Shaw	200,000	*	200,000	(4)	—	*
Peter Coates	759,404	*	759,404	(3)	—	*
Philip H. Carmichael	100,000	*	100,000	(3)	—	*

Ramon Montane Benet	100,000	*	100,000	(3)	—	*
Richard John Kendle	100,000	*	100,000	(3)	—	*
Richard Triffitt	100,000	*	100,000	(3)	—	*
Ricky Roberts	200,000	*	200,000	(4)	—	*

Name of Selling Security Holder	Beneficial Ownership Prior to Offering (1) Shares	Percentage (2)	Shares Offered		Beneficial Ownership After Offering (1)	Percentage (2)
Robert DePalo Jr.	100,000	*	100,000	(3)	—	*
Robin Gledhill	1,818,807	*	1,818,807	(11)	—	*
Ronald Heineman	400,000	*	400,000	(9)	—	*
Roy John Martin	200,000	*	200,000	(4)	—	*
Russel F. Grice	812,978	*	812,978	(9)	—	*
Russell Stephen Field	200,000	*	200,000	(4)	—	*
Sanford R. Simon	375,000	*	250,000	(6)	—	*
Saudry LLC	264,000	*	264,000	(7)	—	*
Scotford Trust	200,000	*	200,000	(4)	—	*
Sean Obrian	1,437,615	*	1,437,615	(9)	—	*
Simon Jackson	100,000	*	100,000	(3)	—	*
Stephen P. Allmand-Smith	200,000	*	200,000	(4)	—	*
Stephen Pycroft	100,000	*	100,000	(3)	—	*
Steven P McHugh	100,000	*	100,000	(3)	—	*
Thomas Carvill	100,000	*	100,000	(3)	—	*
Tim Docker	100,000	*	100,000	(3)	—	*
Tim Wilson	100,000	*	100,000	(3)	—	*
Trevor C. Hanness	100,000	*	100,000	(3)	—	*
W.T. Johnson & Sons (Huddersfield) Limited	729,150	*	729,150	(9)	—	*
Yacon Shamash	375,000	*	250,000	(6)	—	*

* Less than 1%

(1) Beneficial Ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Shares of common stock subject to options or warrants currently exercisable or convertible, or exercisable or convertible within 60 days of October 31, 2006 are deemed outstanding for computing the percentage of the person holding such option or warrant but are not deemed outstanding for computing the percentage of any other person. Does not include unvested shares subject to options granted on June 17, 2008 pursuant to the 2005 Incentive Stock Plan, which vested with respect to 25% of the underlying shares on the date of grant and will vest with respect to the remaining shares ratably on each anniversary thereafter until fully vested on the third anniversary of the date of grant, including 12,750,000 to James A. Hayward, 375,000 to Yacov Shamash, 3,750,000 to Kurt H. Jensen, 5,250,000 to Ben Liang and 375,000 to Sanford R. Simon. The exercise of the stock options was subject to stockholder approval of an amendment to the 2005 Incentive Stock Plan to increase the total number of shares of common stock issuable thereunder, which was obtained at the 2008 annual meeting of stockholders held on December 16, 2008.

(2) Percentage prior to offering is based on 255,224,880 shares of common stock outstanding; percentage after offering is based on 340,743,880 shares of common stock outstanding, which assumes the subsequent exercise of warrants by our selling stockholders.

(3) Includes 100,000 shares of common stock underlying warrants.

(4) Includes 200,000 shares of common stock underlying warrants.

(5) Includes 227,000 shares of common stock underlying warrants.

(6) Includes 375,000 shares of common stock underlying warrants.

(7) Includes 264,000 shares of common stock underlying warrants.

(8) Includes 300,000 shares of common stock underlying warrants.

(9) Includes 400,000 shares of common stock underlying warrants.

(10) Includes 454,400 shares of common stock underlying warrants.

(11) Includes 500,000 shares of common stock underlying warrants.

(12) Includes 1,100,000 shares of common stock underlying warrants.

(13) Includes 14,750,000 shares of common stock underlying warrants.

(14) Includes 600,000 shares of common stock underlying warrants.

(15) Includes 4,100,000 shares of common stock underlying warrants.

(16) Includes 50,000 shares of common stock underlying warrants.

(17) Includes 120,000 shares of common stock underlying warrants.

(18) Includes 112,500 shares of common stock underlying warrants.

(19) Includes 1,185,000 shares of common stock underlying warrants.

(20) Includes 315,000 shares of common stock underlying warrants.

(21) Includes 1,500,000 shares of common stock underlying warrants.

(22) Includes 150,000 shares of common stock underlying warrants.

(23) Includes 75,000 shares of common stock underlying warrants.

(24) Includes 1,700,000 shares of common stock underlying warrants.

(25) Includes 25,000 shares of common stock underlying warrants.

(26) Includes 232,000 shares of common stock underlying warrants.

(27) Includes 12,500 shares of common stock underlying warrants.

(28) Includes 55,000 shares of common stock underlying warrants.

(29) Includes 62,500 shares of common stock underlying warrants.

(30) Includes 7,500 shares of common stock underlying warrants.

(31) Includes 80,000 shares of common stock underlying warrants.

(32) Includes 30,000 shares of common stock underlying warrants.

Material Relationships with Selling Stockholders

Except as noted below, no selling stockholder has, or within the past three years has had, any position, office or other material relationship with us or any of our affiliates other than as a result of the ownership of our securities.

James A. Hayward is our Chairman, President and Chief Executive Officer.

Yacon Shamash and Sanford R. Simon are members of our board of directors.

The following selling stockholders are affiliated with Arjent Limtied, our placement agent: Allied International Fund, Alzeon Ventures, Global Asset Management, Anthony Woodward, Robert DePalo Jr., Joshua Gladtke, Michael Morris and Ronald Heineman.

LEGAL MATTERS

The validity of the issuance of the securities offered hereby will be passed upon for us by Fulbright & Jaworski L.L.P., New York, New York.

EXPERTS

RBSM LLP, independent registered public accounting firm, have audited, as set forth in their report thereon appearing elsewhere herein, our financial statements at September 30, 2008 and 2007 and for the years then ended that appear in the prospectus. The financial statements referred to above are included in this prospectus with reliance upon the independent registered public accounting firm's opinion based on their expertise in accounting and auditing.

AVAILABLE INFORMATION

We have filed a registration statement on Form S-1 under the Securities Act, as amended, relating to the shares of common stock being offered by this prospectus, and reference is made to such registration statement. This prospectus constitutes the prospectus of Applied DNA Sciences, Inc., filed as part of the registration statement, and it does not contain all information in the registration statement, as certain portions have been omitted in accordance with the rules and regulations of the SEC.

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, which requires us to file reports and other information with the SEC. Such reports and other information may be inspected at public reference facilities of the SEC at 100 F Street, N.E., Washington, D.C. 20549. Copies of such material can be obtained from the Public Reference Section of the SEC at 100 F Street, N.E., Washington, D.C. 20549 at prescribed rates. Because we file documents electronically with the SEC, you may also obtain this information by visiting the SEC's website at www.sec.gov.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Applied DNA Sciences, Inc. (the "Company") as of September 30, 2008 and 2007 and the related consolidated statements of losses, deficiency in stockholders' equity, and cash flows for each of the two years in the period ended September 30, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based upon our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of September 30, 2008 and 2007, and the results of its operations and its cash flows for each of the two years in the period ended September 30, 2008 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note K, the Company is experiencing difficulty in generating sufficient cash flow to meet its obligations and sustain its operations, which raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to this matter are described in Note K. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/RBSM LLP

New York, New York
December 15, 2008

APPLIED DNA SCIENCES, INC.
CONSOLIDATED BALANCE SHEETS

	September 30, 2008	September 30, 2007
ASSETS		
Current assets:		
Cash	$ 136,405	$ 25,185
Accounts Receivable	75,150	—
Prepaid expenses	83,333	101,000
Restricted cash	—	399,920
Total current assets	294,888	526,105
Property, plant and equipment-net of accumulated depreciation of $147,132 and $82,825, respectively	63,730	105,537
Other assets:		
Deposits	8,322	13,822
Capitalized finance costs-net of accumulated amortization of $464,274 and $7,997, respectively	113,226	29,503
Intangible assets:		
Patents, net of accumulated amortization of $31,762 and $25,445, respectively (Note B)	2,494	8,812
Intellectual property, net of accumulated amortization and write off of $8,066,682 and $7,702,891, respectively (Note B)	1,364,217	1,728,009
Total Assets	$ 1,846,877	$ 2,411,788
LIABILITIES AND DEFICIENCY IN STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 12,821,171	$ 13,215,975
Convertible notes payable, net of unamortized discount of $486,726 and $359,595, respectively (Note D)	3,063,274	740,405
Other current liabilities	—	399,920
Total current liabilities	15,884,445	14,356,300
Commitments and contingencies (Note J)		
Deficiency in Stockholders' Equity- (Note F)		
Preferred stock, par value $0.001 per share; 10,000,000 shares authorized; -0- and 60,000 issued and outstanding as of September 30, 2008 and 2007	—	6
Common stock, par value $0.001 per share; 410,000,000 shares authorized; 205,359,605 and 180,281,661 issued and outstanding as of September 30, 2008 and 2007, respectively	205,359	180,281
Additional paid in capital	133,133,354	128,448,584
Accumulated deficit	(147,376,281)	(140,573,383)
Total deficiency in stockholders' equity	(14,037,568)	(11,944,512)

Total Liabilities and Deficiency in Stockholders’ Equity	$	1,846,877	$	2,411,788

See the accompanying notes to the consolidated financial statements

APPLIED DNA SCIENCES, INC.
CONSOLIDATED STATEMENTS OF LOSSES
YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	2008	2007
Sales	$ 873,010	$ 121,920
Cost of sales	171,332	23,073
Gross Profit	701,678	98,847
Operating expenses:		
Selling, general and administrative	4,277,013	12,096,444
Research and development	145,832	110,845
Depreciation and amortization	434,416	432,582
Total operating expenses	4,857,261	12,639,871
NET LOSS FROM OPERATIONS	(4,155,583)	(12,541,024)
Net gain in revaluation of debt derivative and warrant liabilities	—	1,387,932
Other income	—	977
Interest expense	(2,647,315)	(2,152,718)
Net loss before provision for income taxes	(6,802,898)	(13,304,833)
Income taxes (benefit)	—	—
NET LOSS	$ (6,802,898)	$ (13,304,833)
Net loss per share-basic and fully diluted	$ (0.04)	$ (0.10)
Weighted average shares outstanding-		
Basic and fully diluted	191,488,042	135,229,885

See the accompanying notes to the consolidated financial statements

APPLIED DNA SCIENCES, INC.
CONSOLIDATED STATEMENT OF DEFICIENCY IN STOCKHOLDERS' EQUITY
TWO YEARS ENDED SEPTEMBER 30, 2008

	Preferred Shares	Preferred Stock Amount	Common Shares	Common Stock Amount	Additional Paid in Capital	Accumulated Deficit	Total
Balance, October 1, 2006	60,000	$ 6	120,982,385	$ 120,982	$ 82,627,606	$ (92,334,791)	$ (9,586,197)
Common stock issued in December 2006 in settlement of related party debt at $2.28 per share	—	—	180,000	180	410,249	—	410,429
Common stock issued in May 2007 in settlement of convertible debentures at $0.11 per share	—	—	9,645,752	9,646	1,090,354	—	1,100,000
Common stock issued in June 2007 in settlement of convertible debentures at $0.11 per share	—	—	29,691,412	29,691	3,215,309	—	3,245,000
Beneficial conversion feature relating to convertible debentures	—	—	—	—	319,606	—	319,606
Common stock issued in September 2007 in settlement of convertible debentures at $0.087 per share	—	—	19,782,112	19,782	1,705,218	—	1,725,000

Effect of application of EITF 00-19-2 in classification of fair value of warrants	—	—	—	—	39,080,242	(34,933,759)	4,146,483
Net loss	—	—	—	—	—	(13,304,833)	(13,304,833)
Balance, September 30, 2007	60,000	6	180,281,661	180,281	128,448,584	(140,573,383)	(11,944,512)

See the accompanying notes to the consolidated financial statements

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APPLIED DNA SCIENCES, INC.
CONSOLIDATED STATEMENT OF DEFICIENCY IN STOCKHOLDERS' EQUITY
TWO YEARS ENDED SEPTEMBER 30, 2008

	Preferred Shares	Preferred Stock Amount	Common Shares	Common Stock Amount	Additional Paid in Capital	Accumulated Deficit	Total
Balance, September 30, 2007	60,000	$ 6	180,281,661	$ 180,281	$ 128,448,584	$ (140,573,383)	$ (11,944,512)
Common stock issued in November 2007 in settlement of convertible debentures at $0.105 per share	—	—	479,942	480	49,794	—	50,274
Common stock issued in November 2007 in exchange for services rendered at $0.14 per share	—	—	1,000,000	1,000	139,000	—	140,000
Common stock issued in December 2007 in exchange for services rendered at $0.10 per share	—	—	9,000,000	9,000	891,000	—	900,000
Common stock issued in February 2008 in exchange for warrant exercise on a cashless basis	—	—	1,375,000	1,375	(1,375)	—	—
Beneficial conversion feature relating to issuance of convertible	—	—	—	—	2,409,568	—	2,409,568

debentures							
Common stock issued in April 2008 in settlement of related party convertible debentures at $0.15 per share	—	—	733,334	733	109,267	—	110,000
Common stock issued in June 2008 in settlement of convertible debentures at $0.15 per share	—	—	1,100,000	1,100	163,900	—	165,000
Common stock issued in June 2008 in settlement of related party convertible debentures at $0.088 per share	—	—	3,134,543	3,135	271,865	—	275,000
Common stock issued in July 2008 in settlement of related party convertible debentures at $0.103 per share	—	—	2,144,917	2,145	217,855	—	220,000
Common stock issued in August 2008 in settlement of convertible debentures at $0.096 per share	—	—	1,142,562	1,143	108,857	—	110,000
Common stock issued in September 2008	—	—	4,967,646	4,967	325,033	—	330,000

in related party settlement of convertible debentures at $0.066 per share							
Cancellation of previously issued preferred stock	(60,000)	(6)	—	—	6	—	—
Net Loss	—	—	—	—	—	(6,802,898)	(6,802,898)
Balance, September 30, 2008	—	$ —	205,359,605	$ 205,359	$ 133,133,354	$ (147,376,281)	$ (14,037,568)

See the accompanying notes to the consolidated financial statements

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APPLIED DNA SCIENCES, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	2008	2007
Cash flows from operating activities:		
Net loss	$ (6,802,898)	$ (13,304,833)
Adjustments to reconcile net loss to net used in operating activities:		
Depreciation and amortization	434,417	432,582
Fair value of options and warrants issued in exchange for services rendered		900,000
Income attributable to repricing of warrants and debt derivatives	—	(1,387,932)
Amortization of capitalized financing costs	456,277	1,057,084
Amortization of debt discount attributable to convertible debentures	2,282,437	1,751,860
Common stock issued in exchange for services rendered	1,040,000	—
Change in assets and liabilities:		
Decrease (increase) in accounts receivable	(75,150)	9,631
Decrease in prepaid expenses and deposits	17,667	5,667
Decrease in other assets	5,500	8,419
Increase (decrease) in accounts payable and accrued liabilities	(284,530)	8,275,942
Net cash used in operating activities	(2,926,280)	(2,251,580)
Cash flows from investing activities:		
Decrease (increase) in restricted cash held in escrow	399,920	(399,920)
Acquisition of property and equipment, net	(22,500)	(11,039)
Net cash provided by (used in) investing activities	377,420	(410,959)
Cash flows from financing activities:		
Proceeds from convertible debentures held in escrow	—	399,920
Net proceeds from issuance of convertible notes	2,660,080	1,062,500
Net cash provided by financing activities	2,660,080	1,462,420
Net increase (decrease) in cash and cash equivalents	111,220	(1,200,119)
Cash and cash equivalents at beginning of year	25,185	1,225,304
Cash and cash equivalents at end of year	$ 136,405	$ 25,185
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 repayment of debt and accrued interest	1,260,274	6,799,429
Fair value of options and warrants issued to consultants for services		900,000

See the accompanying notes to the consolidated financial statements

APPLIED DNA SCIENCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE A — SUMMARY OF ACCOUNTING POLICIES

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

Business and Basis of Presentation

On September 16, 2002, Applied DNA Sciences, Inc. (the "Company") was incorporated under the laws of the State of Nevada. 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 September 30, 2008, the Company has accumulated losses of $147,376,281.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Applied DNA Operations Management, Inc. All significant intercompany balances and transactions have been eliminated in consolidation.

Estimates

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

Revenue Recognition

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

For revenue from product sales, the Company recognizes revenue in accordance with Staff Accounting Bulletin No. 104, REVENUE RECOGNITION ("SAB104"), and 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 September 30, 2008 and 2007 the Company's deferred revenue was $-0-.

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.

APPLIED DNA SCIENCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE A — SUMMARY OF ACCOUNTING POLICIES (continued)

Cash Equivalents

For the purpose of the accompanying 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 September 30, 2008, the Company has deemed that no allowance for doubtful accounts was necessary.

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.

In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109 (“FIN 48”). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, treatment of interest and penalties, and disclosure of such positions. Effective October 1, 2007, the Company adopted the provisions of FIN 48, as required. As a result of implementing FIN 48, there has been no adjustment to the Company’s consolidated financial statements and the adoption of FIN 48 did not have a material effect on the Company’s consolidated financial statements for the year ended September 30, 2008.

Property and Equipment

Property and equipment are stated at cost and depreciated over their estimated useful lives of 3 to 5 years using the straight line method. At September 30, 2008 and 2007 property and equipment consist of:

	September 30, 2008	September 30, 2007
Computer equipment	$ 27,404	$ 27,404
Lab equipment	77,473	54,973
Furniture	105,985	105,985
	210,862	188,362
Accumulated Depreciation	(147,132)	(82,825)
Net	$ 63,730	$ 105,537

APPLIED DNA SCIENCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE A — SUMMARY OF ACCOUNTING POLICIES (continued)

Impairment of Long-Lived Assets

The Company has adopted Statement of Financial Accounting Standards No. 144 (SFAS No. 144). The Statement 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. 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. SFAS No. 144 also requires assets to be disposed of be reported at the lower of the carrying amount or the fair value less costs to sell.

Comprehensive Income

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

Segment Information

The Company adopted Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information (“SFAS No. 131”). SFAS No. 131 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. SFAS No. 131 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 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. There were 69,640,964 and 88,094,464 common share equivalents at September 30, 2008 and 2007. For the years ended September 30, 2008 and 2007, these potential shares were excluded from the shares used to calculate diluted earnings per share as their inclusion would reduce net loss per share.

Stock Based Compensation

In December 2002, the FASB issued SFAS No. 148, “Accounting for Stock-Based Compensation-Transition and Disclosure-an amendment of SFAS No. 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 as of 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
SEPTEMBER 30, 2008

NOTE A — SUMMARY OF ACCOUNTING POLICIES (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(R), 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 No. 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.

Liquidity

As shown in the accompanying consolidated financial statements, the Company incurred a net loss of $6,802,898 for the year ended September 30, 2008. The Company’s current liabilities exceeded its current assets by $15,589,557 as of September 30, 2008.

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 year ended September 30, 2008 included an aggregate of 83% from four customers and for the year ended September 30, 2007, two customers accounted for the Company’s total revenues. Two customers accounted for the Company’s total accounts receivable at September 30, 2008.

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 No. 2”), “Accounting for Research and Development Costs. Under SFAS No. 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 $145,832 and $110,845 for the years ended September 30, 2008 and 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 $36,364 and $12,923 as advertising costs for the years ended September 30, 2008 and 2007, respectively.

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.

APPLIED DNA SCIENCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE A — SUMMARY OF ACCOUNTING POLICIES (continued)

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 September 30, 2007 (see Note D). The related obligation is recorded as other current liabilities until consummation. In conjunction with the private placement of the convertible debt during the year ended September 30, 2008, the escrow account was released and the related liability was settled.

Derivative Financial Instruments

The Company's derivative financial instruments consisted of embedded derivatives related to the 10% secured convertible promissory 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 (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 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 $12,023,888 in liquidating damages in relationship to the previously outstanding convertible promissory notes and related warrants.

APPLIED DNA SCIENCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE A — SUMMARY OF ACCOUNTING POLICIES (continued)

New Accounting Pronouncements

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115 " ("SFAS No. 159"). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Most of the provisions of SFAS No. 159 apply only to entities that elect the fair value option. However, the amendment to SFAS No. 115 " Accounting for Certain Investments in Debt and Equity Securities" applies to all entities with available-for-sale and trading securities. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provision of SFAS No. 157, " Fair Value Measurements". The adoption of SFAS No. 159 did not have a material impact on our consolidated financial position, results of operations or cash flows.

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 consolidated financial position, results of operations or cash flows.

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 consolidated financial position, results of operations or cash flows.

In June 2007, the FASB ratified the consensus in EITF Issue No. 07-3, "Accounting for Nonrefundable Advance Payments for Goods or Services to be Used in Future Research and Development Activities" (EITF 07-3), which requires that nonrefundable advance payments for goods or services that will be used or rendered for future research and development (R&D) activities be deferred and amortized over the period that the goods are delivered or the related services are performed, subject to an assessment of recoverability. EITF 07-3 will be effective for fiscal years beginning after December 15, 2007. The Company does not expect that the adoption of EITF 07-3 will have a material impact on our consolidated financial position, results of operations or cash flows.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities - an amendment to FASB Statement No. 133" ("SFAS No. 161") .. SFAS No. 161 is intended to improve financial standards for derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. Entities are required to provide enhanced disclosures about: (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations; and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years beginning after November 15, 2008, with early adoption encouraged. The Company is currently evaluating the impact, if any, that SFAS No. 161 will have on our consolidated financial position, results of operations or cash flows.

In April 2008, the FASB issued FSP No. FAS 142-3, “Determination of the Useful Life of Intangible Assets”. This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, “Goodwill and Other Intangible Assets”. The Company is required to adopt FSP 142-3 on September 1, 2009; earlier adoption is prohibited. The guidance in FSP 142-3 for determining the useful life of a recognized intangible asset shall be applied prospectively to intangible assets acquired after adoption, and the disclosure requirements shall be applied prospectively to all intangible assets recognized as of, and subsequent to, adoption. The Company is currently evaluating the impact of FSP 142-3 on our consolidated financial position, results of operations or cash flows.

APPLIED DNA SCIENCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE A — SUMMARY OF ACCOUNTING POLICIES (continued)

In May 2008, the FASB issued SFAS No. 162, “The Hierarchy of Generally Accepted Accounting Principles” (“SFAS No. 162”). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (the GAAP hierarchy). SFAS No. 162 will become effective 60 days following the SEC’s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, “The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles.” The Company does not expect the adoption of SFAS No. 162 to have a material effect on our consolidated financial position, results of operations or cash flows.

In May 2008, the FASB issued FSP Accounting Principles Board (“APB”) 14-1 “Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)” (“FSP APB 14-1”). FSP APB 14-1 requires the issuer of certain convertible debt instruments that may be settled in cash (or other assets) on conversion to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer’s non-convertible debt borrowing rate. FSP APB 14-1 is effective for fiscal years beginning after December 15, 2008 on a retroactive basis. The Company is currently evaluating the potential impact, if any, of the adoption of FSP APB 14-1 on our consolidated financial position, results of operations or cash flows.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the AICPA, and the SEC did not, or are not believed by management to, have a material impact on the Company’s present or future consolidated financial statements.

NOTE B - ACQUISITION OF INTANGIBLE ASSETS

The identifiable intangible assets acquired and their carrying values at September 30, 2008 and 2007 are as follows:

	2008	2007
Trade secrets and developed technologies (Weighted average life of 7 years)	$ 9,430,900	$ 9,430,900
Patents (Weighted average life of 5 years)	34,257	34,257
Total Amortized identifiable intangible assets-Gross carrying value:	$ 9,465,157	9,465,157
Less:		
Accumulated Amortization	(2,443,435)	(2,073,325)
Impairment (See below)	(5,655,011)	(5,655,011)
Net:	$ 1,366,711	1,736,821
Residual value:	$ 0	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 future cash flows. As a result, upon completion of the assessment, management recorded a non-cash impairment charge of $5,655,011, net of tax, or $0.05 per share during the year ended September 30, 2006 to reduce the carrying value of the patents to $2,091,800. Considerable management judgment is necessary to estimate the fair value. Accordingly, actual results could vary significantly from management's estimates.

Total amortization expense charged to operations for the years ended September 30, 2008 and 2007 were $370,110 and $370,644, respectively.

APPLIED DNA SCIENCES, INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE B — ACQUISITION OF INTANGIBLE ASSETS (continued)

Estimated amortization expense as of September 30, 2008 is as follows:

2009	$ 366,286
2010	363,792
2011	363,792
2012	272,841
2013 and thereafter	-0-
Total	$ 1,366,711

NOTE C – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at September 30, 2008 and 2007 are as follows:

	2008	2007
Accounts payable	$ 413,454	$ 1,234,449
Accrued consulting fees	102,500	20,000
Accrued interest payable	281,329	19,603
Accrued penalties relating to registration rights liquidating damages	12,023,888	11,750,941
Other accrued expenses	—	190,982
Total	12,821,171	$ 13,215,975

Restricted cash/other current liabilities

As described in Note D below, the Company issued 10% Secured Promissory Notes subsequent to September 30, 2007. At September 30, 2007, the Company received $399,920 held in escrow relating to the placement of Convertible Notes pending acceptance and completion of the placement of the Notes (See Note D). In conjunction with the private placement of the convertible debt during the year ended September 30, 2008, the escrow account was released and the related liability was settled.

Registration Rights Liquidated Damages

In private placements in November and December, 2003, December, 2004, and January and February, 2005, the Company issued secured convertible promissory notes and warrants to purchase the Company's common stock. Pursuant to the terms of a registration rights agreement, the Company agreed to file a registration statement to be declared effective by the SEC for the common stock underlying the notes and warrants in order to permit public resale thereof. The registration rights agreement provided for the payment of liquidated damages if the stipulated registration deadlines were not met. The liquidated damages are equal to 3.5% per month of the face amount of the notes, which equals $367,885, with no limitations. During the year ended September 30, 2008, the SEC declared effective the Company's registration statement with respect to the common stock underlying the notes and warrants. The Company has accrued $12,023,888 as of September 30, 2008 to account for late effectiveness of the registration statement.

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APPLIED DNA SCIENCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE D – PRIVATE PLACEMENT OF CONVERTIBLE NOTES

Convertible notes payable as of September 30, 2008 and 2007 are as follows:

	2008	2007
10% Secured Convertible Notes payable, related party, dated April 23, 2007, net of unamortized debt discount of $30,426 (see below)	$ -0-	$ 69,574
10% Secured Convertible Notes payable, dated June 27, 2007 (see below)	-0-	100,000
10% Secured Convertible Notes payable, dated June 27, 2007 (see below)	-0-	50,000
10% Secured Convertible Notes payable, related party, dated June 30, 2007, net of unamortized debt discount of $76,555 (see below)	-0-	173,445
10% Secured Convertible Notes payable, related party, dated July 30, 2007, net of unamortized debt discount of $41,570 (see below)	-0-	158,430
10% Secured Convertible Notes payable, dated August 8, 2007, net of unamortized debt discount of $27,869 (see below)	-0-	72,131
10% Secured Convertible Notes payable, related party, dated September 28, 2007, net of unamortized debt discount of $183,175 (see below)	-0-	116,825
10% Secured Convertible Notes payable, dated October 4, 2007, net of unamortized debt discount of $2,847 (see below)	547,153	-0-
10% Secured Convertible Notes payable, dated October 30, 2007, net of unamortized debt discount of $35,373 (see below)	564,627	-0-
10% Secured Convertible Notes payable, dated November 29, 2007, net of unamortized debt discount of $104,801 (see below)	895,199	-0-
10% Secured Convertible Notes payable dated December 20, 2007, net of unamortized debt discount of $52,868 (see below)	397,132	-0-
10% Secured Convertible Notes payable dated January 17, 2008, net of unamortized debt discount of $73,759 (see below)	376,241	-0-
10% Secured Convertible Notes payable dated March 4, 2008, net of unamortized debt discount of $85,829 (see below)	164,171	-0-
10% Secured Convertible Note payable dated May 7, 2008, net of unamortized debt discount of $35,532 (see below)	64,468	-0-
10% Secured Convertible Note payable dated July 31, 2008, net of unamortized debt discount of $95,717 (see below)	54,283	-0-
	3,063,274	740,405
Less: current portion	(3,063,274)	(740,405)
	$ —	$ —

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.

APPLIED DNA SCIENCES, INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE D — PRIVATE PLACEMENT OF CONVERTIBLE NOTES (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 $40,840 to warrant liabilities (See note A above) 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 $30,426 and $23,747 was recorded for the years ended September 30, 2008 and 2007, respectively.

On April 23, 2008, the note and accrued interest of $10,000 was converted into 733,334 shares of the Company's common stock.

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.

On June 27, 2008, the notes and accrued interest of $15,000 converted into 1,100,000 shares of the Company's common stock.

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.

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 $97,117 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
SEPTEMBER 30, 2008

NOTE D — PRIVATE PLACEMENT OF CONVERTIBLE NOTES (continued)

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 $33,662 to warrant liabilities (See note A above) 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 ($97,117) and warrants ($33,662) to debt discount, aggregating $103,354, which will be amortized to interest expense over the term of the Notes. Amortization of $104,980 and $25,799 was recorded for the years ended September 30, 2008 and 2007, respectively.

On June 30, 2008, the note and accrued interest of $25,000 was converted into 3,134,543 shares of the Company's common stock.

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 $48,737 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 $14,746 to warrant liabilities (See note A above) 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 ($48,737) and warrants ($14,746) to debt discount, aggregating $63,483, which will be amortized to interest expense over the term of the Notes. Amortization of $55,142 and $8,341 was recorded for the years ended September 30, 2008 and 2007, respectively.

APPLIED DNA SCIENCES, INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE D — PRIVATE PLACEMENT OF CONVERTIBLE NOTES (continued)

On July 30, 2008, the note and accrued interest of $20,000 was converted into 2,144,917 shares of the Company's common stock.

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 $32,016 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 $7,373 to warrant liabilities (See note A above) 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 ($32,016) and warrants ($7,373) to debt discount, aggregating $39,389, which will be amortized to interest expense over the term of the Notes. Amortization of $34,655 and $4,734 was recorded for the years ended September 30, 2008 and 2007, respectively.

On August 8, 2008, the note and accrued interest of $10,000 was converted into 1,142,562 shares of the Company's common stock

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 28, 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.

APPLIED DNA SCIENCES, INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE D — PRIVATE PLACEMENT OF CONVERTIBLE NOTES (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 $180,993 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 $29,388 to warrant liabilities (See note A above) 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.

The Company recorded the intrinsic value of the embedded beneficial conversion feature ($180,993) and warrants ($29,388) to debt discount, aggregating $210,381, which will be amortized to interest expense over the term of the Notes. Amortization of $209,372 and $1,009 was recorded for the years ended September 30, 2008 and 2007, respectively.

On September 28, 2008, the note and accrued interest of $30,000 was converted into 4,967,646 shares of the Company's common stock

10% Secured Convertible Promissory Notes dated October 4, 2007

On October 4, 2007, the Company issued $500,000 principal amount convertible promissory notes due October 4, 2008 with interest at 10% per annum due upon maturity. The notes are convertible at any time prior to maturity, at the option of the holders, 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 $0.069328632 per share, which is equal to a 30% discount to the average volume, weighted average price of our common stock for the ten trading days prior to issuance. At maturity, the notes, including any accrued and unpaid interest, are convertible at $0.069328632 per share.

In addition, on October 4, 2007, the Company issued a $50,000 principal amount convertible promissory note 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 $0.079232722 per share, which is equal to a 20% discount to the average volume, weighted average price of our common stock for the ten trading days prior to issuance. At maturity, the note, including any accrued and unpaid interest, is convertible at $0.079232722 per share. The Company has granted the noteholder a security interest in all the Company's assets.

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 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 $292,416 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.

APPLIED DNA SCIENCES, INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE D — PRIVATE PLACEMENT OF CONVERTIBLE NOTES (continued)

In connection with the issuance of the notes, the Company issued non-detachable warrants granting the holders the right to acquire 1,100,000 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 $53,968 to additional paid in capital and a discount against the notes. 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 notes' maturity period (one year) as interest expense.

The Company recorded the intrinsic value of the embedded beneficial conversion feature ($292,416) and warrants ($53,968) to debt discount, aggregating $346,384, which will be amortized to interest expense over the term of the notes. Amortization of $343,537 was recorded for the year ended September 30, 2008.

10% Secured Convertible Promissory Notes dated October 30, 2007

On October 30, 2007, the Company issued $550,000 principal amount convertible promissory notes due October 30, 2008 with interest at 10% per annum due upon maturity. The notes are convertible at any time prior to maturity, at the option of the holders, 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 $0.104750019 per share, which is equal to a 30% discount to the average volume, weighted average price of our common stock for the ten trading days prior to issuance. At maturity, the notes, including any accrued and unpaid interest, are convertible at $0.104750019 per share.

In addition, on October 30, 2007, the Company issued two $50,000 principal amount convertible promissory notes due October 30, 2008 with interest at 10% per annum due upon maturity. The notes are convertible at any time prior to maturity, at the option of the holder, 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 $0.119714308 per share, which is equal to a 20% discount to the average volume, weighted average price of our common stock for the ten trading days prior to issuance. At maturity, the notes, including any accrued and unpaid interest, are convertible at $0.119714308 per share. The Company has granted the noteholders a security interest in all the Company's assets.

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 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 $368,499 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.

In connection with the issuance of the notes, the Company issued non-detachable warrants granting the holders the right to acquire 1,300,000 shares of the Company's common stock at $0.50 per share. The warrants expire five years from the issuance. In accordance with 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 $105,611 to additional paid in capital and a discount against the notes. 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 notes’ maturity period (one year) as interest expense.

APPLIED DNA SCIENCES, INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE D — PRIVATE PLACEMENT OF CONVERTIBLE NOTES (continued)

On November 19, 2007, a noteholder elected to convert a $50,000 principal amount promissory note and accrued interest of $274 into 479,942 shares of the Company's common stock.

The Company recorded the intrinsic value of the embedded beneficial conversion feature ($368,499) and warrants ($105,611) to debt discount, aggregating $474,110, which will be amortized to interest expense over the term of the notes. Amortization of $438,737 for the year ended September 30, 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 principal amount convertible promissory notes due November 29, 2008 with interest at 10% per annum due upon maturity. The notes are convertible at any time prior to maturity, at the option of the holders, 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, which is equal to a 30% discount to the average volume, weighted average price of our common stock for the ten trading days prior to issuance per share. At maturity, the notes, including any accrued and unpaid interest, are convertible at $0.094431519 per share. The Company has granted the noteholders a security interest in all the Company's assets.

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 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 $512,504 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.

In connection with the issuance of the notes the Company issued non-detachable warrants granting the holders the right to acquire 2,000,000 shares of the Company's common stock at $0.50 per share. The warrants expire five years from the issuance. In accordance with 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 $135,845 to additional paid in capital and a discount against the notes. 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 notes' maturity period (one year) as interest expense.

The Company recorded the intrinsic value of the embedded beneficial conversion feature ($512,504) and warrants ($135,845) to debt discount, aggregating $648,349, which will be amortized to interest expense over the term of the notes. Amortization of $543,548 was recorded for the year ended September 30, 2008.

10% Secured Convertible Promissory Notes dated December 20, 2007

On December 20, 2007, the Company issued $450,000 principal amount convertible promissory notes due December 20, 2008 with interest at 10% per annum due upon maturity. The notes are convertible at any time prior to maturity, at the option of the holders, 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, which is equal to a 30% discount to the average volume, weighted average price of our common stock for the ten trading days prior to issuance. At maturity, the notes, including any accrued and unpaid interest, are convertible at $0.074766323 per share. The Company has granted the noteholders a security interest in all the Company’s assets.

APPLIED DNA SCIENCES, INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE D — PRIVATE PLACEMENT OF CONVERTIBLE NOTES (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 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 $196,543 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.

In connection with the issuance of the notes, the Company issued non-detachable warrants granting the holders the right to acquire 900,000 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 $44,668 to additional paid in capital and a discount against the notes. 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 notes' maturity period (one year) as interest expense.

The Company recorded the intrinsic value of the embedded beneficial conversion feature ($196,543) and warrants ($44,668) to debt discount, aggregating $241,211, which will be amortized to interest expense over the term of the notes. Amortization of $188,343 was recorded for the year ended September 30, 2008.

10% Secured Convertible Promissory Notes dated January 17, 2008

On January 17, 2008, the Company issued $450,000 principal amount 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 $0.073512803 per share, which is equal to a 30% discount to the average volume, weighted average price of our common stock for the ten trading days prior to issuance. At maturity, the note, including any accrued and unpaid interest, is convertible at $0.073512803 per share. The Company has granted the noteholders a security interest in all the Company's assets.

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 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 $205,708 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.

In connection with the placement of the notes the Company issued non-detachable warrants granting the holders the right to acquire 900,000 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 $43,569 to additional paid in capital and a discount against the notes. 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 notes' maturity period (one year) as interest expense.

The Company recorded the intrinsic value of the embedded beneficial conversion feature ($205,708) and warrants ($43,569) to debt discount, aggregating $249,277, which will be amortized to interest expense over the term of the notes. Amortization of $175,518 was recorded for the year ended September 30, 2008.

APPLIED DNA SCIENCES, INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE D — PRIVATE PLACEMENT OF CONVERTIBLE NOTES (continued)

10% Secured Convertible Promissory Notes dated March 4, 2008

On March 4, 2008, the Company issued $250,000 principal amount convertible promissory notes due March 4, 2009 with interest at 10% per annum due upon maturity. The notes are convertible at any time prior to maturity, at the holder option of the holders, 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, which is equal to a 30% discount to the average volume, weighted average price of our common stock for the ten trading days prior to issuance. At maturity, the notes, including any accrued and unpaid interest, are convertible at $0.125875423 per share. The Company has granted the noteholders a security interest in all the Company's assets.

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 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 $154,805 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.

In connection with the placement of the 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 $47,308 to additional paid in capital and a discount against the notes. 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 notes' maturity period (one year) as interest expense.

The Company recorded the intrinsic value of the embedded beneficial conversion feature ($154,805) and warrants ($47,308) to debt discount, aggregating $202,113, which will be amortized to interest expense over the term of the notes. Amortization of $116,284 was recorded for the year ended September 30, 2008.

10% Secured Convertible Promissory Note dated May 7, 2008

On May 7, 2008, the Company issued a $100,000 convertible promissory note due May 7, 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 $0.079849085 per share, which is equal to a 30% discount to the average volume, weighted average price of our common stock for the ten trading days prior to issuance. At maturity, the note, including any accrued and unpaid interest, is convertible at $0.079849085 per share. The Company has granted the noteholder a security interest in all the Company's assets.

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 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 $48,490 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.

APPLIED DNA SCIENCES, INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE D — PRIVATE PLACEMENT OF CONVERTIBLE NOTES (continued)

In connection with the placement of the note 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 $10,730 to additional paid in capital and a discount against the 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 3.09%, a dividend yield of 0%, and volatility of 101.74%. The debt discount attributed to the value of the warrants issued is amortized over the note's maturity period (one year) as interest expense.

The Company recorded the intrinsic value of the embedded beneficial conversion feature ($48,490) and warrants ($10,730) to debt discount, aggregating $59,220, which will be amortized to interest expense over the term of the Notes. Amortization of $23,688 was recorded for the year ended September 30, 2008.

10% Secured Convertible Promissory Note dated July 31, 2008

On May 7, 2008, the Company issued a $150,000 convertible promissory note due July 31, 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 $0.0549483 per share, which is equal to a 30% discount to the average volume, weighted average price of our common stock for the ten trading days prior to issuance. At maturity, the note, including any accrued and unpaid interest, is convertible at $0.0549483 per share. The Company has granted the noteholder a security interest in all the Company's assets.

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 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 $91,655 of the proceeds, which is equal to the intrinsic value of the embedded beneficial conversion feature, to additional paid-in capital and a discount against the note. The debt discount attributed to the beneficial conversion feature is amortized over the note's maturity period (one year) as interest expense.

In connection with the placement of the note the Company issued non-detachable warrants granting the holders the right to acquire 300,000 shares of the Company's common stock at $0.50 per share. The warrants expire five years from the issuance. In accordance with 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 $23,268 to additional paid in capital and a discount against the 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 3.259%, a dividend yield of 0%, and volatility of 152.00%. The debt discount attributed to the value of the warrants issued is amortized over the note's maturity period (one year) as interest expense.

The Company recorded the intrinsic value of the embedded beneficial conversion feature ($91,655) and warrants ($23,268) to debt discount, aggregating $114,923, which will be amortized to interest expense over the term of the Notes. Amortization of $19,206 was recorded for the year ended September 30, 2008.

APPLIED DNA SCIENCES, INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 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 September 30, 2008 and 2007.

During the years ended September 30, 2008 and 2007, the Company's Chief Executive Officer, or entities controlled by the Company's Chief Executive Officer, had advanced funds to the Company in the form of convertible promissory notes for working capital purposes (see Note D).

During the years ended September 30, 2008 and 2007, the Company had total sales of $405, 061 and $0 (or 46.4% and 0.0% of total sales), respectively, to Dr. Suwelack Skin & Health Care AG, ("Dr. Suwelack") and BioCogent of which the Company's Chief Executive Officer is the President and sole stockholder, respectively.

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 $0.001 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.

Preferred and Common Stock Transactions During the Year Ended September 30, 2007:

In December 2006, the Company issued 180,000 shares of common stock in settlement of a previously incurred related party debt of $410,429. The Company valued the shares issued at approximately $0.09 per share for a total of $16,200, which represents the fair value of the shares at the date of issuance. The Company recorded the balance of the debt, or $394,229 from the extinguishment of a related party debt as additional paid in capital.

In May 2007, the Company issued 9,645,752 shares of common stock in exchange for secured convertible promissory notes of $1,000,000 and related accrued interest.

In June 2007, the Company issued 29,691,412 shares of common stock in exchange for secured convertible promissory notes of $2,950,000 and related accrued interest.

In September 2007, the Company issued 19,782,112 shares of common stock in exchange for secured convertible promissory notes of $1,500,000 and related accrued interest.

Preferred and Common Stock Transactions During the Year Ended September 30, 2008:

In November 2007, the Company issued 1,000,000 shares of common stock in exchange for consulting services. The Company valued the shares at $0.14 per share for a total of $140,000, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

In November 2007, the Company issued 479,942 shares of common stock in exchange for secured convertible promissory notes of $50,000 and related accrued interest.

In December 2007, the Company issued 9,000,000 shares of common stock in exchange for consulting services. The Company valued the shares at $0.10 per share for a total of $900,000, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

APPLIED DNA SCIENCES, INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE F — CAPITAL STOCK (continued)

In February 2008, the Company issued 1,375,000 shares of common stock in conjunction with the exercise of warrants.

In April 2008, the Company issued 733,334 shares of common stock in exchange for secured promissory notes of $100,000 and related accrued interest.

In June 2008, the Company issued an aggregate of 4,234,543 shares of common stock in exchange for secured promissory notes of $400,000 and related accrued interest.

In July 2008, the Company issued 2,144,917 shares of common stock in exchange for secured promissory notes of $200,000 and related accrued interest.

In August 2008, the Company issued 1,142,562 shares of common stock in exchange for secured promissory notes of $100,000 and related accrued interest.

In September 2008, the Company issued 4,967,646 shares of common stock in exchange for secured promissory notes of $300,000 and related accrued interest.

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 issuance of convertible debt and the sale of the Company's common stock.

Exercise Prices	Number Outstanding	Warrants Outstanding Remaining Contractual Life (Years)	Weighted Average Exercise Price	Weighted Average Exercisable	Exercisable Weighted Average Exercise Price
$ 0.09	16,400,000	2.92	$ 0.09	16,400,000	$ 0.09
$ 0.10	105,464	0.79	$ 0.10	105,464	$ 0.10
$ 0.20	5,000	0.13	$ 0.20	5,000	$ 0.20
$ 0.50	25,850,000	3.01	$ 0.50	25,850,000	$ 0.50
$ 0.60	6,623,500	0.95	$ 0.60	6,623,500	$ 0.60
$ 0.70	200,000	0.28	$ 0.70	200,000	$ 0.70
$ 0.75	14,797,000	1.35	$ 0.75	14,797,000	$ 0.75
	63,980,964			63,980,964	

APPLIED DNA SCIENCES, INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE G — STOCK OPTIONS AND WARRANTS (continued)

Transactions involving warrants are summarized as follows:

	Number of Shares	Weighted Average Price Per Share
Balance, September 30, 2006	72,369,464	$ 0.48
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	7,200,000	0.50
Exercised	(2,500,000)	(0.09)
Canceled or expired	(23,153,500)	(0.41)
Balance, September 30, 2008	63,980,964	$ 0.46

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	3.25	$ 0.68	3,660,000	$ 0.68
0.09	2,000,000	3.41	0.09	2,000,000	0.09
	5,660,000			5,660,000	$ 0.47

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

	Number of Shares	Weighted Average Exercise Price Per Share
Outstanding at October 1, 2006	5,660,000	$ 0.47
Granted	—	—

Exercised	—		—
Cancelled or expired	—		—
Outstanding at September 30, 2007	5,660,000	$	0.47
Granted	—		—
Exercised	—		—
Canceled or expired	—		—
Outstanding at September 30, 2008	5,660,000	$	0.47

The Company did not grant any employee options during the year ended September 30, 2007.

APPLIED DNA SCIENCES, INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE G — STOCK OPTIONS AND WARRANTS (continued)

Amendment to the 2005 Incentive Stock Plan and Recent Equity Award Grants

On June 17, 2008, the Board of Directors adopted an amendment to the 2005 Incentive Stock Plan that will increase 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 is subject to approval by our stockholders at the 2008 annual meeting of stockholders. In connection with the share increase amendment, the Board of Directors approved the issuance of options to purchase a total of 37,750,000 shares to certain key employees and non-employee directors under the 2005 Incentive Stock Plan, including 17,000,000, 5,000,000 and 7,000,000 to James A. Hayward, Kurt H. Jensen and Ming-Hwa Liang, respectively, and 500,000 to each of Yacov Shamash and Sanford R. Simon. The options approved to be issued by the Board of Directors to our key employees and non-employee directors will vest with respect to 25% of the underlying shares on the date of grant and the remaining will vest ratably each anniversary thereafter until fully vested on the third anniversary of the date of grant.

The effectiveness of the share increase amendment and the approval of the grant of these stock options issued to the key employees and non-employee directors are subject to approval by our stockholders at the 2008 annual meeting of stockholders.

Aggregate intrinsic value of options outstanding and options exercisable at September 30, 2008 was $0. Aggregate intrinsic value represents the difference between the company's closing stock price on the last trading day of the fiscal period, which was $0.05 as of September 30, 2008, and the exercise price multiplied by the number of options outstanding. As of September 30, 2008, total unrecognized stock-based compensation expense related to non-vested stock options was $0.

NOTE H – INCOME TAXES

The Company has adopted Financial Accounting Standard No. 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 bases 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.

At September 30, 2008, the Company has available for federal income tax purposes a net operating loss carryforward of approximately $147,000,000, expiring in the year 2027, that may be used to offset future taxable income. The Company has provided a valuation reserve against the full amount of the net operating loss benefit, since in the opinion of management based upon the earnings history of the Company; it is more likely than not that the benefits will not be realized. Due to significant changes in the Company's ownership, as well as non compliance with filing requirements of corporate tax returns for past several years, the future use of its existing net operating losses may be limited. Components of deferred tax assets as of September 30, 2008 are as follows:

Non current:
Net operating
loss

carryforward	$ 51,500,000
Valuation allowance	(51,500,000)
Net deferred tax asset	$ —

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APPLIED DNA SCIENCES, INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE I-LOSS PER SHARE

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

	For the Year Ended September 30, 2008	For the Year Ended September 30, 2007
Loss available for common shareholders	$ (6,802,898)	$ (13,304,833)
Basic and fully diluted loss per share	$ (0.04)	$ (0.10)
Weighted average common shares outstanding	191,488,042	135,229,885

During the years ended September 30, 2008 and 2007, common stock equivalents are not considered in the calculation of the weighted average number of common shares outstanding because they would be anti-dilutive, thereby decreasing the net loss per common share.

NOTE J- COMMITMENTS AND CONTINGENCIES

The Company leases office space under operating lease in Stony Brook, New York for its corporate use from an entity controlled by significant former shareholder, expiring in October 2009. In November 2005, the Company vacated the Los Angeles facility to relocated to the new Stony Brook New York address Total lease rental expenses for the years ended on September 30, 2008 and 2007, was $76,446 and $49,000, respectively.

Commitments for minimum rentals under non-cancelable lease at September 30, 2008 are as follows:

Year ended September 30,	
2009	$ 80,467
2010	6,758
2011	—
2012	—
2013 and thereafter	—
	$ 87,225

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

In January 2006, a former employee of the Company filed a complaint alleging wrongful termination against the Company. The former employee is seeking $230,000 in damages. The Company believes that it has meritorious defenses to the plaintiff's claims and intends to vigorously defend itself against the Plaintiff's claims. Management believes the ultimate outcome of this matter will not have a material adverse effect on the Company's consolidated financial position or results of operations or liquidity. On June 19, 2008, the Superior Court of California issued a summary dismissal. A written agreement setting forth the final resolution of this matter was also executed and signed by both the employee and the Company on August 21, 2008.

APPLIED DNA SCIENCES, INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE J — COMMITMENTS AND CONTINGENCIES (continued)

On April 23, 2008, a consultant filed a complaint related to a claim for breach of contract. In March 2005, the Company entered into a consulting agreement which provided for, among other things, a payment of $6,000 per month for a period of 24 months, or an aggregate of $144,000. In addition, the consulting agreement provided for the issuance of a five-year warrant to purchase 250,000 shares of the Company's common stock with an exercise price of $.75. The consultant asserts that the Company owes it 17 payments of $6,000, or an aggregate of $102,000, plus accrued interest thereon, and a warrant to purchase 250,000 shares of our common stock. This matter is in the early stages. We intend to vigorously defend against the claims asserted against us. Management believes the ultimate outcome of this matter will not have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

The Company is subject to other legal proceedings and claims, which arise in the ordinary course of its business. Although occasional adverse decisions or settlements may occur, the Company believes that the final disposition of such matters should not have a material adverse effect on its financial position, results of operations or liquidity.

Registration of Company's Shares of Common Stock

In connection with the private placement of our convertible promissory notes and warrants to certain investors during the fiscal quarters ended December 31, 2003, December 31, 2004, March 31, 2005, March 31, 2006 and June 30, 2006, pursuant to a registration rights agreement the Company agreed to file a registration statement to register the common stock issuable upon the conversion of the promissory notes and the exercise of the warrants and to have the registration statement declared effective by the SEC. The registration rights agreement provided for the payment of liquidated damages if a registration statement was not declared effective by the SEC within 120 days of the private placement of the convertible promissory notes. The liquidated damages are equal to 3.5% per month of the aggregate proceeds, with no limitations. The liquidated damages may be paid in cash or our common stock, at our option. Although the promissory notes and warrants do not provide for net-cash settlement, the existence of liquidated damages provides for a defacto net-cash settlement option. Therefore, the common stock issuable upon the conversion of the promissory notes and the exercise of the warrants subject to the liquidated damages provisions of the registration rights agreement does not meet the tests required for shareholders' equity classification in the past, and accordingly has been reflected between liabilities and equity in our previous consolidated balance sheet.

As of September 30, 2007, the Company did not have a registration statement declared effective relating to the common stock issuable upon the conversion of the promissory notes and the exercise of the warrants. In accordance with EITF 00-19-2, the Company evaluated the likelihood of having the registration statement declared effective by the SEC. As of September 30, 2007, the Company determined it was probable that it will be required to remit payments to these investors because of our failure to have the registration statement declared effective and the Company estimated that the obligation to make additional payments would continue for nine months from September 30, 2007, at which time the Company estimated that the registration statement would have been declared effective. Although the Company was unable to estimate the exact amount of time needed to have the registration statement declared effective, it believed that an additional nine months would be required to complete the SEC's comment and review process and have the registration statement declared effective. In accordance with SFAS No. 5, Accounting For Contingencies, the Company recorded an aggregate liability of $11,750,941 as of September 30, 2007 and an increase of $7,725,585 as compared to September 30, 2006, in order to account for the potential liquidated damages accruing until the registration statement is declared effective by the SEC. This increase, which was charged to operations as a selling, general and administrative expense, in fiscal 2007, is comprised of $8,439,976 of current and prior years' stipulated contractual obligations, plus the additional accrual of $3,310,965 described previously to account for the potential liquidated damages until the expected effectiveness of the registration statement is achieved.

At September 30, 2008, the Company has an accumulative accrual of $12,023,888 of liquidated damages in connection with certain previously outstanding convertible promissory notes and related warrants, which is included in accounts payable and accrued liabilities. Any increases to the accrued liabilities will be charged to operations as a selling, general and administrative expense. Any decreases will be included in other income (expenses). During the year ended September 30, 2008, the SEC declared effective the Company's registration statement (see Note C).

APPLIED DNA SCIENCES, INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE J — COMMITMENTS AND CONTINGENCIES (continued)

In developing the best estimate for the accrual of additional liquidating damages, the Company took into account a number of factors and information, including, but not limited to, the following:

- advice of legal counsel and other advisors;
- its experience in addressing comments raised by the SEC in past registration statements;
- the limited number of matters needed to be addressed by the Company to achieve effectiveness;
- its limited resources in connection with responding to SEC comments; and
- the intent to achieve effectiveness of the registration statement as soon as practicable.

Estimates of potential future damages are based on our assumptions and projections and actual results and outcomes could differ significantly.

In September 2007, the Company issued common stock upon conversion of the final convertible promissory note that contained embedded derivatives, such as certain conversion features, variable interest features, call options and default provisions.

Matters Voluntarily Reported to the SEC and Securities Act Violations

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

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

APPLIED DNA SCIENCES, INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE K - GOING CONCERN

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the accompanying consolidated financial statements during year ended September 30, 2008, the Company incurred a loss of $6,802,898. 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 there can be no assurance that the Company's efforts will be successful. Although the planned principal operations have commenced, no assurance can be given that management's actions will result in profitable operations or the resolution of its liquidity problems. The accompanying consolidated financial statements do not include any adjustments that might result should the Company be unable to continue as a going concern.

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

APPLIED DNA SCIENCES, INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE L – SUBSEQUENT EVENTS

10% Secured Convertible Promissory Note dated October 21, 2008

On October 21, 2008, the Company issued a $500,000 convertible promissory note to a related party due October 21, 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 $0.026171520 per share, which is equal to a 30% discount to the average volume, weighted average price of our common stock for the ten trading days prior to issuance. At maturity, the note, including any accrued and unpaid interest, is convertible at $0.02617150 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 1,000,000 warrants to purchase the Company’s common stock at $0.50 per share over a five year term.

Issuance of Common Stock

In October 2008, the Company issued an aggregate of 14,862,472 shares of common stock in exchange for $1,265,000 convertible promissory notes and related accrued interest.

In November 2008, the Company issued an aggregate of 11,648,654 shares of common stock in exchange for $1,100,000 convertible promissory notes and related accrued interest.

APPLIED DNA SCIENCES, INC
UNAUDITED FINANCIAL STATEMENTS
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APPLIED DNA SCIENCES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)

	December 31, 2008 (unaudited)	September 30, 2008
ASSETS		
Current assets:		
Cash	$ 51,146	$ 136,405
Accounts Receivable	70,999	75,150
Prepaid expenses	52,083	83,333
Total current assets	174,228	294,888
Property, plant and equipment-net of accumulated depreciation of $164,150 and $147,132, respectively	46,712	63,730
Other assets:		
Deposits	8,322	8,322
Capitalized finance costs-net of accumulated amortization of $548,058 and $464,274, respectively	29,442	113,226
Intangible assets:		
Patents, net of accumulated amortization of $32,781 and $31,762, respectively (Note B)	1,476	2,494
Intellectual property, net of accumulated amortization and write off of $8,157,631 and $8,066,682, respectively (Note B)	1,273,270	1,364,217
Total Assets	$ 1,533,450	$ 1,846,877
LIABILITIES AND DEFICIENCY IN STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 12,795,577	$ 12,821,171
Convertible notes payable, net of unamortized discount or $382,085 and $486,726, respectively (Note D)	1,067,915	3,063,274
Total current liabilities	13,863,492	15,884,445
Commitments and contingencies (Note H)		
Deficiency in Stockholders' Equity- (Note F)		
Preferred stock, par value $0.001 per share; 10,000,000 shares authorized; -0 shares issued and outstanding	-	-
Common stock, par value $0.001 per share; 410,000,000 shares authorized; 238,491,359 and 205,359,605 issued and outstanding as of December 31, 2008 and September 30, 2008, respectively	238,491	205,359
Additional paid in capital	138,123,762	133,133,354
Accumulated deficit	(150,692,295)	(147,376,281)

Total deficiency in stockholders' equity		(12,330,042)		(14,037,568)
Total Liabilities and Deficiency in Stockholders' Equity	$	1,533,450	$	1,846,877

See the accompanying notes to the unaudited condensed consolidated financial statements

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

	Three Months Ended December 31, 2008	Three Months Ended December 31, 2007
Sales	$ 146,575	$ 123,167
Cost of sales	43,741	27,890
Gross Profit	102,834	95,277
Operating expenses:		
Selling, general and administrative	2,764,009	1,698,269
Research and development	62,529	36,326
Depreciation and amortization	108,984	107,804
Total operating expenses	2,935,522	1,842,399
NET LOSS FROM OPERATIONS	(2,832,688)	(1,747,122)
Interest expense	(482,829)	(385,622)
Net loss before provision for income taxes	(3,315,517)	(2,132,744)
Income taxes	497	-
NET LOSS	$ (3,316,014)	$ (2,132,744)
Net loss per share-basic	$ (0.01)	$ (0.01)
Weighted average shares outstanding-		
Basic and fully diluted	222,657,096	182,131,200

See the accompanying notes to the unaudited condensed consolidated financial statements

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

	Three months ended December 31, 2008	Three months ended December 31, 2007
Cash flows from operating activities:		
Net loss	$ (3,316,014)	$ (2,132,744)
Adjustments to reconcile net loss to net used in operating activities:		
Depreciation and amortization	108,984	107,804
Fair value of vested options issued to officers, directors and employees	1,850,247	-
Amortization of capitalized financing costs	83,784	60,592
Amortization of debt discount attributable to convertible debentures	417,934	324,047
Common stock issued in exchange for services rendered	-	1,040,000
Change in assets and liabilities:		
Decrease (increase) in accounts receivable	4,151	(14,007)
Decrease in prepaid expenses and deposits	31,250	37,875
Decrease in other assets	-	5,500
Increase (decrease) in accounts payable and accrued liabilities	234,405	(855,608)
Net cash used in operating activities	(585,259)	(1,426,541)
Cash flows from investing activities:		
Decrease in restricted cash held in escrow	-	100,000
Acquisition (disposal) of property and equipment, net	-	(5,492)
Net cash provided by investing activities	-	94,508
Cash flows from financing activities:		
Net proceeds from issuance of convertible notes	500,000	2,152,500
Net cash provided by financing activities	500,000	2,152,500
Net increase (decrease) in cash and cash equivalents	(85,259)	820,467
Cash and cash equivalents at beginning of period	136,405	25,185
Cash and cash equivalents at end of period	$ 51,146	$ 845,652
Supplemental Disclosures of Cash Flow Information:		
Cash paid during period for interest	$ -	$ -
Cash paid during period for taxes	$ -	$ -
Non-cash transactions:		
Fair value of vested options issued to officers, directors and employees	$ 1,850,247	$ -
Common stock issued for services	$ -	$ 1,040,000
Common stock issued in exchange for previously incurred debt and accrued interest	$ 2,860,000	$ 50,275

See the accompanying notes to the unaudited condensed consolidated financial statements

APPLIED DNA SCIENCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 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-Q, and therefore, do not include all the information necessary for a fair presentation of financial position, results of operations and cash flows in conformity with generally accepted accounting principles.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month period ended December 31, 2008 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2009. The unaudited condensed consolidated financial statements should be read in conjunction with the consolidated September 30, 2008 financial statements and footnotes thereto included in the Company's SEC Form 10-K.

Business and Basis of Presentation

On September 16, 2002, Applied DNA Sciences, Inc. (the "Company") was incorporated under the laws of the State of Nevada. Effective December 17, 2008, the Company reincorporated from the State of Nevada to the State of Delaware. During the year ended September 30, 2007, the Company transitioned from a development stage enterprise to an operating company. The Company is principally devoted to developing DNA embedded biotechnology security solutions in the United States. To date, the Company has generated minimum sales revenues from its services and products; it has incurred expenses and has sustained losses. Consequently, its operations are subject to all the risks inherent in the establishment of a new business enterprise. For the period from inception through December 31, 2008, the Company has accumulated losses of $150,692,295.

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 December 31, 2008 the Company‘s deferred revenue was $-0-.

APPLIED DNA SCIENCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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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.

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 December 31, 2008, the Company has deemed that no allowance for doubtful accounts was necessary.

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.

In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109 ("FIN 48"). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, treatment of interest and penalties, and disclosure of such positions. Effective October 1, 2007, the Company adopted the provisions of FIN 48, as required. As a result of implementing FIN 48, there has been no adjustment to the Company’s consolidated financial statements and the adoption of FIN 48 did not have a material effect on the Company’s consolidated financial statements for the three month period ended December 31, 2008.

APPLIED DNA SCIENCES, INC.
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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 December 31, 2008 and September 30, 2008 property and equipment consist of:

	December 31, 2008 (unaudited)	September 30, 2008
Computer equipment	$ 27,404	$ 27,404
Lab equipment	77,473	77,473
Furniture	105,985	105,985
	210,862	210,862
Accumulated Depreciation	(164,150)	(147,132)
Net	$ 46,712	$ 63,730

Impairment of Long-Lived Assets

The Company has adopted Statement of Financial Accounting Standards No. 144 (SFAS No. 144). The Statement 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. 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. SFAS No. 144 also requires assets to be disposed of be reported at the lower of the carrying amount or the fair value less costs to sell.

Comprehensive Income

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

Segment Information

The Company adopted Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information ("SFAS No. 131"). SFAS No. 131 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. SFAS No. 131 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

In accordance with SFAS No. 128, “Earnings per Share”, the basic loss per share is computed by dividing loss available to common shareholders by the weighted average number of common shares outstanding. Diluted loss per share is computed similar to basic loss per share except that the denominator is increased to include the number of additional common shares that would have been outstanding as if the potential common shares had been issued and if the additional common shares were dilutive. Common equivalent shares are excluded from the computation of the diluted loss per share as their effect would be anti-dilutive. Fully diluted shares outstanding were 253,851,073 and 245,277,349 for the three months ended December 31, 2008 and 2007, respectively.

APPLIED DNA SCIENCES, INC.
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Stock Based Compensation

On December 16, 2004, the FASB issued SFAS No. 123(R) (revised 2004), “Share-Based Payment” which is a revision of SFAS No. 123, “Accounting for Stock-Based Compensation”. SFAS No. 123(R) supersedes APB opinion No. 25, “Accounting for Stock Issued to Employees”, and amends SFAS No. 95, “Statement of Cash Flows”. Generally, the approach in SFAS No. 123(R) is similar to the approach described in SFAS No. 123. However, SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro-forma disclosure is no longer an alternative. The effective date for our application of SFAS No. 123(R) is September 1, 2006. Management elected to apply SFAS No. 123(R) commencing on that date.

As more fully described in Note G below, the Company granted 37,670,000 and -0- stock options during the three month periods ended December 31, 2008 and 2007, respectively to employees and directors of the Company under a non-qualified employee stock option plan.

As of December 31, 2008, 43,330,000 employee stock options were outstanding with 15,077,500 shares vested and exercisable.

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 December 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 $62,529 and $36,326 for the three month periods ended December 31, 2008 and 2007, respectively.

Reclassifications

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

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Advertising

The Company follows the policy of charging the costs of advertising to expense as incurred. The Company charged to operations $14,337 and $2,246 for the three month periods ended December 31, 2008 and 2007, respectively.

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.

Recent accounting pronouncements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements". The objective of SFAS No. 157 is to increase consistency and comparability in fair value measurements and to expand disclosures about fair value measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. The provisions of SFAS No. 157 are effective for fair value measurements made in fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position ("FSP") 157-2,"Effective Date of FASB Statement No. 157" ("FSP 157-2"), which delayed the effective date of SFAS No. 157 for all non-financial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis, until fiscal years beginning after November 15, 2008. The Company has not yet determined the impact that the implementation of FSP 157-2 will have on our non-financial assets and liabilities which are not recognized on a recurring basis; however, we do not anticipate the adoption of this standard will have a material impact on its consolidated financial position, results of operations or cash flows.

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. 141(R) is effective as of the beginning of the first fiscal year beginning on or after December 15, 2008, which will be the Company's fiscal year 2009. Earlier adoption is prohibited and the Company is currently evaluating the effect, if any that the adoption will have on its consolidated financial position, results of operations or cash flows.

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, which will be the Company's fiscal year 2009. Earlier adoption is prohibited and the Company is currently evaluating the effect, if any that the adoption will have on its consolidated financial position, results of operations or cash flows.

In June 2007, the Accounting Standards Executive Committee issued Statement of Position 07-1, “Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies” (“SOP 07-1”). SOP 07-1 provides guidance for determining whether an entity is within the scope of the AICPA Audit and Accounting Guide Investment Companies (the “Audit Guide”). SOP 07-1 was originally determined to be effective for fiscal years beginning on or after December 15, 2007, however, on February 6, 2008, FASB issued a final Staff Position indefinitely deferring the effective date and prohibiting early adoption of SOP 07-1 while addressing implementation issues.

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In June 2007, the FASB ratified the consensus in EITF Issue No. 07-3, "Accounting for Nonrefundable Advance Payments for Goods or Services to be Used in Future Research and Development Activities" (EITF 07-3), which requires that nonrefundable advance payments for goods or services that will be used or rendered for future research and development (R&D) activities be deferred and amortized over the period that the goods are delivered or the related services are performed, subject to an assessment of recoverability. EITF 07-3 will be effective for fiscal years beginning after December 15, 2007. The Company does not expect that the adoption of EITF 07-3 will have a material impact on its consolidated financial position, results of operations or cash flows.

In December 2007, the FASB ratified the consensus in EITF Issue No. 07-1, "Accounting for Collaborative Arrangements" (EITF 07-1). EITF 07-1 defines collaborative arrangements and requires collaborators to present the result of activities for which they act as the principal on a gross basis and report any payments received from (made to) the other collaborators based on other applicable authoritative accounting literature, and in the absence of other applicable authoritative literature, on a reasonable, rational and consistent accounting policy is to be elected. EITF 07-1 also provides for disclosures regarding the nature and purpose of the arrangement, the entity's rights and obligations, the accounting policy for the arrangement and the income statement classification and amounts arising from the agreement. EITF 07-1 will be effective for fiscal years beginning after December 15, 2008, which will be the Company's fiscal year 2009, and will be applied as a change in accounting principle retrospectively for all collaborative arrangements existing as of the effective date. The Company has not yet evaluated the potential impact of adopting EITF 07-1 on its consolidated financial position, results of operations or cash flows.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities – an amendment to FASB Statement No. 133" ("SFAS No. 161"). SFAS No. 161 is intended to improve financial standards for derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. Entities are required to provide enhanced disclosures about: (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations; and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years beginning after November 15, 2008, with early adoption encouraged. The Company is currently evaluating the impact of SFAS No. 161, if any, will have on its consolidated financial position, results of operations or cash flows.

In April 2008, the FASB issued FSP No. SFAS No. 142-3,"Determination of the Useful Life of Intangible Assets". This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142,"Goodwill and Other Intangible Assets". The Company is required to adopt FSP 142-3 on September 1, 2009, earlier adoption is prohibited. The guidance in FSP 142-3 for determining the useful life of a recognized intangible asset shall be applied prospectively to intangible assets acquired after adoption, and the disclosure requirements shall be applied prospectively to all intangible assets recognized as of, and subsequent to, adoption. The Company is currently evaluating the impact of FSP 142-3 on its consolidated financial position, results of operations or cash flows.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles" ("SFAS No. 162"). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (the GAAP hierarchy). SFAS No. 162 will become effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles." The Company does not expect the adoption of SFAS No. 162 to have a material effect on its consolidated financial position, results of operations or cash flows.

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In May 2008, the FASB issued FSP Accounting Principles Board ("APB") 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)" ("FSP APB 14-1"). FSP APB 14-1 requires the issuer of certain convertible debt instruments that may be settled in cash (or other assets) on conversion to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer's non-convertible debt borrowing rate. FSP APB 14-1 is effective for fiscal years beginning after December 15, 2008 on a retroactive basis. The Company is currently evaluating the potential impact, if any, of the adoption of FSP APB 14-1 on its consolidated financial position, results of operations or cash flows.

In June 2008, the FASB issued FSP Emerging Issues Task Force (EITF) No. 03-6-1, “Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities.” Under the FSP, unvested share-based payment awards that contain rights to receive nonforfeitable dividends (whether paid or unpaid) are participating securities, and should be included in the two-class method of computing EPS. The FSP is effective for fiscal years beginning after December 15, 2008, and interim periods within those years. The Company does not expect the adoption of FSP EITF No. 03-6-1 to have a material effect on its consolidated financial position, results of operations or cash flows.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the AICPA, and the SEC did not, or are not believed by management to, have a material impact on the Company’s present or future consolidated financial statements.

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 December 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
Total Amortized identifiable intangible assets-Gross carrying value:	$	9,465,157
Less:		
Accumulated Amortization		(2,535,400)
Impairment (See below)		(5,655,011)
Net:	$	1,274,746
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.

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Total amortization expense charged to operations for the three month periods ended December 31, 2008 and 2007 was $91,966 and $92,661, respectively.

NOTE C – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

Accounts payable	$	582,942
Accrued consulting fees		102,500
Accrued interest payable		86,247
Accrued penalties relating to registration rights liquidating damages		12,023,888
Total	$	12,795,577

Registration Rights Liquidated Damages

In private placements in November and December, 2003, December, 2004, and January and February, 2005, the Company issued secured convertible promissory notes and warrants to purchase the Company's common stock. Pursuant to the terms of a registration rights agreement, the Company agreed to file a registration statement to be declared effective by the SEC for the common stock underlying the notes and warrants in order to permit public resale thereof. The registration rights agreement provided for the payment of liquidated damages if the stipulated registration deadlines were not met. The liquidated damages are equal to 3.5% per month of the face amount of the notes, which equals $367,885, with no limitations. During the year ended September 30, 2008, the SEC declared effective the Company's registration statement with respect to the common stock underlying the notes and warrants. The Company has accrued $12,023,888 as of December 31, 2008 to account for late effectiveness of the registration statement.

NOTE D – PRIVATE PLACEMENT OF CONVERTIBLE NOTES

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

10% Secured Convertible Notes Payable dated January 17, 2008, net of unamortized debt discount of $10,927 (see below)	$	439,073
10% Secured Convertible Notes Payable dated March 4, 2008, net of unamortized debt discount of $34,885 (see below)		215,115
% Secured Convertible Note Payable dated May 7, 2008, net of unamortized debt discount of $20,606 (see below)		79,394
s Secured Convertible Note Payable dated July 31, 2008, net of unamortized debt discount of $66,750 (see below)		83,250
		251,083

Secured Convertible Note Payable dated October 21, 2008, net of unamortized debt discount of $248,917 (see below)	
	1,067,915
Less: Less current portion	(1,067,915)
	$ -

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10% Secured Convertible Promissory Notes dated January 17, 2008

On January 17, 2008, the Company issued $450,000 principal amount 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 $0.073512803 per share, which is equal to a 30% discount to the average volume, weighted average price of our common stock for the ten trading days prior to issuance. At maturity, the note, including any accrued and unpaid interest, is convertible at $0.073512803 per share. The Company has granted the noteholders a security interest in all the Company's assets.

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 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 $205,708 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.

In connection with the placement of the notes the Company issued non-detachable warrants granting the holders the right to acquire 900,000 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 $43,569 to additional paid in capital and a discount against the notes. 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 notes' maturity period (one year) as interest expense.

The Company recorded the intrinsic value of the embedded beneficial conversion feature ($205,708) and warrants ($43,569) to debt discount, aggregating $249,277, which will be amortized to interest expense over the term of the notes. Amortization of $62,831 was recorded for the three month period ended December 31, 2008.

10% Secured Convertible Promissory Notes dated March 4, 2008

On March 4, 2008, the Company issued $250,000 principal amount convertible promissory notes due March 4, 2009 with interest at 10% per annum due upon maturity. The notes are convertible at any time prior to maturity, at the option of the holders, 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, which is equal to a 30% discount to the average volume, weighted average price of our common stock for the ten trading days prior to issuance. At maturity, the notes, including any accrued and unpaid interest, are convertible at $0.125875423 per share. The Company has granted the noteholders a security interest in all the Company's assets.

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 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 $154,805 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.

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In connection with the placement of the 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 $47,308 to additional paid in capital and a discount against the notes. 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 notes' maturity period (one year) as interest expense.

The Company recorded the intrinsic value of the embedded beneficial conversion feature ($154,805) and warrants ($47,308) to debt discount, aggregating $202,113, which will be amortized to interest expense over the term of the notes. Amortization of $50,944 was recorded for the three month period ended December 31, 2008.

10% Secured Convertible Promissory Note dated May 7, 2008

On May 7, 2008, the Company issued a $100,000 convertible promissory note due May 7, 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 $0.079849085 per share, which is equal to a 30% discount to the average volume, weighted average price of our common stock for the ten trading days prior to issuance. At maturity, the note, including any accrued and unpaid interest, is convertible at $0.079849085 per share. The Company has granted the noteholder a security interest in all the Company's assets.

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 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 $48,490 of the proceeds, which is equal to the intrinsic value of the embedded beneficial conversion feature, to additional paid-in capital and a discount against the note. The debt discount attributed to the beneficial conversion feature is amortized over the note's maturity period (one year) as interest expense.

In connection with the placement of the note the Company issued non-detachable warrants granting the 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 $10,730 to additional paid in capital and a discount against the 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 3.09%, a dividend yield of 0%, and volatility of 101.74%. The debt discount attributed to the value of the warrants issued is amortized over the note's maturity period (one year) as interest expense.

The Company recorded the intrinsic value of the embedded beneficial conversion feature ($48,490) and warrants ($10,730) to debt discount, aggregating $59,220, which will be amortized to interest expense over the term of the Notes. Amortization of $14,927 was recorded for the three month period ended December 31, 2008.

10% Secured Convertible Promissory Note dated July 31, 2008

On May 7, 2008, the Company issued a $150,000 convertible promissory note due July 31, 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 $0.0549483 per share, which is equal to a 30% discount to the average volume, weighted average price of our common stock for the ten trading days prior to issuance. At maturity, the note, including any accrued and unpaid interest, is convertible at $0.0549483 per share. The Company has granted the noteholder a security interest in all the Company's assets.

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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 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 $91,655 of the proceeds, which is equal to the intrinsic value of the embedded beneficial conversion feature, to additional paid-in capital and a discount against the note. The debt discount attributed to the beneficial conversion feature is amortized over the note's maturity period (one year) as interest expense.

In connection with the placement of the note the Company issued non-detachable warrants granting the holder the right to acquire 300,000 shares of the Company's common stock at $0.50 per share. The warrants expire five years from the issuance. In accordance with 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 $23,268 to additional paid in capital and a discount against the 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 3.259%, a dividend yield of 0%, and volatility of 152.00%. The debt discount attributed to the value of the warrants issued is amortized over the note's maturity period (one year) as interest expense.

The Company recorded the intrinsic value of the embedded beneficial conversion feature ($91,655) and warrants ($23,268) to debt discount, aggregating $114,923, which will be amortized to interest expense over the term of the Notes. Amortization of $28,967 was recorded for the three month period ended December 31, 2008.

10% Secured Convertible Promissory Note dated October 21, 2008

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

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

In connection with the placement of the note the Company issued non-detachable warrants granting the holder the right to acquire 1,000,000 shares of the Company's common stock at $0.50 per share. The warrants expire five years from the issuance. In accordance with 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 $34,104 to additional paid in capital and a discount against the 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 1.86%, a dividend yield of 0%, and volatility of 207.46%. The debt discount attributed to the value of the warrants issued is amortized over the note’s maturity period (one year) as interest expense.

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The Company recorded the intrinsic value of the embedded beneficial conversion feature ($279,188) and warrants ($34,104) to debt discount, aggregating $313,292, which will be amortized to interest expense over the term of the Notes. Amortization of $64,375 was recorded for the three month period ended December 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 December 31, 2008.

During the three months ended December 31, 2008, the Company's Chief Executive Officer, or entities controlled by the Company's Chief Executive Officer, had advanced funds to the Company in the amount of $500,000 in the form of a convertible promissory note for working capital purposes (see Note D).

During the three month period ended December 31, 2008 and 2007, the Company had sales of $5,000 and $18,063 (or 3.4% and 14.7% of total sales), respectively, to an entity whereby the Company's Chief Executive Officer was 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 $0.001 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.

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

During the three months ended December 31, 2008, the Company issued 33,131,754 shares of common stock in exchange for convertible notes and accrued interest.

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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 the Company's common stock issued to non-employees of the Company. These warrants were granted in lieu of cash compensation for services performed or financing expenses in connection with the sale of the Company's common stock.

Exercise Prices	Number Outstanding	Warrants Outstanding Remaining Contractual Life (Years)		Weighted Average Exercise Price	Weighted Average Exercisable		Exercisable Weighted Average Exercise Price
$0.09	16,400,000	2.67	$	0.09	16,400,000	$	0.09
$0.10	105,464	0.54	$	0.10	105,464	$	0.10
$0.50	26,850,000	2.83	$	0.50	26,850,000	$	0.50
$0.60	6,623,500	0.70	$	0.60	6,623,500	$	0.60
$0.70	200,000	0.03	$	0.70	200,000	$	0.70
$0.75	14,797,000	1.10	$	0.75	14,797,000	$	0.75
	64,975,964				64,975,964		

Transactions involving warrants are summarized as follows:

	Number of Shares		Weighted Average Price Per Share
Balance, September 30, 2007	82,434,464	$	0.43
Granted	7,200,000		0.50
Exercised	(2,500,000)		(0.09)
Canceled or expired	(23,153,500)		(0.41)
Outstanding at September 30, 2008	63,980,964	$	0.46
Granted	1,000,000		0.50
Exercised	-		-
Canceled or expired	(5,000)		(0.20)
Balance, December 31, 2008	64,975,964	$	0.46

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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	0.75	$ 0.68	3,660,000	$ 0.68
0.09	2,000,000	2.67	0.09	2,000,000	0.09
0.11	37,670,000	4.46	0.11	9,417,500	0.11
	43,330,000			15,077,500	$ 0.49

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

	Number of Shares	Weighted Average Exercise Price Per Share
Outstanding at October 1, 2007	5,660,000	$ 0.47
Granted	-	-
Exercised	-	-
Cancelled or expired	-	-
Outstanding at September 30, 2008	5,660,000	$ 0.47
Granted	37,670,000	0.11
Exercised	-	-
Canceled or expired	-	-
Outstanding at December 31, 2008	43,330,000	$ 0.16

Amendment to the 2005 Incentive Stock Plan and Recent Equity Award Grants

On June 17, 2008, the Board of Directors adopted an amendment to the 2005 Incentive Stock Plan that will increase 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, subsequently approved by the stockholders at the 2008 annual meeting of stockholders in December 2008. In connection with the share increase amendment, the Board of Directors granted options to purchase a total of 37,670,000 shares to certain key employees and non-employee directors under the 2005 Incentive Stock Plan, including 17,000,000, 5,000,000 and 7,000,000 to James A. Hayward, Kurt H. Jensen and Ming-Hwa Liang, respectively, and 500,000 to each of Yacov Shamash and Sanford R. Simon. The options granted to our key employees and non-employee directors vested with respect to 25% of the underlying shares on the date of grant and the remaining will vest ratably each anniversary thereafter until fully vested on the third anniversary of the date of grant. The fair value, determined using the Black Scholes Option Pricing Model, of the vested portion of the options of $1,850,247 was recorded as stock compensation expense for the three month period ended December 31, 2008. The following assumptions were utilized: Dividend yield: -0-%, volatility: 208.48%; risk free rate: 3.66%; expected life: 5 years.

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NOTE H- COMMITMENTS AND CONTINGENCIES

Operating Lease Commitments

The Company leases office space under an operating lease in Stony Brook, New York for its corporate use from an entity controlled by a significant former shareholder, expiring in October 2009. In November 2005, the Company vacated the Los Angeles facility to relocated to the new Stony Brook New York address. Total lease rental expense for the three month periods ended December 31, 2008 and 2007 was $18,638 and $18,083, 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, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. Except as described below, we are currently not aware of any such legal proceedings that we believe will have, individually or in the aggregate, a material adverse affect on our business, financial condition or operating results.

Douglas A. Falkner v. Applied DNA Sciences, Inc./N.C. Industrial Commission File No. 585698

Plaintiff Douglas Falkner ("Falkner") filed a worker’s compensation claim in North Carolina for an alleged work-related neck injury that he alleges occurred on January 14, 2004. Falkner worked as Business Development and Operations Manager at our sole East Coast office at the time of the alleged injury. Falkner was the only employee employed by us in North Carolina at the time of the alleged injury and we have employed no other employees in North Carolina at any other time. The claim has been denied and is being defended on several grounds, including the lack of both personal and subject matter jurisdiction. Specifically, we contend that we did not employ the requisite minimum number of employees in North Carolina at the time of the alleged injury and that the company is therefore not subject to the North Carolina Workers' Compensation Act. The claim was originally set for hearing in January 2007, but was continued to allow the parties to engage in further discovery.

Douglas A. Falkner v. Applied DNA Sciences, Inc. (Los Angeles County Superior Court Case No. BC 386557):

Falkner filed a claim on March 3, 2008 asserting counts for breach of contract under his employment agreements dated March 10, 2003 and June 16, 2003 and wrongful discharge in violation of public policy. The relief sought includes compensatory damages in an aggregate amount of approximately $1.7 million, unspecified exemplary and punitive damages, and attorneys’ fees. We have filed a motion for summary judgment that will be heard on February 19, 2009. The trial is currently set for March 24, 2009. We intend to vigorously defend against the claims asserted against us.

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

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

Registration of Company's Shares of Common Stock

In connection with the private placement of our convertible promissory notes and warrants to certain investors during the fiscal quarters ended December 31, 2003, December 31, 2004, March 31, 2005, March 31, 2006 and June 30, 2006, pursuant to a registration rights agreement the Company agreed to file a registration statement to register the common stock issuable upon the conversion of the promissory notes and the exercise of the warrants and to have the registration statement declared effective by the SEC. The registration rights agreement provided for the payment of liquidated damages if a registration statement was not declared effective by the SEC within 120 days of the private placement of the convertible promissory notes. The liquidated damages are equal to 3.5% per month of the aggregate proceeds, with no limitations. The liquidated damages may be paid in cash or our common stock, at our option. Although the promissory notes and warrants do not provide for net-cash settlement, the existence of liquidated damages provides for a defacto net-cash settlement option. Therefore, the common stock issuable upon the conversion of the promissory notes and the exercise of the warrants subject to the liquidated damages provisions of the registration rights agreement does not meet the tests required for shareholders' equity classification in the past, and accordingly has been reflected between liabilities and equity in our previous consolidated balance sheet.

As of September 30, 2007, the Company did not have a registration statement declared effective relating to the common stock issuable upon the conversion of the promissory notes and the exercise of the warrants. In accordance with EITF 00-19-2, the Company evaluated the likelihood of having the registration statement declared effective by the SEC. As of September 30, 2007, the Company determined it was probable that it will be required to remit payments to these investors because of our failure to have the registration statement declared effective and the Company estimated that the obligation to make additional payments would continue for nine months from September 30, 2007, at which time the Company estimated that the registration statement would have been declared effective. Although the Company was unable to estimate the exact amount of time needed to have the registration statement declared effective, it believed that an additional nine months would be required to complete the SEC's comment and review process and have the registration statement declared effective. In accordance with SFAS No. 5, Accounting For Contingencies, the Company recorded an aggregate liability of $11,750,941 as of September 30, 2007 and an increase of $7,725,585 as compared to September 30, 2006, in order to account for the potential liquidated damages accruing until the registration statement is declared effective by the SEC. This increase, which was charged to operations as a selling, general and administrative expense, in fiscal 2007, is comprised of $8,439,976 of current and prior years' stipulated contractual obligations, plus the additional accrual of $3,310,965 described previously to account for the potential liquidated damages until the expected effectiveness of the registration statement is achieved.

At December 31, 2008, the Company has an accumulative accrual of $12,023,888 of liquidated damages in connection with certain previously outstanding convertible promissory notes and related warrants, which is included in accounts payable and accrued liabilities. Any increases to the accrued liabilities will be charged to operations as a selling, general and administrative expense. Any decreases will be included in other income (expenses). During the year ended September 30, 2008, the SEC declared effective the Company's registration statement (see Note C).

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In developing the best estimate for the accrual of additional liquidating damages, the Company took into account a number of factors and information, including, but not limited to, the following:

- advice of legal counsel and other advisors;
- its experience in addressing comments raised by the SEC in past registration statements;
- the limited number of matters needed to be addressed by the Company to achieve effectiveness;
- its limited resources in connection with responding to SEC comments; and
- the intent to achieve effectiveness of the registration statement as soon as practicable.

Estimates of potential future damages are based on our assumptions and projections and actual results and outcomes could differ significantly.

In September 2007, the Company issued common stock upon conversion of the final convertible promissory note that contained embedded derivatives, such as certain conversion features, variable interest features, call options and default provisions.

Matters Voluntarily Reported to the SEC and Securities Act Violations

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

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

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 during the three month period ended December 31, 2008, the Company incurred a loss of $3,316,014. These factors among others may indicate that the Company will be unable to continue as a going concern for a reasonable period of time.

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(unaudited)

The Company's existence is dependent upon management's ability to develop profitable operations. Management is devoting substantially all of its efforts to developing DNA embedded biotechnology security solutions in the United States and Europe and there can be no assurance that the Company's efforts will be successful and no assurance can be given that management's actions will result in profitable operations or the resolution of its liquidity problems. The accompanying statements do not include any adjustments that might result should the Company be unable to continue as a going concern.

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

NOTE J – SUBSEQUENT EVENTS

On January 17, 2009, the Company issued 6,733,521 shares of common stock upon the automatic conversion of a secured convertible promissory note.

Effective January 13, 2009, the Company entered into a Consulting Agreement with Strategic Partners Consulting, LLC (“SPC”). Under the terms of the Consulting Agreement, SPC will provide consulting services to the Company on various matters related to corporate planning. The Consulting Agreement is for a term of one year. In consideration for these consulting services, upon execution of the Consulting Agreement the Company issued to SPC ten million (10,000,000) shares of the Company’s common stock, par value $0.001 per share.

On January 29, 2009, the Company sold a $150,000 principal amount secured promissory note bearing interest at a rate of 10% per annum and a warrant to purchase 300,000 shares of our common stock to James A. Hayward, the Chairman, President, Chief Executive Officer and a director.

The promissory note and accrued but unpaid interest thereon shall automatically convert on January 29, 2010 at a conversion price of $0.033337264 per share, which is equal to a 20% discount to the average volume, weighted average price of the Company’s common stock for the ten trading days prior to issuance, and are convertible into shares of the Company’s common stock at the option of the noteholder at any time prior to such automatic conversion at a price equal to the greater of (i) 50% of the average price of the Company’sr common stock for the ten trading days prior to the date of the notice of conversion and (ii) the automatic conversion price. In addition, any time prior to conversion, the Company has the irrevocable right to repay the unpaid principal and accrued but unpaid interest under the notes on three days written notice (during which period the holder can elect to convert the note). The promissory notes bear interest at the rate of 10% per annum and are due and payable in full on January 29, 2010. Until the principal and accrued but unpaid interest under the promissory note are paid in full, or converted into the Company’s common stock, the promissory note will be secured by a security interest in all of our assets.

The warrant is exercisable for a four-year period commencing on January 29, 2010, and expiring on January 28, 2014, at a price of $0.50 per share. The warrant may be redeemed at our option at a redemption price of $0.01 upon the earlier of (i) January 29, 2012, and (ii) the date our common stock has been quoted on The Over the Counter Bulletin Board at or above $1.00 per share for 20 consecutive trading days.

PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The following table sets forth an itemization of all estimated expenses, all of which we either have paid or will pay, in connection with the issuance and distribution of the securities being registered:

Nature of Expense	Amount
Registration fee	$ 104.71
Accounting fees and expenses	$ 20,000.00*
Legal fees and expenses	$ 30,000.00*
Miscellaneous	$ 20,000.00*
TOTAL	$ 70,104.71*

* Estimated.

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Our Certificate of Incorporation provides to the fullest extent permitted by Delaware law that our directors or officers shall not be personally liable to us or our shareholders for damages for breach of such director's or officer's fiduciary duty. The effect of this provision of our Certificate of Incorporation is to eliminate our right and our shareholders (through shareholders' derivative suits on behalf of our company) to recover damages against a director or officer for breach of the fiduciary duty of care as a director or officer (including breaches resulting from negligent or grossly negligent behavior), except under certain situations defined by statute. We believe that the indemnification provisions in its Certificate of Incorporation are necessary to attract and retain qualified persons as directors and officers.

Insofar as indemnification for liabilities arising under the Securities Act, as amended, may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES.

In the three years preceding the filing of this registration statement, the registrant has issued the following securities that were not registered under the Securities Act:

On March 8, 2006, we completed a private placement offering in which 30 units (the "Units") of our securities were sold, each Unit consisting of (i) a $50,000 Principal Amount 10% Secured Convertible Promissory Note (the "Notes") and (ii) warrants (the "Warrants") to purchase 100,000 shares of our common stock, or an aggregate of $1,500,000 in principal amount of Notes and Warrants to purchase 3,000,000 shares of common stock, for aggregate gross proceeds of $1,500,000. The Units were sold pursuant to Subscription Agreements, by and between each of the purchasers and Applied DNA Operations Management, Inc., our wholly owned subsidiary. This issuance is considered exempt under Regulation S of the Securities Act.

On May 2, 2006, we closed on the first tranche of the Offshore Offering in which we sold 20 units for aggregate gross proceeds of $1,000,000. On June 15, 2006, we completed the second tranche of the Offshore Offering in which we sold 59 units for aggregate gross proceeds of $2,950,000. The units being sold consist of (i) a $50,000 principal amount secured convertible promissory note and (ii) a warrant to purchase 100,000 shares of our common stock at a price of $0.50 per share. These issuances are considered exempt under Regulation S of the Securities Act.

On June 15, 2006, in connection with a private placement, we issued 10% Secured Convertible Promissory Notes in the aggregate principal amount of $2,950,000 (the "Serial Notes") and warrants to purchase 5,900,000 shares of the Company's common stock to accredited investors. The Serial Notes bear interest at 10%, mature on August 2, 2007 and are convertible into the Company's common stock, at the holder's option, at fifty cents ($0.50) per share during the period from the one years from the date of issuance (June 15, 2006) through June 15, 2007.

On July 10, 2006, we issued 2,400,000 shares of common stock in exchange for services rendered. We valued the shares issued at $0.20 per share for a total of $480,000, which did not differ materially from the value of the stock issued and represented the fair value of the services received. This issuance is considered exempt under Regulation D of the Securities Act and Rule 506 promulgated thereunder. We claim an exemption from the registration requirements of the Securities Act for the private placement of the units pursuant to Section 4(2) of the Securities Act because each of the securities was made in a sale by the issuer not involving a public offering.

On December 12, 2006 we issued 180,000 shares of common stock in exchange for our promissory note in principal amount of $410,429 and accrued interest thereon of $8,883. We valued the shares issued at $0.09 per share for a total of $16,200. This issuance is considered exempt under Section 3(a)(9) of the Securities Act.

On April 23, 2007, we issued and sold a $100,000 principal amount secured promissory note bearing interest at a rate of 10% per annum and a warrant to purchase 200,000 shares of our common stock to James A. Hayward, a director and the Chief Executive Officer of the Company. We claim an exemption from the registration requirements of the Securities Act for the private placement of the securities pursuant to Section 4(2) of the Securities Act because each of the securities was made in a sale by the issuer not involving a public offering.

On June 27, 2007, we completed a private placement offering (the "Offering") in which we issued and sold to certain investors an aggregate of 3 units (the "Units") of our securities, each Unit consisting of (i) a $50,000 Principal Amount of 10% Secured Convertible Promissory Note (the "Notes") and (ii) warrants (the "Warrants") to purchase 100,000 shares of our common stock. Arjent Limited, a registered broker dealer firm, acted as our placement agent in connection with the Offering. We paid Arjent Limited: (a) a commission equal to $15,000, representing 10% of the Offering proceeds; (b) a 3% non-accountable expense allowance in the amount of $4,500; and (c) 2% non-accountable due diligence expenses in the amount of $3,000.

On June 30, 2007, we issued and sold a $250,000 principal amount secured promissory note bearing interest at a rate of 10% per annum and a warrant to purchase 500,000 shares of our common stock to James A. Hayward, a director, the Chairman of the Board of Directors, our President and Chief Executive Officer. We claim an exemption from the registration requirements of the Securities Act for the private placement of the securities pursuant to Section 4(2) of the Securities Act because each of the securities was made in a sale by the issuer not involving a public offering.

On July 30, 2007, we issued and sold a $200,000 principal amount secured promissory note bearing interest at a rate of 10% per annum and a warrant to purchase 400,000 shares of our common stock to James A. Hayward, a director and our Chief Executive Officer. We claim an exemption from the registration requirements of the Securities Act for the private placement of the securities pursuant to Section 4(2) of the Securities Act because each of the securities was made in a sale by the issuer not involving a public offering.

On August 8, 2007, we issued and sold a $100,000 principal amount secured promissory note bearing interest at a rate of 10% per annum and a warrant to purchase 200,000 shares of our common stock. We claim an exemption from the registration requirements of the Securities Act for the private placement of the securities pursuant to Section 4(2) of the Securities Act because each of the securities was made in a sale by the issuer not involving a public offering.

On October 4, 2007, we completed the first tranche of a private placement of up to 20 units at a price of $100,000 per unit for sale to "accredited investors," as defined in regulations promulgated under the Securities Act of 1933, as amended. In this first tranche, we sold 5 units for aggregate gross proceeds of $500,000. Each such unit consists of (i) a $100,000 Principal Amount 10% Secured Convertible Promissory Note and (ii) a warrant to purchase 200,000 shares of our common stock, $0.001 par value, exercisable for cash or on a cashless basis for a period of four years commencing on October 4, 2008, at a price of $0.50 per share. In addition to the first tranche of a private placement on the terms described above, on October 4, 2007, we issued and sold a $50,000 10% Secured Convertible Promissory Note and a warrant to purchase 100,000 shares of our common stock. Arjent Limited, a registered broker dealer firm, (the "Placement Agent") acted as our placement agent in connection with the offering. We paid the Placement Agent commissions and discounts aggregating $200,000. We claim an exemption from the registration requirements of the Securities Act for the private placement of the units pursuant to Section 4(2) of the Securities Act because each of the units was made in a sale by the issuer not involving a public offering.

On October 9, 2007 we issued one million shares of our common stock to TTR Group LLC pursuant to a consulting agreement for consulting services to be provided to us. This issuance is considered exempt under Regulation D of the Securities Act and Rule 506 promulgated thereunder.

On October 30, 2007, we completed the second tranche of a private placement of up to 20 units at a price of $100,000 per unit for sale to "accredited investors," as defined in regulations promulgated under the Securities Act of 1933, as amended. In this second tranche, we sold five and a half units for aggregate gross proceeds of $550,000. Each such unit consists of (i) a $100,000 Principal Amount 10% Secured Convertible Promissory Note and (ii) a warrant to purchase 200,000 shares of our common stock, $0.001 par value, exercisable for cash or on a cashless basis for a period of four years commencing on October 30, 2008, at a price of $0.50 per share. In addition to the second tranche of a private placement on the terms described above, we issued and sold two $50,000 10% Secured Convertible Promissory Notes and two warrants to purchase 100,000 shares of our common stock. In connection with the sale of the sale of securities described above, we paid the Placement Agent commissions and discounts aggregating $162,500. We claim an exemption from the registration requirements of the Securities Act for the private placement of the units pursuant to Section 4(2) of the Securities Act because each of the units was made in a sale by the issuer not involving a public offering.

On November 29, 2007, we completed the third tranche of a private placement of up to 20 units at a price of $100,000 per unit for sale to "accredited investors," as defined in regulations promulgated under the Securities Act of 1933, as amended. In this third tranche, we ten units for aggregate gross proceeds of $1,000,000. Each such unit consists of (i) a $100,000 Principal Amount 10% Secured Convertible Promissory Note and (ii) a warrant to purchase 200,000 shares of our common stock, $0.001 par value, exercisable for cash or on a cashless basis for a period of four years commencing on November 29, 2008, at a price of $0.50 per share. In connection with the sale of the sale of securities described above, we paid the Placement Agent commissions and discounts aggregating $249,810. We claim an exemption from the registration requirements of the Securities Act for the private placement of the units pursuant to Section 4(2) of the Securities Act because each of the units was made in a sale by the issuer not involving a public offering.

On December 20, 2007, we completed the fourth tranche of a private placement of units at a price of $100,000 per unit for sale to "accredited investors," as defined in regulations promulgated under the Securities Act of 1933, as amended (the "Securities Act"). In this fourth tranche, we sold four and a half units for aggregate gross proceeds of $450,000.

Previously, we completed three tranches of twenty and one units for aggregate gross proceeds of $2,100,000. Each unit consists of (i) a $100,000 Principal Amount 10% Secured Convertible Promissory Note and (ii) a warrant to purchase 200,000 shares of our common stock, $0.001 par value, exercisable for cash or on a cashless basis for a period of four years commencing on December 20, 2008, at a price of $0.50 per share. In connection with the sale of securities described above, we paid the Placement Agent commissions, discounts, expense reimbursements and advances aggregating $112,500. We claim an exemption from the registration requirements of the Securities Act for the private placement of the units pursuant to Section 4(2) of the Securities Act because each of the units was made in a sale by the issuer not involving a public offering.

On December 21, 2007, we entered into an amendment to our engagement agreement with the Placement Agent, dated August 31, 2007 (the "Engagement Agreement"). Pursuant to the Engagement Agreement, as amended, we issued 9,000,000 shares of our common stock to the Placement Agent in exchange for the cancellation of the cashless exercise warrant to purchase 9,000,000 shares of our common stock at an exercise price of $.10 per share issued to the Placement Agent pursuant to the Engagement Agreement. This issuance is considered exempt under Regulation D of the Securities Act and Rule 506 promulgated thereunder.

On January 17, 2008, we completed the fifth tranche of a private placement of units at a price of $100,000 per unit for sale to "accredited investors," as defined in regulations promulgated under the Securities Act of 1933, as amended. In this fifth tranche, we sold four and a half units for aggregate gross proceeds of $450,000. Each such unit consists of (i) a $100,000 Principal Amount 10% Secured Convertible Promissory Note and (ii) a warrant to purchase 200,000 shares of our common stock, $0.001 par value, exercisable for cash or on a cashless basis for a period of four years commencing on January 17, 2009, at a price of $0.50 per share. In connection with the sale of the sale of securities described above, we paid the Placement Agent commissions and discounts aggregating $77,500. We claim an exemption from the registration requirements of the Securities Act for the private placement of the units pursuant to Section 4(2) of the Securities Act because each of the units was made in a sale by the issuer not involving a public offering.

On March 4, 2008, we completed the sixth tranche of a private placement of units at a price of $100,000 per unit for sale to "accredited investors," as defined in regulations promulgated under the Securities Act of 1933, as amended. In this sixth tranche, we sold two and a half units for aggregate gross proceeds of $250,000. Each such unit consists of (i) a $100,000 Principal Amount 10% Secured Convertible Promissory Note and (ii) a warrant to purchase 200,000 shares of our common stock, $0.001 par value, exercisable for cash or on a cashless basis for a period of four years commencing on March 4, 2009, at a price of $0.50 per share. In connection with the sale of the sale of securities described above, we paid the Placement Agent commissions and discounts aggregating $37,500. We claim an exemption from the registration requirements of the Securities Act for the private placement of the units pursuant to Section 4(2) of the Securities Act because each of the units was made in a sale by the issuer not involving a public offering.

On May 7, 2008, we completed the seventh tranche of a private placement of units at a price of $100,000 per unit for sale to "accredited investors," as defined in regulations promulgated under the Securities Act. In this seventh tranche, we sold one unit for aggregate gross proceeds of $100,000. The unit consists of (i) a $100,000 Principal Amount 10% Secured Convertible Promissory Note and (ii) a warrant to purchase 200,000 shares of our common stock, $0.001 par value, exercisable for cash or on a cashless basis for a period of four years commencing on May 7, 2009, at a price of $0.50 per share. In connection with the sale of the sale of securities described above, we paid the Placement Agent commissions and discounts aggregating $15,000. We claim an exemption from the registration requirements of the Securities Act for the private placement of the units pursuant to Section 4(2) of the Securities Act because each of the units was made in a sale by the issuer not involving a public offering.

On July 31, 2008, we completed the eighth tranche of a private placement of units at a price of $100,000 per unit for sale to "accredited investors," as defined in regulations promulgated under the Securities Act. In this eighth tranche, we sold one and a half units for aggregate gross proceeds of $150,000. Each such unit consists of (i) a $100,000 Principal Amount 10% Secured Convertible Promissory Note and (ii) a warrant to purchase 200,000 shares of our common stock, $0.001 par value, exercisable for cash or on a cashless basis for a period of four years commencing on July 31, 2009, at a price of $0.50 per share. In connection with the sale of the sale of securities described above, we paid the Placement Agent commissions and discounts aggregating $22,500. We claim an exemption from the registration requirements of the Securities Act for the private placement of the units pursuant to Section 4(2) of the Securities Act because each of the units was made in a sale by the issuer not involving a public offering.

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On October 21, 2008, we issued and sold to James A. Hayward a $500,000 principal amount secured promissory note (“October Note”) bearing interest at a rate of 10% per annum and a warrant (“October Warrant”) to purchase 1,000,000 shares of our common stock. The October Note and accrued but unpaid interest thereon is convertible into shares of our common stock at a price of $0.50 per share by the holder at any time from October 21, 2008, through October 20, 2009, and shall automatically convert on October 21, 2009 at a conversion price of $0.026171520 per share, which is equal to a 30% discount to the average volume, weighted average price of our common stock for the ten trading days prior to issuance. At any time prior to conversion, we have the right to prepay the October Note and accrued but unpaid interest thereon upon 3 days prior written notice (during which period the holder can elect to convert the note). The October Warrant is exercisable for a four-year period commencing on October 21, 2009, and expiring on October 20, 2013, at a price of $0.50 per share. The October Warrant may be redeemed at our option at a redemption price of $0.01 upon the earlier of (i) October 20, 2011, and (ii) the date our common stock has traded on The Over the Counter Bulletin Board at or above $1.00 per share for 20 consecutive trading days. No commissions were paid in connection with the sale of the sale of securities described above. We claim an exemption from the registration requirements of the Securities Act for the private placement of the securities pursuant to Section 4(2) of the Securities Act because the securities were sold by the issuer not involving a public offering.

On January 29, 2009, we issued and sold to James A. Hayward a $150,000 principal amount secured promissory note (“January Note”) bearing interest at a rate of 10% per annum and a warrant (“January Warrant”) to purchase 300,000 shares of our common stock. The January Note and accrued but unpaid interest thereon shall automatically convert on January 29, 2010 at a conversion price of $0.033337264 per share, which is equal to a 20% discount to the average volume, weighted average price of our common stock for the ten trading days prior to issuance, and are convertible into shares of our common stock at the option of the noteholder at any time prior to such automatic conversion at a price equal to the greater of (i) 50% of the average price of our common stock for the ten trading days prior to the date of the notice of conversion and (ii) the automatic conversion price. In addition, any time prior to conversion, we have the irrevocable right to repay the unpaid principal and accrued but unpaid interest under the January Note on three days written notice (during which period the holder can elect to convert the note). The January Note bears interest at the rate of 10% per annum and is due and payable in full on January 29, 2010. Until the principal and accrued but unpaid interest under the January Note are paid in full, or converted into our common stock, the January Note will be secured by a security interest in all of our assets. The January Warrant is exercisable for a four-year period commencing on January 29, 2010, and expiring on January 28, 2014, at a price of $0.50 per share. The January Warrant may be redeemed at our option at a redemption price of $0.01 upon the earlier of (i) January 29, 2012, and (ii) the date our common stock has been quoted on The Over the Counter Bulletin Board at or above $1.00 per share for 20 consecutive trading days.

* All of the above offerings and sales were deemed to be exempt under Rule 506 of Regulation D and/or Section 4(2) of the Securities Act. No advertising or general solicitation was employed in offering the securities. The offerings and sales were made to a limited number of persons, all of whom were accredited investors, business associates of Applied DNA Sciences or executive officers of Applied DNA Sciences, and transfer was restricted by Applied DNA Sciences in accordance with the requirements of the Securities Act. In addition to representations by the above-referenced persons, we have made independent determinations that all of the above-referenced persons were accredited or sophisticated investors, and that they were capable of analyzing the merits and risks of their investment, and that they understood the speculative nature of their investment. Furthermore, all of the above-referenced persons were provided with access to our SEC filings. Except as disclosed above, we have not employed any underwriters in connection with any of the above transactions.

Except as expressly set forth above, the individuals and entities to whom we issued securities as indicated in this section of the registration statement are unaffiliated with us.

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ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(A) Exhibits

The following exhibits are included as part of this Form S-1. References to “the Company” in this Exhibit List mean Applied DNA Sciences, Inc., a Delaware corporation.

Exhibit	Description
3.1	Certificate of Incorporation of Applied DNA Sciences, Inc., filed December 17, 2008 with the Secretary of State of the State of Delaware, filed as an exhibit to the current report on Form 8-K filed with the Commission on January 16, 2009 and incorporated herein by reference.
3.2	By-Laws of Applied DNA Sciences, Inc., filed as an exhibit to the current report on Form 8-K filed with the Commission on January 16, 2009 and incorporated herein by reference.
4.1	Form of Subscription Agreement, filed as an exhibit to the current report on Form 8-K filed with the Commission on January 28, 2005 and incorporated herein by reference.
4.2	Form of 10% Secured Convertible Promissory Note, filed as an exhibit to the current report on Form 8-K filed with the Commission on January 28, 2005 and incorporated herein by reference.
4.3	Form of Warrant Agreement, filed as an exhibit to the current report on Form 8-K filed with the Commission on January 28, 2005 and incorporated herein by reference.
4.4	Registration Rights Agreement, dated January 28, 2005, between the Company and Vertical Capital Partners, Inc., on behalf of the investors, filed as an exhibit to the current report on Form 8-K filed with the Commission on January 28, 2005 and incorporated herein by reference.
4.5	Security Agreement, dated January 28, 2005, between the Company and Vertical Capital Partners, Inc., on behalf of the investors, filed as an exhibit to the current report on Form 8-K filed with the Commission on January 28, 2005 and incorporated herein by reference.
4.6	Form of Subscription Agreement, filed as an exhibit to the current report on Form 8-K filed with the Commission on October 11, 2007 and incorporated herein by reference.
4.7	Form of 10% Secured Convertible Promissory Note, filed as an exhibit to the current report on Form 8-K filed with the Commission on October 11, 2007 and incorporated herein by reference.
4.8	Form of Warrant Agreement, filed as an exhibit to the current report on Form 8-K filed with the Commission on October 11, 2007 and incorporated herein by reference.
5.1	Fulbright & Jaworski L.L.P. Opinion and Consent , filed as an exhibit to Post-Effective Amendment No. 1 to Form S-1 filed with the Commission on February 11, 2009 and incorporated herein by reference .
10.1#	Technology Reseller Agreement, dated March 19, 2007 by and between Applied DNA Sciences and HPT International LLC, filed as an exhibit to the current report on Form 8-K filed with the Commission on March 23, 2007 and incorporated herein by reference.

10.2#	Joint Development and Marketing Agreement, dated April 18, 2007 by and between Applied DNA Sciences and International Imaging Materials, Inc., filed as an exhibit to the current report on Form 8-K filed with the Commission on April 24, 2007 and incorporated herein by reference.
10.3	Settlement Agreement and General Release of All Claims by and between the Applied DNA parties and Chanty Cheang, filed as an exhibit to the current report on Form 8-K filed with the Commission on May 4, 2007 and incorporated herein by reference.
10.4#	Product Development, Marketing and Distribution Agreement, dated May 8, 2007 by and between Applied DNA Sciences, Inc. and Champion Thread Company, Inc., filed as an exhibit to the current report on Form 8-K filed with the Commission on May 11, 2007 and incorporated herein by reference.
10.5#	Technology Reseller Agreement, dated May 30, 2007 by and between Applied DNA Sciences, Inc. and Printcolor Screen Ltd., filed as an exhibit to the current report on Form 8-K filed with the Commission on June 1, 2007 and incorporated herein by reference.
10.6#	Feasibility Study Agreement, dated June 27, 2007 by and between Applied DNA Sciences, Inc. and Supima, filed as an exhibit to the current report on Form 8-K filed with the Commission on July 3, 2007 and incorporated herein by reference.
10.7	Engagement Agreement, dated August 23, 2007 by and between Applied DNA Sciences, Inc. and ARjENT Limited, filed as an exhibit to the current report on Form 8-K filed with the Commission on September 7, 2007 and incorporated herein by reference.
10.8	Amendment to Engagement Letter, dated December 20, 2007, by and between Applied DNA Sciences, Inc. and ARjENT Limited, filed as an exhibit to the current report on Form 8-K filed with the Commission on December 28, 2007 and incorporated herein by reference.

10.9	Form of Employee Stock Option Agreement under The Applied DNA Sciences, Inc. 2005 Incentive Stock Plan of Applied DNA Sciences, Inc. filed as an exhibit to the quarterly report on Form 10-QSB filed with the Commission on August 14, 2008 and incorporated herein by reference.
10.10	Form of Director Stock Option Agreement under The Applied DNA Sciences, Inc. 2005 Incentive Stock Plan of Applied DNA Sciences, Inc. filed as an exhibit to the quarterly report on Form 10-QSB filed with the Commission on August 14, 2008 and incorporated herein by reference.
23.1	Consent of RBSM LLP (filed herewith)
24.1	Power of Attorney filed as an exhibit to the registration statement on Form S-1 filed with the Commission on August 22, 2008 and incorporated herein by reference

A request for confidentiality has been filed for certain portions of the indicated document. Confidential portions have been omitted and filed separately with the Securities and Exchange Commission as required by Rule 24b-2 promulgated under the Securities Exchange Act of 1934.

(b) Financial Statement Schedules.

Schedules have been omitted because the information required to be set forth therein is not applicable or is shown in the financial statements or notes thereto.

ITEM 28. UNDERTAKINGS.

The undersigned registrant hereby undertakes:

1. To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement:

(i) To include any propectus required by section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20% change in the maximum aggregate offering price set forth in the “Calculation of Registration Fee” table in the effective registration statement.

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

2. That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

3. To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

4. That, for the purpose of determining liability of the registrant under the Securities Act of 1933 to any purchaser in the initial distribution of the securities: The undersigned registrant undertakes that in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

(i) Any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424;

(ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;

(iii) The portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and

(iv) Any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers and controlling persons pursuant to the provisions above, or otherwise, we have been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act, and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities, other than the payment by us of expenses incurred or paid by one of our directors, officers, or controlling persons in the successful defense of any action, suit or proceeding, is asserted by one of our directors, officers, or controlling persons in connection with the securities being registered, we will, unless in the opinion of our counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question of whether such indemnification is against public policy as expressed in the Securities Act, and we will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this Amendment No. 1 to Post-Effective Amendment No. 1 to the Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Stony Brook, New York, on February 19 , 2009.

APPLIED DNA SCIENCES, INC.
(Registrant)

By: /s/ JAMES A. HAYWARD
James A. Hayward
Chairman, President and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this Amendment No. 1 to Post-Effective Amendment No. 1 to the Registration Statement has been signed by the following persons in the capacities and on the date indicated.

Signature	Title	Date
/s/ James A. Hayward James A. Hayward	Chairman, President, Chief Executive Officer (Principal Executive Officer) and Director	February 19 , 2009
/s/ Kurt H. Jensen Kurt H. Jensen	Chief Financial Officer (Principal Financial and Accounting Officer) and Secretary	February 19 , 2009
* Yacov Shamash	Director	February 19 , 2009
* Sanford R. Simon	Director	February 19 , 2009

*By: /s/ JAMES A. HAYWARD
James A. Hayward
Attorney-in-Fact

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