

APPLIED DNA SCIENCES INC  
Form 10QSB  
August 20, 2007

---

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10QSB

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

For the Quarterly period ended June 30, 2007

Commission file number 002-90519

**APPLIED DNA SCIENCES, INC.**  
(Exact name of registrant as specified in its charter)

**Nevada**  
(State or other jurisdiction of  
incorporation or organization)

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

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

**11790**  
(Zip Code)

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

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

Yes  No

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

Yes  No

- The number of shares of Common Stock, \$0.001 par value, outstanding on August 17, 2007, was approximately 160,499,549.
- Transitional Small Business Disclosure Format (check one):

Yes  No

---

**APPLIED DNA SCIENCES, INC**  
**QUARTERLY REPORT ON FORM 10-QSB FOR THE**  
**QUARTERLY PERIOD ENDING JUNE 30, 2007**

**Table of Contents**

**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

Condensed Consolidated Balance Sheet: June 30, 2007 (Unaudited)	1
Condensed Consolidated Statements of Losses: Three Months Ended June 30, 2007 and 2006 (Unaudited) and the Period from September 16, 2002 (Date of Inception) Through June 30, 2007 (Unaudited)	2
Condensed Consolidated Statement of Stockholder's Equity (Deficiency): For the Period from September 16, 2002 (Date of Inception) Through June 30, 2007 (Unaudited)	3
Condensed Consolidated Statements of Cash Flows: Three Months Ended June 30, 2007 and 2006 (Unaudited) and the Period from September 16, 2002 (Date of Inception) Through June 30, 2007 (Unaudited)	17
Notes to Unaudited Condensed Consolidated Financial Information: June 30, 2007	19-42

<b>Item 2. Management's Discussion and Analysis</b>	43
---	----

<b>Item 3 Controls and Procedures</b>	60
---------------------------------------	----

**PART II. OTHER INFORMATION**

<b>Item 1. Legal Proceedings</b>	62
----------------------------------	----

<b>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</b>	63
--	----

<b>Item 3. Defaults Upon Senior Securities</b>	63
--	----

<b>Item 4. Submission of Matters to a Vote of Security Holders</b>	63
--	----

<b>Item 5. Other Information</b>	63
----------------------------------	----

**Item 6. Exhibits**

63

**Signatures**

64

-i-

---

**PART I. FINANCIAL INFORMATION**

## ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

**APPLIED DNA SCIENCES, INC.**  
**(A Development stage company)**  
**CONDENSED CONSOLIDATED BALANCE SHEET**  
**(unaudited)**

		June 30, 2007
<b>ASSETS</b>		
Current assets:		
Cash	\$	34,792
Prepaid expenses		138,875
Total current assets		173,667
Property, plant and equipment-net of accumulated depreciation of \$67,497		120,865
Other assets:		
Deposits		13,822
Capitalized finance costs-net of accumulated amortization of \$1,641,988		65,612
Intangible assets:		
Patients, net of accumulated amortization of \$23,732 (Note B)		10,525
Intellectual property, net of accumulated amortization and write off of \$7,611,943 (Note B)		1,818,957
Total Assets	\$	2,203,448
<b>LIABILITIES AND DEFICIENCY IN STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$	8,976,675
Convertible notes payable, net of unamortized discount (Note D)		1,745,855
Total current liabilities		10,722,530
Debt derivative and warrant liability		4,468,404
Commitments and contingencies (Note J)		
Deficiency in Stockholders' Equity- (Note F)		
Preferred stock, par value \$0.0001 per share; 10,000,000 shares authorized; 60,000 issued and outstanding		6
Common stock, par value \$0.001 per share; 410,000,000 shares authorized; 160,499,549 issued and		160,499

outstanding		
Additional paid in capital		87,420,306
Accumulated deficit		(100,568,297)
Total deficiency in stockholders' equity		(12,987,486)
Total liabilities and Deficiency in Stockholders' Equity	\$	2,203,448

See the accompanying notes to the consolidated  
financial statements

-1-

---

**APPLIED DNA SCIENCES, INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**CONDENSED CONSOLIDATED STATEMENTS OF LOSSES**  
**(unaudited)**

	For the three months Ended June 30,		For the nine months Ended June 30,		From September 16, 2002 (Date of Inception) Through June 30, 2007
	2007	2006 RESTATED	2007	2006 RESTATED	
Sales	\$ -	\$ 18,900	\$ -	\$ 18,900	\$ 18,900
Cost of sales	-	(15,639)	-	(15,639)	15,639
Gross Profit	-	3,261	-	3,261	3,261
Operating expenses:					
Selling, general and administrative	1,968,642	1,580,967	6,012,028	4,391,305	86,077,987
Research and development	25,504	-	94,289	75,276	1,124,888
Impairment of intangible asset(s)	-	-	-	-	5,655,011
Depreciation and amortization	108,357	336,824	324,594	1,021,199	2,054,320
Total operating expenses	2,102,503	1,917,791	6,430,912	5,487,780	94,912,207
NET LOSS FROM OPERATIONS	(2,102,503)	(1,914,530)	(6,430,912)	(5,484,519)	(94,908,946)
Net gain (loss) in revaluation of debt derivative and warrant liabilities	4,431,421	3,493,961	142,131	14,250,621	33,687,958
Other income	(0)	8,483	977	17,976	111,807
Interest expense	(520,963)	(826,827)	(1,945,702)	(3,177,229)	(39,459,116)
Net income (loss) before provision for income taxes	1,807,954	761,087	(8,233,506)	5,606,849	(100,568,297)

Income taxes (benefit)	-	-	-	-	-
NET INCOME (LOSS)	\$ 1,807,954	\$ 761,087	\$ (8,233,506)	\$ 5,606,849	\$ (100,568,297)
Net income (loss) per share-basic	\$ 0.01	\$ 0.01	\$ (0.07)	\$ 0.05	
Net loss per share-assuming fully diluted-Note A	\$ (0.02)	\$ (0.02)		\$ (0.04)	
Weighted average shares outstanding-					
Basic	132,310,413	118,582,385	124,844,409	115,852,521	
Fully diluted	170,056,948	177,501,849	162,590,944	181,716,985	

See the accompanying notes to the consolidated financial statements



APPLIED DNA SCIENCES, INC  
(A development stage company)  
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)  
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2007  
(unaudited)

	Preferred		Common		Additional Paid in	Common	Stock	Deficit Accumulated During	
	Preferred Shares	Common Shares	Common Stock Amount	Capital Amount	Stock Subscribed	Subscription Receivable	Development Stage	Total	
Issuance of common stock to Founders in exchange for services on September 16, 2002 at \$.01 per share	-	-	100,000	\$ 10	\$ 990	\$ -	\$ -	\$ -	\$ 1,000
Net Loss	-	-	-	-	-	-	(11,612)	(11,612)	
Balance at September 30, 2002	-	\$ -	100,000	\$ 10	\$ 990	\$ -	\$ (11,612)	\$ (10,612)	
Issuance of common stock in connection with merger with Prohealth Medical Technologies, Inc on October 1, 2002	-	-	10,178,352	1,015	-	-	-	-	1,015
Cancellation of common stock in connection with merger with Prohealth Medical Technologies, Inc on October 21, 2002	-	-	(100,000)	(10)	(1,000)	-	-	-	(1,010)
Issuance of common stock in									

exchange for services in October 2002 at \$0.65 per share	-	-	602,000	60	39,070	-	-	-	39,130
Issuance of common stock in exchange for subscription in November and December 2002 at \$0.065 per share	-	-	876,000	88	56,852	-	(56,940)	-	-
Cancellation of common stock in January 2003 previously issued in exchange for consulting services	-	-	(836,000)	(84)	(54,264)	-	54,340	-	(8)
Issuance of common stock in exchange for licensing services valued at \$0.065 per share in January 2003	-	-	1,500,000	150	97,350	-	-	-	97,500
Issuance of common stock in exchange for consulting services valued at \$0.13 per share in January 2003	-	-	586,250	58	76,155	-	-	-	76,213
Issuance of common stock in exchange for consulting services at \$0.065 per share in February 2003	-	-	9,000	1	584	-	-	-	585

Issuance of  
common stock to  
Founders in  
exchange for  
services valued  
at \$0.0001 per  
share in March  
2003

-	-	10,140,000	1,014	-	-	-	-	1,014
---	---	------------	-------	---	---	---	---	-------

Issuance of  
common stock in  
exchange for  
consulting  
services valued  
at \$2.50 per  
share in March  
2003

-	-	91,060	10	230,624	-	-	-	230,634
---	---	--------	----	---------	---	---	---	---------

-3-

---

APPLIED DNA SCIENCES, INC  
(A development stage company)  
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)  
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2007  
(unaudited)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	Stock Subscription Receivable	Deficit Accumulated During Development Stage	Total
Issuance of common stock in exchange for consulting services valued at \$0.065 per share in March 2003	-	-	-	6,000	1	389	-	-	390
Common stock subscribed in exchange for cash at \$1 per share in March 2003	-	-	-	-	-	18,000	-	-	18,000
Common stock issued in exchange for consulting services at \$0.065 per share on April 1, 2003	-	-	-	860,000	86	55,814	-	-	55,900
Common stock issued in exchange for cash at \$1.00 per share on April 9, 2003	-	-	-	18,000	2	-	-	-	2
Common stock issued in exchange for consulting services at \$0.065 per share on April 9,									

## Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB

2003	-	-	9,000	1	584	-	-	-	585
Common stock issued in exchange for consulting services at \$2.50 per share on April 23, 2003	-	-	5,000	1	12,499	-	-	-	12,500
Common stock issued in exchange for consulting services at \$2.50 per share, on June 12, 2003	-	-	10,000	1	24,999	-	-	-	25,000
Common stock issued in exchange for cash at \$1.00 per share on June 17, 2003	-	-	50,000	5	49,995	-	-	-	50,000
Common stock subscribed in exchange for cash at \$2.50 per share pursuant to a private placement on June 27, 2003	-	-	-	-	-	24,000	-	-	24,000
Common stock retired in exchange for note payable at \$0.0118 per share, in June 30, 2003	-	-	(7,500,000)	(750)	750	-	-	-	-
Common stock issued in exchange for consulting services at \$0.065 per share, on June 30, 2003	-	-	270,000	27	17,523	-	-	-	17,550
Common stock subscribed in									

exchange for cash at \$1.00 per share pursuant to a private placement on June 30, 2003	-	-	-	-	-	10,000	-	-	10,000
---	---	---	---	---	---	--------	---	---	--------

Common stock subscribed in exchange for cash at \$2.50 per share pursuant to a private placement on June 30, 2003	-	-	-	-	-	24,000	-	-	24,000
--	---	---	---	---	---	--------	---	---	--------

APPLIED DNA SCIENCES, INC  
(A development stage company)  
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)  
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2007  
(unaudited)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	Stock Subscription Receivable	Deficit Accumulated During Development Stage	Total
Common stock issued in exchange for consulting services at approximately \$2.01 per share, July 2003	-	-	213,060	21	428,798	-	-	-	428,819
Common stock canceled in July 2003, previously issued for services rendered at \$2.50 per share	-	-	(24,000)	(2)	(59,998)	-	-	-	(60,000)
Common stock issued in exchange for options exercised at \$1.00 per share in July 2003	-	-	20,000	2	19,998	-	-	-	20,000
Common stock issued in exchange for exercise of options previously subscribed at \$1.00 per share in July 2003	-	-	10,000	1	9,999	(10,000)	-	-	-
Common stock issued in exchange for consulting services									

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB

at approximately \$2.38 per Share in August 2003	-	-	172,500	17	410,915	-	-	-	410,932
Common stock issued in exchange for options exercised at \$1.00 per share in August 2003	-	-	29,000	3	28,997	-	-	-	29,000
Common stock issued in exchange for consulting services at approximately \$2.42 per share in September 2003	-	-	395,260	40	952,957	-	-	-	952,997
Common stock issued in exchange for cash at \$2.50 per share-subscription payable in September 2003	-	-	19,200	2	47,998	(48,000)	-	-	-
Common stock issued in exchange for cash at \$2.50 per share pursuant to a private placement in September 2003	-	-	6,400	1	15,999	-	-	-	16,000
Common stock issued in exchange for options exercised at \$1.00 per share in September 2003	-	-	95,000	10	94,991	-	-	-	95,001
Common stock subscription receivable reclassification adjustment	-	-	-	-	-	-	2,600	-	2,600



Common Stock subscribed to at \$2.50 per share in September 2003	-	-	-	-	-	300,000	-	-	300,000							
Net Loss for the year ended September 30, 2003	-	-	-	-	-	-	-	(3,445,164)	(3,445,164)							
Balance at September 30, 2003	-	\$	-	17,811,082	\$	1,781	\$	2,577,568	\$	300,000	\$	-	\$	(3,456,776)	\$	(577,427)

-5-

---

APPLIED DNA SCIENCES, INC  
(A development stage company)  
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)  
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2007  
(unaudited)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	Stock Subscription Receivable	Deficit Accumulated During Development Stage	Total
Preferred shares issued in exchange for services at \$25.00 per share in October 2003	15,000	15	-	-	-	-	-	-	15
Common stock issued in exchange for consulting services at approximately \$2.85 per Share in October 2003	-	-	287,439	29	820,389	-	-	-	820,418
Common stock issued in exchange for cash at \$2.50 per share-subscription payable in October 2003	-	-	120,000	12	299,988	(300,000)	-	-	-
Common stock canceled in October 2003, previously issued for services rendered at \$2.50 per share	-	-	(100,000)	(10)	(249,990)	-	-	-	(250,000)
Common stock issued in exchange for consulting services									

at approximately \$3 per share in November 2003	-	-	100,000	10	299,990	-	-	-	300,000
Common stock subscribed in exchange for cash at \$2.50 per share pursuant to a private placement in November, 2003	-	-	100,000	10	249,990	-	-	-	250,000
Common stock subscribed in exchange for cash at \$2.50 per share pursuant to a private placement in December, 2003	-	-	6,400	1	15,999	-	-	-	16,000
Common stock issued in exchange for consulting services at approximately \$2.59 per share in December 2003	-	-	2,125,500	213	5,504,737	-	-	-	5,504,950
Common Stock subscribed to at \$2.50 per share in December 2003	-	-	-	-	-	104,000	-	-	104,000
Beneficial conversion feature relating to notes payable	-	-	-	-	1,168,474	-	-	-	1,168,474
Beneficial conversion feature relating to warrants	-	-	-	-	206,526	-	-	-	206,526
Adjust common stock par value from \$0.0001 to \$0.50 per share, per amendment of articles dated	-	-	-	-	-	-	-	-	-

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB

in December 2004	-	-	-	10,223,166	(10,223,166)	-	-	-	-
Common Stock issued pursuant to subscription at \$2.50 share in January 2004	-	-	41,600	20,800	83,200	(104,000)	-	-	-

-6-

---

APPLIED DNA SCIENCES, INC  
(A development stage company)  
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)  
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2007  
(unaudited)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	Stock Subscription Receivable	Deficit Accumulated During Development Stage	Total
Common stock issued in exchange for consulting services at \$2.95 per share in January 2004	-	-	13,040	6,520	31,948	-	-	-	38,468
Common stock issued in exchange for consulting services at \$2.60 per share in January 2004	-	-	123,000	61,500	258,300	-	-	-	319,800
Common stock issued in exchange for consulting services at \$3.05 per share in January 2004	-	-	1,000	500	2,550	-	-	-	3,050
Common stock issued in exchange for employee services at \$3.07 per share in February 2004	-	-	6,283	3,142	16,147	-	-	-	19,289
Common stock issued in exchange for consulting services at \$3.04 per share in March 2004	-	-	44,740	22,370	113,640	-	-	-	136,010
Common Stock issued for									

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB

options exercised at \$1.00 per share in March 2004	-	-	55,000	27,500	27,500	-	-	-	55,000
Common stock issued in exchange for employee services at \$3.00 per share in March 2004	-	-	5,443	2,722	13,623	-	-	-	16,345
Common stock issued in exchange for employee services at \$3.15 per share in March 2004	-	-	5,769	2,885	15,292	-	-	-	18,177
Preferred shared converted to common shares for consulting services at \$3.00 per share in March 2004	(5,000)	(5)	125,000	62,500	312,500	-	-	-	374,995
Common stock issued in exchange for employee services at \$3.03 per share in March 2004	-	-	8,806	4,400	22,238	-	-	-	26,638
Common Stock issued pursuant to subscription at \$2.50 per share in March 2004	-	-	22,500	11,250	(9,000)	-	-	-	2,250
Beneficial Conversion Feature relating to Notes Payable	-	-	-	-	122,362	-	-	-	122,362
Beneficial Conversion Feature relating to Warrants	-	-	-	-	177,638	-	-	-	177,638
Common stock issued in									

exchange for consulting services at \$2.58 per share in April 2004	-	-	9,860	4,930	20,511	-	-	-	25,441
Common stock issued in exchange for consulting services at \$2.35 per share in April 2004	-	-	11,712	5,856	21,667	-	-	-	27,523
Common stock issued in exchange for consulting services at \$1.50 per share in April 2004	-	-	367,500	183,750	367,500	-	-	-	551,250

-7-

---

APPLIED DNA SCIENCES, INC  
(A development stage company)  
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)  
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2007  
(unaudited)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	Stock Subscription Receivable	Deficit Accumulated During Development Stage	Total
Common stock returned to treasury at \$0.065 per share in April 2004	-	-	(50,000)	(25,000)	21,750	-	-	-	(3,250)
Preferred stock converted to common stock for consulting services at \$1.01 per share in May 2004	(4,000)	(4)	100,000	50,000	51,250	-	-	-	101,246
Common stock issued per subscription in May 2004	-	-	10,000	5,000	(4,000)	-	(1,000)	-	-
Common stock issued in exchange for consulting services at \$0.86 per share in May 2004	-	-	137,000	68,500	50,730	-	-	-	119,230
Common stock issued in exchange for consulting services at \$1.15 per share in May 2004	-	-	26,380	13,190	17,147	-	-	-	30,337
Common stock returned to treasury at \$0.065 per									



## Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB

share in June 2004	-	-	(5,000)	(2,500)	2,175	-	-	-	(325)
Common stock issued in exchange for consulting services at \$0.67 per share in June 2004	-	-	270,500	135,250	45,310	-	-	-	180,560
Common stock issued in exchange for consulting services at \$0.89 per share in June 2004	-	-	8,000	4,000	3,120	-	-	-	7,120
Common stock issued in exchange for consulting services at \$0.65 per share in June 2004	-	-	50,000	25,000	7,250	-	-	-	32,250
Common stock issued pursuant to a private placement at \$1.00 per share in June 2004	-	-	250,000	125,000	125,000	-	-	-	250,000
Common stock issued in exchange for consulting services at \$0.54 per share in July 2004	-	-	100,000	50,000	4,000	-	-	-	54,000
Common stock issued in exchange for consulting services at \$0.72 per share in July 2004	-	-	5,000	2,500	1,100	-	-	-	3,600
Common stock issued in exchange for consulting services at \$0.47 per share in July 2004	-	-	100,000	50,000	(2,749)	-	-	-	47,251

Common stock issued in exchange for consulting services at \$0.39 per share in August 2004	-	-	100,000	50,000	(11,000)	-	-	-	39,000
---	---	---	---------	--------	----------	---	---	---	--------

-8-

---

APPLIED DNA SCIENCES, INC  
(A development stage company)  
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)  
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2007  
(unaudited)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	Stock Subscription Receivable	Deficit Accumulated During Development Stage	Total
Preferred stock converted to common stock for consulting services at \$0.39 per share in August 2004	(2,000)	(2)	50,000	25,000	(5,500)	-	-	-	19,498
Common stock issued in exchange for consulting services at \$0.50 per share in August 2004	-	-	100,000	50,000	250	-	-	-	50,250
Common stock issued in exchange for consulting services at \$0.56 per share in August 2004	-	-	200,000	100,000	12,500	-	-	-	112,500
Common stock issued in exchange for consulting services at \$0.41 per share in August 2004	-	-	92,500	46,250	(8,605)	-	-	-	37,645

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB

Common stock issued in exchange for consulting services at \$0.52 per share in September 2004	-	-	1,000,000	500,000	17,500	-	-	-	517,500
Common stock issued in exchange for consulting services at \$0.46 per share in September 2004	-	-	5,000	2,500	(212)	-	-	-	2,288
Common stock issued pursuant to subscription at \$0.50 per share in September 2004	-	-	40,000	20,000	-	-	-	-	20,000
Preferred shares converted to common stock for consulting services at \$0.41 per share in September 2004	(4,000)	(4)	100,000	50,000	4,000	-	-	-	53,996
Preferred shares issued in exchange for service at \$25 per share in September 2004	60,000	6	-	-	1,499,994	-	-	-	1,500,000
Fair value of 2,841,000 warrants issued to non-employees and consultants for services rendered									

at approximately  
\$0.71 per  
warrant  
in September  
2004

	-	-	-	-	2,019,862	-	-	-	2,019,862
Net Loss	-	-	-	-	-	-	-	(19,358,258)	(19,358,258)
Balance at September 30, 2004	60,000	\$ 6	23,981,054	\$ 11,990,527	\$ 6,118,993	\$ -	\$ (1,000)	\$ (22,815,034)	\$ (4,706,508)

APPLIED DNA SCIENCES, INC  
(A development stage company)  
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)  
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2007  
(unaudited)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	Stock Subscription Receivable	Deficit Accumulated During Development Stage	Total
Common stock issued in exchange for consulting services at \$0.68 per share in October 2004	-	-	200,000	100,000	36,000	-	-	-	136,000
Common stock returned to treasury at \$0.60 per share in October 2004	-	-	(1,069,600)	(534,800)	(107,297)	-	-	-	(642,097)
Common stock issued in exchange for consulting services at \$0.60 per share in October 2004	-	-	82,500	41,250	8,250	-	-	-	49,500
Common Stock issued pursuant to subscription at \$0.60 per share in October 2004	-	-	500,000	250,000	50,000	(300,000)	-	-	-
Common stock issued in exchange for consulting services at \$0.50 per share in October 2004	-	-	532,500	266,250	-	-	-	-	266,250
Common Stock issued in exchange for debt at \$0.50 per									

## Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB

share in October 2004	-	-	500,000	250,000	-	-	-	-	250,000
Common Stock issued pursuant to subscription at \$0.45 per share in October 2004	-	-	1,000,000	500,000	(50,000)	(450,000)	-	-	-
Common stock issued in exchange for consulting services at \$0.45 per share in October 2004	-	-	315,000	157,500	(15,750)	-	-	-	141,750
Common Stock issued in exchange for consulting services at \$0.47 per share in November 2004	-	-	100,000	50,000	(3,000)	-	-	-	47,000
Common Stock issued in exchange for consulting services at \$0.80 per share in November 2004	-	-	300,000	150,000	90,000	-	-	-	240,000
Common Stock issued in exchange for consulting services at \$1.44 per share in November 2004	-	-	115,000	57,500	108,100	-	-	-	165,600
Common Stock issued in exchange for employee services at \$1.44 per share in November 2004	-	-	5,000	2,500	4,700	-	-	-	7,200
Warrants exercised at \$0.60 per share in November 2004	-	-	60,000	30,000	6,000	(4,000)	-	-	32,000

Beneficial Conversion discount relating to Notes Payable	-	-	-	-	1,465,000	-	-	-	1,465,000
Common stock issued at \$0.016 per share in exchange for note payable in December 2004	-	-	5,500,000	2,750,000	(2,661,500)	-	-	-	88,500
Common stock issued in settlement of debt at \$0.50 per share in December 2004	-	-	2,930,000	1,465,000	-	(125,000)	-	-	1,340,000



APPLIED DNA SCIENCES, INC  
(A development stage company)  
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)  
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2007  
(unaudited)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	Stock Subscription Receivable	Deficit Accumulated During Development Stage	Total
Fair value of 6,063,500 warrants issued to non employees and consultants for services rendered at \$0.52 per warrant in October and December 2004	-	-	-	-	3,169,052	-	-	-	3,169,052
Warrants exercised at \$0.10 per share in January 2005	-	-	25,000	12,500	(10,000)	-	-	-	2,500
Common Stock issued in settlement of debt at \$0.33 per share in January 2005	-	-	1,628,789	814,395	(276,895)	-	-	-	537,500
Warrants exercised at \$0.10 per share in January 2005	-	-	17,500	8,750	(7,000)	-	-	-	1,750
Common Stock issued in settlement of debt at \$0.33 per share in January 2005	-	-	2,399,012	1,199,504	(407,830)	-	-	-	791,674
Common Stock issued in									

exchange for consulting services at \$1.30 per share in January 2005	-	-	315,636	157,818	252,508	-	-	-	410,326
Fair value of warrant liability reclassified due to registration rights granted in February 2005	-	-	-	-	(3,108,851)	-	-	-	(3,108,851)
Common Stock issued in exchange for consulting services at \$1.44 per share in February 2005	-	-	5,796,785	2,898,393	5,418,814	-	-	-	8,317,207
Fair value of 55,000 warrants issued to consultants for services at \$1.31 per warrant in February 2005	-	-	-	-	72,017	-	-	-	72,017
Common Stock issued in settlement of debt at \$0.33 per share in February 2005	-	-	75,757	37,879	(12,879)	-	-	-	25,000
Warrants exercised at \$0.10 per share in February 2005	-	-	20,000	10,000	(8,000)	-	-	-	2,000
Common Stock issued in settlement of debt at \$0.33 per share in February 2005	-	-	606,060	303,030	(103,030)	-	-	-	200,000
Warrants exercised at \$0.10 per	-	-	45,000	22,500	(18,000)	-	-	-	4,500

share in February  
2005

Common Stock  
issued in  
exchange for  
related party debt  
at \$1.31 per share  
in February  
2005

-	-	1,500,000	750,000	1,215,000	-	-	-	1,965,000
---	---	-----------	---------	-----------	---	---	---	-----------

Common Stock  
issued in  
settlement of debt  
at \$0.33 per  
share in February  
2005

-	-	278,433	139,217	(47,334)	-	-	-	91,883
---	---	---------	---------	----------	---	---	---	--------

-11-

---

APPLIED DNA SCIENCES, INC  
(A development stage company)  
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)  
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2007  
(unaudited)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	Stock Subscription Receivable	Deficit Accumulated During Development Stage	Total
Common Stock issued in exchange for consulting services at \$1.17 per share in February 2005	-	-	17,236	8,618	11,548	-	-	-	20,166
Common stock issued in exchange for debt at \$0.50 per share in February 2005	-	-	300,000	150,000	-	-	-	-	150,000
Common Stock issued in exchange for consulting services at \$0.95 per share in February 2005	-	-	716,500	358,250	322,425	-	-	-	680,675
Common Stock issued in exchange for consulting services at \$0.95 per share in February 2005	-	-	10,500	5,250	4,725	-	-	-	9,975
Common stock issued in exchange for debt at \$0.50 per share in March 2005	-	-	13,202,000	6,601,000	-	-	-	-	6,601,000

Common Stock issued in exchange for consulting services at \$1.19 per share in March 2005	-	-	185,000	92,500	127,650	-	-	-	220,150
Options exercised at \$0.60 per share in March 2005	-	-	100,000	50,000	10,000	-	-	-	60,000
Common Stock issued in exchange for consulting services at \$0.98 per share in March 2005	-	-	1,675,272	837,636	804,131	-	-	-	1,641,767
Common Stock issued in exchange for consulting services at \$0.92 per share in March 2005	-	-	24,333	12,167	10,219	-	-	-	22,386
Common Stock issued in exchange for consulting services at \$0.99 per share in March 2005	-	-	15,000	7,500	7,350	-	-	-	14,850
Common stock issued in exchange for debt at \$0.50 per share in March 2005	-	-	1,240,000	620,000	-	-	-	-	620,000
Common stock canceled for shares issued in exchange of debt in March 2005	-	-	(500,000)	(250,000)	-	-	-	-	(250,000)

Common stock subscribed canceled in March 2005	-	-	-	-	-	750,000	-	-	750,000
Common Stock issued in exchange for consulting services at \$0.89 per share in March 2005	-	-	10,000	5,000	3,900	-	-	-	8,900

-12-

---

APPLIED DNA SCIENCES, INC  
(A development stage company)  
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)  
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2007  
(unaudited)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	Stock Subscription Receivable	Deficit Accumulated During Development Stage	Total
Adjust common stock par value from \$0.50 to \$0.001 per share, per amendment of Articles of Incorporation in March-05	-	-	-	(32,312,879)	32,312,879	-	-	-	-
Beneficial Conversion discount relating to Notes Payable in March 2005	-	-	-	-	7,371,000	-	-	-	7,371,000
Stock options granted to employees in exchange for services rendered, at exercise price below fair value of common stock in March 2005	-	-	-	-	180,000	-	-	-	180,000
Common Stock issued in exchange for consulting services at \$0.80 per share in April 2005	-	-	160,000	160	127,840	-	-	-	128,000
Common Stock issued in									

## Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB

exchange for consulting services at \$0.80 per share in April 2005	-	-	40,000	40	31,960	-	-	-	32,000
Common Stock issued in exchange for consulting services at \$0.75 per share in April 2005	-	-	850,000	850	636,650	-	-	-	637,500
Common Stock issued in exchange for consulting services at \$0.33 per share in April 2005	-	-	500,000	500	164,500	-	-	-	165,000
Common Stock canceled during April 2005, previously issued for services rendered at \$3.42 per share	-	-	(10,000)	(10)	(34,190)	-	-	-	(34,200)
Common Stock issued in settlement of debt at \$0.33 per share in April 2005	-	-	75,758	77	24,923	(25,000)	-	-	-
Common Stock issued in exchange for consulting services at \$0.68 per share in April 2005	-	-	50,000	50	33,950	-	-	-	34,000
Proceeds received against subscription payable in June 2005	-	-	-	-	-	118,000	-	-	118,000
Common Stock canceled in June 2005, previously issued									



for services rendered at \$0.50 per share	-	-	(10,000)	(10)	(4,990)	-	-	-	(5,000)
Cancellation of previously granted stock options granted to employees for services rendered, at exercise price below fair value of common stock	-	-	-	-	(180,000)	-	-	-	(180,000)

APPLIED DNA SCIENCES, INC  
(A development stage company)  
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)  
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2007  
(unaudited)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	Stock Subscription Receivable	Deficit Accumulated During Development Stage	Total
Common Stock issued in exchange for consulting services at \$0.60 per share in July 2005	-	-	157,000	157	94,043	-	-	-	94,200
Common Stock issued in exchange for intellectual property at \$0.67 per share in July 2005	-	-	36,000,000	36,000	24,084,000	-	-	-	24,120,000
Common Stock issued in exchange for consulting services at \$0.60 per share in July 2005	-	-	640,000	640	383,360	-	-	-	384,000
Common Stock issued in exchange for employee services	-	-	8,000,000	8,000	3,832,000	-	-	-	3,840,000

at \$0.48 per  
share in July  
2005

Common  
Stock issued  
in  
exchange for  
consulting  
services at  
\$0.94 per  
share  
in July 2005

-	-	121,985	121	168,217	-	-	-	168,338
---	---	---------	-----	---------	---	---	---	---------

Common  
Stock issued  
in  
exchange for  
consulting  
services at  
\$0.48 per  
share  
in August  
2005

-	-	250,000	250	119,750	-	-	-	120,000
---	---	---------	-----	---------	---	---	---	---------

Common  
Stock penalty  
shares  
issued  
pursuant to  
pending SB-2  
registration at  
\$0.62 per  
share in  
September  
2005

-	-	814,158	814	501,858	-	-	-	502,672
---	---	---------	-----	---------	---	---	---	---------

Common  
Stock penalty  
shares  
issued  
pursuant to  
pending SB-2  
registration at  
\$0.70 per  
share in  
September  
2005

-	-	391,224	391	273,466	-	-	-	273,857
---	---	---------	-----	---------	---	---	---	---------

Common  
Stock issued

in exchange for consulting services at \$0.94 per share in September 2005	-	-	185,000	185	173,715	-	-	-	173,900
Common Stock returned in September 2005, previously issued for services rendered at \$0.40 per share	-	-	(740,000)	(740)	(453,232)	56,000	1,000	-	(396,972)
Net Loss Balance as of September 30, 2005	-	-	-	-	-	-	-	(67,109,519)	(67,109,519)
	60,000	\$ 6	112,230,392	\$ 112,230	\$ 82,320,715	\$ 20,000	\$	-	\$(89,924,553) \$ (7,471,602)
Common stock issued in exchange for services at \$0.50 per share in October 2005	-	-	400,000	400	199,600	-	-	-	200,000

APPLIED DNA SCIENCES, INC  
(A development stage company)  
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)  
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2007  
(unaudited)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	Stock Subscription Receivable	Deficit Accumulated During Development Stage	Total
Common Stock issued in exchange for consulting services at \$0.75 per share in October 2005	-	-	100,000	100	74,900	-	-	-	75,000
Common Stock returned in October 2005, previously issued for services rendered at \$0.60 per share	-	-	(350,000)	(350)	(209,650)	-	-	-	(210,000)
Common stock issued pursuant to subscription at \$0.50 per share in December 2005	-	-	40,000	40	19,960	(20,000)	-	-	-
Common Stock issued to investors pursuant to registration rights agreement at \$0.51 per share in December 2005	-	-	505,854	506	257,480	-	-	-	257,986

Common Stock returned in January 2006, previously issued for services rendered at \$0.60 per share	-	-	(250,000)	(250)	(149,750)	-	-	-	(150,000)
Common Stock issued to investors pursuant to registration rights agreement at \$0.32 per share in January 2006	-	-	806,212	806	257,182	-	-	-	257,988
Common Stock issued to investors pursuant to registration rights agreement at \$0.20 per share in January 2006	-	-	1,289,927	1,290	256,695	-	-	-	257,985
Fair value of 200,000 warrants issued to consultants for services at \$0.22 per warrant in January 2006	-	-	-	-	43,098	-	-	-	43,098
Common Stock issued in exchange for consulting services at \$0.17 per share in February 2006	-	-	160,000	160	27,040	-	-	-	27,200

Common Stock issued in exchange for consulting services at \$0.16 per share in February 2006	-	-	3,800,000	3,800	604,200	-	-	-	608,000
Common Stock returned in March 2006, previously issued for services rendered at \$0.80 per share	-	-	(150,000)	(150)	(119,850)	-	-	-	(120,000)
Previously issued warrants reclassified to warrant liability	-	-	-	-	(1,584,614)	-	-	-	(1,584,614)
Common Stock issued in exchange for consulting services at \$0.20 per share in July 2006	-	-	2,400,000	2,400	477,600	-	-	-	480,000
Fair value of stock options granted to employees in exchange for services rendered in September 2006	-	-	-	-	153,000	-	-	-	153,000
Net loss	-	-	-	-	-	-	-	(2,410,237)	(2,410,237)
Balance as of September 30, 2006	60,000	\$ 6	\$ 120,982,385	\$ 120,982	\$ 82,627,606	\$	-	\$ -	\$ (92,334,791) \$ (9,586,197)





APPLIED DNA SCIENCES, INC  
(A development stage company)  
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)  
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2007  
(unaudited)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	Stock Subscription Receivable	Deficit Accumulated During Development Stage	Total
Common stock issued in Dec 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 debenture 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 debenture at \$0.11 per share	-	-	29,691,412	29,691	3,215,309	-	-	-	3,245,000
Beneficial conversion feature relating to convertible debenture	-	-	-	-	76,788	-	-	-	76,788
Net loss	-	-	-	-	-	-	-	(8,233,506)	(8,233,506)
Balance as of June 30, 2007	60,000	\$ 6	160,499,549	\$ 160,499	\$ 87,420,306	\$ -	\$ -	\$(100,568,297)	\$(12,987,486)

See accompanying notes to  
consolidated financial statements

-16-

---

**APPLIED DNA SCIENCES, INC**  
**(A DEVELOPMENT STAGE COMPANY)**  
**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
**(unaudited)**

	For the nine months ended June 30,		For the Period September 16, 2002 (Date of Inception) through June 30, 2007
	2007	2006 RESTATED	
Cash flows from operating activities:			
Net income (loss)	\$ (8,233,506)	\$ 5,606,849	\$ (100,568,297)
Adjustments to reconcile net loss to net used in operating activities:			
Depreciation and amortization	324,594	1,021,199	2,054,320
Organization expenses	-	-	88,500
Impairment of intangible assets	-	-	5,655,011
Preferred shares issued in exchange for services	-	-	1,500,000
Options and warrants issued in exchange for services rendered	-	43,100	11,001,255
Income attributable to repricing of warrants and debt derivatives	(142,131)	(14,250,621)	(33,687,959)
Financing costs attributable to issuance of warrants	-	2,271,000	25,419,214
Amortization of beneficial conversion feature-convertible notes	10,093	-	10,471,093
Amortization of capitalized financing costs	1,005,975	247,238	1,641,988
Amortization of debt discount attributable to convertible debentures	1,580,519	276,090	2,312,009
Debt in exchange for common stock at fair market price	-	-	1,365,000
Common stock issued in exchange for services rendered	-	710,200	31,964,573
Common stock exchanged for intellectual property in connection with costs of acquiring intangible assets	-	-	14,689,100
Common stock issued in connection with penalties pursuant to registration	-	773,958	1,550,487
Common stock canceled-previously issued for services rendered	-	(480,000)	(1,343,845)
Change in assets and liabilities:			
Decrease (increase) in accounts receivable	9,631	(18,900)	-
Decrease (increase) in prepaid expenses and deposits	(32,208)	(145,849)	(153,137)
Decrease (increase) in other assets	8,419	5,940	(13,450)
Increase in due related parties	-	(52,662)	40,753
Increase (decrease) in accounts payable and accrued liabilities	3,811,641	1,685,792	8,737,251

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB

Net cash used in operating activities	(1,656,973)	(2,306,666)	(17,276,134)
Cash flows from investing activities:			
Payments for patent filing	-	-	(25,698)
Acquisition (disposal) of property and equipment, net	(11,039)	(35,851)	(188,360)
Net cash provided by (used in) investing activities	(11,039)	(35,851)	(214,058)
Cash flows from financing activities:			
Proceeds from sale of common stock, net of cost	-	-	432,000
Proceeds from issuance of convertible notes, net of costs	477,500	4,242,500	13,924,000
Proceeds from sale of options	-	-	343,750
Repayment of debt	-	-	(24,854)
Proceeds from loans	-	-	2,750,000
Advances from shareholders	-	-	100,088
Net cash provided by financing activities	477,500	4,242,500	17,524,984
Net increase in cash and cash equivalents	(1,190,512)	1,899,983	34,792
Cash and cash equivalents at beginning of period	1,225,304	31,190	-
Cash and cash equivalents at end of period	\$ 34,792	\$ 1,931,173	\$ 34,792

-17-

**APPLIED DNA SCIENCES, INC**  
**(A DEVELOPMENT STAGE COMPANY)**  
**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
**(unaudited)**

	For the nine months ended June 30,		For the Period
	2007	2006	September 16, 2002 (Date of Inception) through June 30, 2007
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	-	710,200	31,964,573
Common stock issued in exchange for intellectual property	-	-	
Common stock issued in exchange for previously incurred debt	4,361,200	-	2,313,500
Common stock canceled-previously issued for services rendered	-	(480,000)	(1,343,845)
Common stock issued for ESOP shares	-	-	
Common stock penalty shares issued pursuant to Pending SB-2 registration	-	773,958	
Amortization of beneficial conversion feature	-	-	10,471,093
Preferred shares in exchange for service at \$25 per share in September 2004	-	-	1,500,000
Fair value of options and warrants issued to consultants for services	-	43,100	11,001,255
Acquisition:			
Common stock retained	-	-	1,015
Assets acquired	-	-	(135)
Total consideration paid	-	-	880
Organizational expenses-note issued in exchange for shares retired			88,500
Common stock issued in exchange for note payable			88,500
See the accompanying notes to the consolidated financial statements			

**APPLIED DNA SCIENCES, INC**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION**  
**JUNE 30, 2007**  
**(Unaudited)**

**NOTE A - SUMMARY OF ACCOUNTING POLICIES**

*General*

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

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine month period ended June 30, 2007 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2007. The unaudited condensed consolidated financial statements should be read in conjunction with the consolidated September 30, 2006 financial statements and footnotes thereto included in the Company's SEC Form 10-KSB, as amended.

*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. The Company is in the development stage, as defined by Statement of Financial Accounting Standards No. 7 ("SFAS No. 7") and its efforts have been principally devoted to developing DNA embedded biotechnology security solutions in the United States. To date, the Company has generated nominal sales revenues, 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 June 30, 2007, the Company has accumulated losses of \$100,568,297.

In March 2007, the Company purchased all the outstanding shares of Applied DNA Sciences Europe Limited, an English limited company, as a wholly owned subsidiary, for a purchase price of \$10,000. In conjunction with the acquisition, the Company acquired the rights to sell products and services in the United Kingdom. Included as part of the acquisition agreement, the Company is obligated to pay a 2% fee of any United Kingdom sales to the former shareholder of Applied DNA Sciences Europe Limited for one year commencing with the first product/services sales. The cost of acquisition was charged to current period operating expenses.

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.

*Reclassification*

Certain prior period amounts have been reclassified for comparative purposes.

*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 June 30, 2007 property and equipment consist of:

Computer equipment	\$ 27,404
Lab equipment	54,974
Furniture	105,984
Accumulated depreciation	(67,497)
Net	\$ 120,865

-19-

---

**APPLIED DNA SCIENCES, INC**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION**  
**JUNE 30, 2007**  
**(Unaudited)**

**NOTE A - SUMMARY OF ACCOUNTING POLICIES (continued)**

*Stock Based Compensation*

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

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

In adopting SFAS No. 123(R), we elected to use the modified prospective method to account for the transition from the intrinsic value method to the fair value recognition method. Under modified prospective method, compensation cost is recognized from the adoption date forward for all new stock options granted and for any outstanding unvested awards as if the fair value method had been applied to those awards as of the date of the grant. In the nine months ended June 30, 2007, the Company did not grant any employee stock options.

*Revenue Recognition*

Revenues are recognized in the period that services are provided. 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) collectibility 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 collectibility 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 June 30, 2007 the Company did not have any deferred revenue.

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.

*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 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 June 30, 2007, allowance for doubtful receivable was \$0.

-20-

---

**APPLIED DNA SCIENCES, INC**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION**  
**JUNE 30, 2007**  
**(Unaudited)**

**NOTE A - SUMMARY OF ACCOUNTING POLICIES (continued)***Net income (loss) per share*

The following reconciliation of net income and share amounts used in the computation of income (loss) per share for the three months ended June 30, 2007 and for the three and nine months ended June 30, 2006:

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Nine Months Ended June 30, 2006
Net income used in computing basic net income per share	\$ 1,807,954	\$ 761,087	\$ 5,606,849
Impact of assumed assumptions:			
Fair value of warrants relating to convertible debt charged to interest expense	-	-	1,758,900
Impact of equity classified as liability:			
Gain on warrant liability marked to fair value	(4,431,421)	(3,493,961)	(14,250,621)
Net loss in computing diluted net loss per share:	\$ (2,623,467)	\$ (2,732,874)	\$ (6,884,872)

The weighted average shares outstanding used in the basic net income per share computations for the three months ended June 30, 2007 and for the three and six months ended June 30, 2006 was 132,310,413, 118,582,385 and 115,852,521, respectively. In determining the number of shares used in computing diluted loss per share, the Company added approximately 37,746,535 for the three months ended June 30, 2007 and 47,282,079 and 65,864,464 potentially dilutive securities for the three and six months ended June 30, 2006, respectively. The potentially dilutive securities added were mostly attributable to the warrants, options and convertible debentures outstanding. As a result, the diluted loss per share for the three months ended June 30, 2007 and for the three and six months ended June 30, 2006 was \$0.02, \$0.02 and \$0.04, respectively.

*Derivative Financial Instruments*

The Company's derivative financial instruments consist of embedded derivatives related to the 10% Secured Convertible Promissory Notes (the "Serial Notes") issued in 2006 (see Note C). These embedded derivatives include certain conversion features, variable interest features, call options and default provisions. The accounting treatment of derivative financial instruments requires that the Company recorded the derivatives and related warrants at their fair values as of the inception date of the Note Agreement (estimated at \$2,419,719) and at fair value as of each subsequent balance sheet date. In addition, under the provisions of EITF Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock," as a result of entering into the Notes, the Company is 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 will be 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 will record a non-operating, non-cash charge. If the fair value of the derivatives is lower at the subsequent balance sheet date, the Company will record non-operating, non-cash income. Conversion-related derivatives were valued using the Black Scholes Option Pricing Model with the following assumptions: dividend yield of 0%; annual volatility of 123.8%; and risk free interest rate of 4.82%. The derivatives are classified as long-term

liabilities (see Note F).

*New Accounting Pronouncements*

In February 2006, the FASB issued SFAS No. 155. “*Accounting for certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140,*” or SFAS No. 155. SFAS No. 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of Statement No. 133, establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and amends SFAS No. 140 to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS 155 is effective for all financial instruments acquired or issued after the beginning of an entity’s first fiscal year that begins after September 15, 2006. We do not expect the adoption of SFAS 155 to have a material impact on our consolidated financial position, results of operations or cash flows.

-21-

---

**APPLIED DNA SCIENCES, INC**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION**  
**JUNE 30, 2007**  
**(Unaudited)**

**NOTE A - SUMMARY OF ACCOUNTING POLICIES (continued)**

In March 2006, the FASB issued FASB Statement No. 156, Accounting for Servicing of Financial Assets - an amendment to FASB Statement No. 140. Statement 156 requires that an entity recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a service contract under certain situations. The new standard is effective for fiscal years beginning after September 15, 2006. The adoption of SFAS No.156 did not have a material impact on the Company's financial position and results of operations.

In July 2006, the FASB issued Interpretation No. 48 (FIN 48). "*Accounting for uncertainty in Income Taxes*". FIN 48 clarifies the accounting for Income Taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition and clearly scopes income taxes out of SFAS 5, "*Accounting for Contingencies*". FIN 48 is effective for fiscal years beginning after December 15, 2006. We have not yet evaluated the impact of adopting FIN 48 on our consolidated financial position, results of operations and cash flows.

In September 2006 the Financial Account Standards Board (the "FASB") issued its Statement of Financial Accounting Standards 157, Fair Value Measurements. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. However, for some entities, the application of this Statement will change current practice. FAS 157 effective date is for fiscal years beginning after November 15, 2007. The Company does not expect adoption of this standard will have a material impact on its financial position, operations or cash flows.

In September 2006 the FASB issued its Statement of Financial Accounting Standards 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans". This Statement improves financial reporting by requiring an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization. This Statement also improves financial reporting by requiring an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. The effective date for an employer with publicly traded equity securities is as of the end of the fiscal year ending after December 15, 2006. The Company does not expect adoption of this standard will have a material impact on its financial position, operations or cash flows.

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

**APPLIED DNA SCIENCES, INC**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION**  
**JUNE 30, 2007**  
**(Unaudited)**

**NOTE B - INTANGIBLE ASSETS AND AMORTIZATION**

The Company has adopted SFAS No. 142, Goodwill and Other Intangible Assets, whereby the Company periodically test 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.

Biowell Technology, Inc.

On July 12, 2005, the Company acquired certain intellectual properties from Biowell Technology, Inc. ("Biowell") through an Asset Purchase Agreement ("Agreement") in exchange for 36 million shares of the Company's restricted common stock having an aggregate fair value at the date of issuance of \$24,120,000. The intangible assets acquired consist of proprietary DNA anti-counterfeit trade secrets created by Biowell that are intended to protect intellectual property from counterfeiting, fraud, piracy, product diversion and unauthorized intrusion.

The purchase price has been allocated as follows:

Amortizable intangible assets acquired are comprised of:

Developed core technologies	\$ 2,260,900
Developed product technologies	7,170,000
Total amortizable intangible assets	9,430,900
Transaction costs	14,869,100
Total purchase price	\$ 24,120,000

In Process Research & Development

The Company concluded as of the date of acquisition, the acquired intangible assets, consisting of developed core and product technologies had reached full development and that it was not the intention of the Company's management to utilize the asset in specific research and development activities as defined in SFAS No. 2 Accounting for Research & Development Costs, As a result, the Company determined there was no in-process research and development ("IPR&D") projects in place related to the technology acquired, nor any future research and development activities planned. Accordingly, there is no charge to operations during the year ended September 30, 2005 for IPR&D in connection with the acquisition of the assets.

*Transaction costs*

The amount of the purchase price that could not be allocated to acquire identifiable intangible assets or IPR & D was \$14,689,100 and was charged to operations as a cost of the transaction during the year ended September 30, 2005.

The identifiable intangible assets acquired and their carrying value at June 30, 2007 are:

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	(1,980,664)
Impairment	(5,655,011)
Net:	\$ 1,829,482
Residual value:	\$ 0

-23-

---

**APPLIED DNA SCIENCES, INC**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION**  
**JUNE 30, 2007**  
**(Unaudited)**

**NOTE B - INTANGIBLE ASSETS AND AMORTIZATION (continued)**

Total amortization expense charged to operations for the three and nine months ended June 30, 2007 was \$92,661 and \$277,983, respectively. Amortization expense charged to operations for the three and nine months ended June 30, 2006 was \$338,853 and \$1,015,571 respectively.

Estimated amortization expense as of June 30, 2007 is as follows:

2007	\$ 277,982
2008	370,642
2009	365,504
2010	363,791
2011 and thereafter	451,563
Total	\$ 1,829,482

**APPLIED DNA SCIENCES, INC**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION**  
**JUNE 30, 2007**  
**(Unaudited)**

**NOTE C - PRIVATE PLACEMENT OF CONVERTIBLE NOTES**

Convertible notes payable as of June 30, 2007 are as follows:

10% Secured Convertible Notes Payable dated March 8, 2006, net of unamortized debt discount of \$107,710 (see below)	\$ 1,392,290
10% Secured Convertible Notes Payable, related party, dated April 23, 2007, net of unamortized debt discount of \$44,081 (see below)	55,919
10% Secured Convertible Notes Payable dated June 27, 2007 (See below)	100,000
10% Secured Convertible Notes Payable dated June 27, 2007 (See below)	50,000
10% Secured Convertible Notes Payable, related party, dated June 30, 2007, net of unamortized debt discount of \$102,354 (see below)	147,646
	1,745,855
Less: current portion	(1,745,855)
	\$ -

10% Secured Convertible Promissory Notes dated March 8, 2006

On March 8, 2006, in connection with a private placement, the Company issued 10% Secured Convertible Promissory Notes in the aggregate principal amount of \$1,500,000 (the "Serial Notes") and warrants to purchase 3,000,000 shares of the Company's common stock to accredited investors. The Serial Notes bear interest at 10%, mature on September 7, 2007 and are convertible into the Company's common stock, at the holder's option, at fifty cents (\$.50) per share during the period from the date of issuance (March 8, 2006) through March 7, 2007. Should the holder of the Serial Note elect not to convert to the Company's common stock on or before March 7, 2007, the outstanding principal, along with accrued and unpaid interest automatically converts to the Company's common stock at an amount equal to 80% of the average bid price of the Company's common stock on the Over-The-Counter Bulletin Board for a period equal to ten (10) days prior to conversion on the maturity date of September 7, 2007. At any time prior to conversion, the Company will have the right to prepay the promissory notes and accrued but unpaid interest thereon in cash upon 3 days notice, allowing the holders to convert the promissory notes during such notice period. The full principal amount of the Serial Notes is due upon a default under the terms of the Note Agreement. In addition, the Company granted the Investors a security interest in all of its assets (see Note B). The Company agreed to file a registration statement with the SEC to effect the registration of the shares of its common stock underlying the Serial Notes and the warrants within 30 days of the effective date of the Company's pending Registration Statement (SEC File 333 - 122848) being declared effective. The Company also agreed to use its reasonable best efforts to cause the registration statement to be declared effective no later than 180 days after its filing. If the Registration Statement is not filed and declared effective as described above, the Company will be required to pay liquidated damages in the form of cash to the holders of the Serial Notes, in an amount equal to 2% of the unpaid principal balance per month if the above deadlines are not met. In the event of a default on the Serial Notes, the Serial Notes will bear interest at twelve percent (12%) per annum until paid.

The warrants are exercisable for five years from March 8, 2006 until March 7, 2011 at a price of \$0.50 per share. The Company has the right, but not the obligation, to call these warrants for \$1.25 per share at the earlier of (i) one year from issuance or (ii) the date that shares of common stock issuable upon conversion of the Serial Notes and exercise of the warrants are registered for resale and the Company's common stock trades at or above \$1.25 per share for



twenty (20) consecutive trading days. The Notes include certain features that are considered embedded derivative financial instruments, such as a variety of conversion options, a variable interest rate feature, events of default and a variable liquidated damages clause.

The initial relative fair value assigned to the embedded derivatives was \$346,500.

-25-

---

**APPLIED DNA SCIENCES, INC**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION**  
**JUNE 30, 2007**  
**(Unaudited)**

**NOTE C - PRIVATE PLACEMENT OF CONVERTIBLE NOTES (continued)**

In conjunction with the Notes, the Company issued warrants to purchase 3,000,000 shares of common stock. The accounting treatment of the derivatives and warrants requires that the Company record the warrants at their fair values as of the inception date of the debt issuance, which totaled \$512,100.

The Company recorded the fair value of the derivatives (\$346,500) and warrants (\$ 512,100) to debt discount, aggregating \$858,600, which will be amortized to interest expense over the term of the Notes. Amortization of \$143,100 and \$429,300 was recorded for the three and nine months ended June 30, 2007, respectively.

The market price of the Company's common stock significantly impacts the extent to which the Company may be required or may be permitted to convert the Serial Notes into shares of the Company's common stock. The lower the market price of the Company's common stock at the due date of September 7, 2007, the more shares the Company will need to issue to convert the principal and interest payments then due on the Notes.

10% Secured Convertible Promissory Note dated April 23, 2007

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

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

In accordance with Emerging Issues Task Force Issue 98-5, Accounting for Convertible Securities with a Beneficial Conversion Features or Contingently Adjustable Conversion Ratios ("EITF 98-5"), the Company recognized an embedded beneficial conversion feature present in the convertible note. The Company allocated a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital. The Company recognized and measured an aggregate of \$13,333 of the proceeds, which is equal to the intrinsic value of the embedded beneficial conversion feature, to additional paid-in capital and a discount against the convertible note. The debt discount attributed to the beneficial conversion feature is amortized over the convertible note's maturity period (one year) as interest expense.

In connection with the placement of the convertible notes the Company issued non-detachable warrants granting the holders the right to acquire 200,000 shares of the Company's common stock at \$0.50 per share. The warrants expire five years from the issuance. In accordance with Emerging Issues Task Force Issue 00-27, Application of Issue No. 98-5 to Certain Convertible Instruments ("EITF - 0027"), the Company recognized the value attributable to the warrants in the amount of \$40,840 to 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.

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.

-26-

---

**APPLIED DNA SCIENCES, INC**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION**  
**JUNE 30, 2007**  
**(Unaudited)**

**NOTE C - PRIVATE PLACEMENT OF CONVERTIBLE NOTES (continued)**

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 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 approximately \$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 \$63,454 of the proceeds, which is equal to the intrinsic value of the embedded beneficial conversion feature, to additional paid-in capital and a discount against the convertible note. The debt discount attributed to the beneficial conversion feature is amortized over the convertible note's maturity period (one year) as interest expense.

In connection with the placement of the convertible notes the Company issued non-detachable warrants granting the holders the right to acquire 500,000 shares of the Company's common stock at \$0.50 per share. The warrants expire five years from the issuance. In accordance with Emerging Issues Task Force Issue 00-27, Application of Issue No. 98-5 to Certain Convertible Instruments ("EITF - 0027"), the Company recognized the value attributable to the warrants in the amount of \$38,900 to 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.

10% Secured Convertible Promissory Notes dated May 2, 2006

On May 2, 2006, in connection with a private placement, the Company issued 10% Secured Convertible Promissory Notes in the aggregate principal amount of \$1,000,000 (the "Serial Notes") and warrants to purchase 2,000,000 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 (\$.50) per share during the period from the date of issuance (May 2, 2006) through May 2, 2007. Should the holder of the Serial Note elect not to convert to the Company's common stock on or before May 2, 2007, the outstanding principal, along with accrued and unpaid interest automatically converts to the Company's common stock at an amount equal to 80% of the average bid price of the Company's common stock on the Over-The-Counter Bulletin Board during the 12 months prior to such conversion. The full principal amount of the Serial Notes is due upon a default under the terms of the Note Agreement. In addition, the Company granted the Investors a security interest in all of its assets (see Note B).

The Company agreed to file a registration statement with the SEC to effect the registration of the shares of its common stock underlying the Serial Notes and the warrants within 30 days of the effective date of the Company's pending Registration Statement (SEC File 333 - 122848) being declared effective. The Company also agreed to use its reasonable best efforts to cause the registration statement to be declared effective no later than 180 days after its filing. In the event of a default on the Serial Notes, the Serial Notes will bear interest at twelve percent (12%) per annum until paid.

The warrants are exercisable for four years from May 2, 2007 until May 2, 2011 at a price of \$0.50 per share. The Company has the right, but not the obligation, to call these warrants for \$0.001 per share at the earlier of (i) one year from issuance and (ii) the date that shares of common stock issuable upon conversion of the Serial Notes and exercise of the warrants are registered for resale and the Company's common stock trades at and above \$1.00 per share for twenty (20) consecutive trading days. The Notes include certain features that are considered embedded derivative financial instruments, such as a variety of conversion options, a variable interest rate feature, events of default and a variable liquidated damages clause.

-27-

---

**APPLIED DNA SCIENCES, INC**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION**  
**JUNE 30, 2007**  
**(Unaudited)**

**NOTE C - PRIVATE PLACEMENT OF CONVERTIBLE NOTES (continued)**

The initial relative fair value assigned to the embedded derivatives was \$82,358.

In conjunction with the Notes, the Company issued warrants to purchase 2,000,000 shares of common stock. The accounting treatment of the derivatives and warrants requires that the Company record the warrants at their fair values as of the inception date of the debt issuance, which totaled \$373,600.

The Company recorded the fair value of the derivatives (\$82,358) and warrants (\$373,600) to debt discount, aggregating \$455,958, which will be amortized to interest expense over the term of the Notes. Amortization of \$37,997 and 303,958 was recorded for the three and nine months ended June 30, 2007, respectively.

In May 2007, the Company issued 9,645,752 shares of common stock in exchange for the Convertible Promissory Notes dated May 2, 2006.

10% Secured Convertible Promissory Notes dated June 15, 2006

On June 15, 2006, in connection with a private placement, the Company 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 (\$.50) per share during the one year period from the date of issuance (June 15, 2006) through June 15, 2007. Should the holder of the Serial Note elect not to convert to the Company's common stock on or before June 15, 2007, the outstanding principal, along with accrued and unpaid interest automatically converts to the Company's common stock at an amount equal to 80% of the average bid price of the Company's common stock on the Over-The-Counter Bulletin Board during the 12 months prior to such conversion. The full principal amount of the Serial Notes is due upon a default under the terms of the Note Agreement. In addition, the Company granted the Investors a security interest in all of its assets (see Note B). The Company agreed to file a registration statement with the SEC to effect the registration of the shares of its common stock underlying the Serial Notes and the warrants within 30 days of the effective date of the Company's pending Registration Statement (SEC File 333 - 122848) being declared effective. The Company also agreed to use its reasonable best efforts to cause the registration statement to be declared effective no later than 180 days after its filing. In the event of a default on the Serial Notes, the Serial Notes will bear interest at twelve percent (12%) per annum until paid.

The warrants are exercisable for four years from June 15, 2007 until June 15, 2011 at a price of \$0.50 per share. The Company has the right, but not the obligation, to call these warrants for \$0.001 per share at the earlier of (i) one year from issuance and (ii) the date that shares of common stock issuable upon conversion of the Serial Notes and exercise of the warrants are registered for resale and the Company's common stock trades at and above \$1.00 per share for twenty (20) consecutive trading days. The Notes include certain features that are considered embedded derivative financial instruments, such as a variety of conversion options, a variable interest rate feature, events of default and a variable liquidated damages clause.

The initial relative fair value assigned to the embedded derivatives was \$175,321.

In conjunction with the Notes, the Company issued warrants to purchase 5,900,000 shares of common stock. The accounting treatment of the derivatives and warrants requires that the Company record the warrants at their fair values as of the inception date of the debt issuance, which totaled \$929,840.

-28-

---

**APPLIED DNA SCIENCES, INC**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION**  
**JUNE 30, 2007**  
**(Unaudited)**

**NOTE C - PRIVATE PLACEMENT OF CONVERTIBLE NOTES (continued)**

The Company recorded the fair value of the derivatives (\$175,321) and warrants (\$929,840) to debt discount, aggregating \$1,105,161, which will be amortized to interest expense over the term of the Notes. Amortization of \$230,299 and \$847,261 was recorded for the three and nine months ended June 30, 2007, respectively.

In June 2007, the Company issued 29,691,412 shares of common stock in exchange for the Convertible Promissory Notes dated June 15, 2006.

\$1,675,000 Convertible Notes

The Company issued convertible notes payable (“Bridge Unit Offering”) in quarterly installments of interest only at 10% per annum, secured by all assets of the Company and due on the earlier of the 9 month anniversary date of the initial closing of the offering or the completion of any equity financing of \$3,000,000 or more; the Company, at its sole discretion may prepay principal at any time without penalty. The Bridge Unit Offering Notes unpaid principal along with accrued and unpaid interest was converted to an aggregate of 4,988,051 shares of the Company’s common shares at a price equal to approximately \$0.33 per share during the quarter ended March 31, 2005.

\$1,465,000 Convertible Notes

Beginning in December, 2004, the Company sold a 10% convertible debenture in the aggregate amount of \$1,465,000 in a private placement and exempt offerings to sophisticated investors, net of costs and fees.

The convertible notes’ terms called for the debt to automatically convert at \$0.50 per share upon the filing a of a registration statement with the Securities and Exchange Commission.

The Company filed the registration statement on February 15, 2005 and the convertible notes were converted to an aggregate of 2,930,000 shares of the Company’s common stock in February 2005.

As additional consideration for the purchase of the convertible notes, the Company granted to the holders warrants entitling it to purchase 2,930,000 common shares of the Company’s common stock at the price of \$0.75 per share. These warrants were issued in February, 2005 and lapse if unexercised by February, 2010. A registration rights agreement was executed in December 2004 and consummated in February, 2005 requiring the Company to register the shares of its common stock underlying the convertible notes and warrants so as to permit the public resale thereof. The registration rights agreement provided for the payment of liquidated damages of 3.5% of the aggregate convertible note financing per month if the stipulated registration deadlines were not met. The liquidated damages, which approximate \$51,275 per month, may be paid, at the Company’s option, in cash or unregistered shares of the Company’s common stock.

In accordance with Emerging Issues Task Force Issue 98-5, Accounting for Convertible Securities with a Beneficial Conversion Features of Contingently Adjustable Conversion Ratios (“EITF 98-5”), the Company recognized an embedded beneficial conversion feature present in the convertible notes. The Company allocated a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital. The Company recognized and measured an aggregate of \$1,465,000 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 notes. Since the convertible notes were converted to the Company's common stock in February 2005, the debt discount attributed to the beneficial conversion feature of \$1,465,000 was charged to interest expense in its entirety during the nine months ended June 30, 2005.

In conjunction with raising capital through the issuance of convertible notes, the Company has issued a warrant in February, 2005 that has registration rights for the underlying shares. As the contract must be settled by the delivery of registered shares and the delivery of the registered shares is not controlled by the Company, pursuant to EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock", the net value of the warrants at the date of issuance was recorded as a warrant liability on the balance sheet at \$3,845,039 and charged to operations as interest expense. Upon the registration statement being declared effective, the fair value of the warrant on that date will be reclassified to equity. The Company initially valued the warrants using the Black-Scholes pricing model with the following assumptions: (1) dividend yield of 0%; (2) expected volatility of 148.66%, (3) risk-free interest rate of 3.21%, and (4) expected life of 3 years.

-29-

---

**APPLIED DNA SCIENCES, INC**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION**  
**JUNE 30, 2007**  
**(Unaudited)**

**NOTE C - PRIVATE PLACEMENT OF CONVERTIBLE NOTES (continued)**

In connection with the placement of the \$1,465,000 of convertible notes as described above, the Company agreed to register shares of the Company's common stock underlying certain previously issued and outstanding warrants that were not subject to a registration rights agreement at the time the warrants were issued. These warrants consist of following:

- 105,464 warrants entitling the holder to purchase 105,464 shares of the Company's common stock at the price of \$0.10 per share. These warrants were issued in July, 2004 and lapse if unexercised by July, 2009.
- 1,602,500 warrants entitling the holder to purchase 1,602,500 shares of the Company's common stock at the price of \$0.60 per share. These warrants were issued in October, 2003 and lapse if unexercised by October, 2008.

As a result, the Company is required to classify the warrants as derivative liabilities and mark them to market at each reporting date. The fair value of the warrants that were subject to registration reclassified as liabilities from additional paid in capital at February 2005 totaled \$3,108,851. Upon the registration statement being declared effective, the fair value of the warrants on that date will be reclassified to equity. The Company initially valued the warrants using the Black-Scholes pricing model with the following assumptions: (1) dividend yield of 0%; (2) expected volatility of 148.66%, (3) risk-free interest rate of 3.21%, and (4) expected life of 3 years.

\$7,371,000 Convertible Notes

In January and February, 2005, the Company sold a 10% convertible debenture in the aggregate amount of \$7,371,000 in a private placement and exempt offerings to sophisticated investors, net of costs and fees.

The convertible notes' terms called for the debt to automatically convert at \$0.50 per share upon the filing of a registration statement with the Securities and Exchange Commission.

The Company filed the registration statement on February 15, 2005 and the convertible notes were converted to an aggregate of 14,742,000 shares of the Company's common stock.

As additional consideration for the purchase of the convertible notes, the Company granted to the holders warrants entitling it to purchase 14,742,000 common shares of the Company's common stock at the price of \$0.75 per share. These warrants lapse if unexercised by February, 2010. A registration rights agreement was executed and consummated in January, 2005 requiring the Company to register the shares of its common stock underlying the convertible notes and warrants so as to permit the public resale thereof. The registration rights agreement provided for the payment of liquidated damages of 3.5% of the aggregate convertible note financing per month if the stipulated registration deadlines were not met. The liquidated damages, which approximate \$257,985 per month, may be paid, at the Company's option, in cash or unregistered shares of the Company's common stock.

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 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 \$7,731,000 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 notes. Since the convertible notes were converted to the Company's common stock in February, 2005, the debt discount attributed to the beneficial conversion feature of \$7,371,000 was charged to interest expense in its entirety during the nine months ended June 30, 2005.

-30-

---

**APPLIED DNA SCIENCES, INC**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION**  
**JUNE 30, 2007**  
**(Unaudited)**

**NOTE C - PRIVATE PLACEMENT OF CONVERTIBLE NOTES (continued)**

In conjunction with raising capital through the issuance of convertible notes, the Company has issued warrants that have registration rights for the underlying shares. As the contract must be settled by the delivery of registered shares and the delivery of the registered shares is not controlled by the Company, pursuant to EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock", the net value of the warrants at the date of issuance was recorded as a warrant liability on the balance sheet \$19,303,175 and charged to operations as interest expense. Upon the registration statement being declared effective, the fair value of the warrant on that date will be reclassified to equity. The Company initially valued the warrants using the Black-Scholes pricing model with the following assumptions: (1) dividend yield of 0%; (2) expected volatility of 152.59%, (3) risk-free interest rate of 3.67%, and (4) expected life of 5 years.

-31-

---

**APPLIED DNA SCIENCES, INC**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION**  
**JUNE 30, 2007**  
**(Unaudited)**

**NOTE D - CAPITAL STOCK**

The Company is authorized to issue 410,000,000 shares of common stock, with a \$0.001 par value per share as the result of a shareholder meeting conducted on May 16, 2007. Prior to the May 16, 2007 share increase, the Company was authorized to issue 250,000,000 shares of common stock with a \$0.001 par value per share. In addition, the Company is authorized to issue 10,000,000 shares of preferred stock with a \$0.0001 par value per share.

During the period September 16, 2002 through September 30, 2003, the Company issued 100,000 shares of common stock in exchange for reimbursement of services provided by the founders of the Company. The Company valued the shares issued at approximately \$1,000, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

In October, 2002, the Company issued 10,178,352 shares of common stock in exchange for the previously issued 100,000 shares to the Company's founders in connection with the merger with Prohealth Medical Technologies, Inc.

In October, 2002 the Company canceled 100,000 shares of common stock issued to the Company's founders.

During the fiscal year ended September 30, 2003, the Company issued 2,369,130 shares of common stock, net of cancellation of 860,000 shares in exchange for consulting services. The Company valued the shares issued at \$2,191,227, net of cancellation of \$60,008, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

In November 2003, the Company issued 876,000 shares of common stock in exchange for subscription at approximately \$0.065 per share.

In January 2003, the Company issued 1,500,000 shares of common stock in exchange for a licensing agreement. The Company valued the shares issued at approximately \$0.065 per share, which represents the fair value of the license received which did not differ materially from the value of the stock issued. The Company charged the cost of the license to operations.

In March 2003, the Company issued 10,140,000 shares of common stock to Company's founders in exchange for services. In accordance with EITF 96-18 the measurement date to determine fair value was in September 2002. This was the date at which a commitment for performance by the counter party to earn the equity instrument was reached. The Company valued the shares issued at approximately \$0.0001 per share, which presents the fair value of the services received which did not differ materially from the value of the stock issued.

In connection with the Company's acquisition of ProHealth, the controlling owner of ProHealth granted the Company an option to acquire up to 8,500,000 shares of the Company's common stock in exchange for \$100,000. The option expired on December 10, 2004. On June 30, 2003, the Company exercised its option and acquired 7,500,000 common shares under this agreement in exchange for an \$88,500 convertible promissory note payable to the former controlling owner. The Company had an option through December 10, 2004 to acquire the remaining 1,000,000 shares from the former controlling owner in exchange for \$11,500. On June 30, 2003, the Company retired the 7,500,000 shares common acquired pursuant to the option agreement.

In September 2003, the Company issued 19,200 shares of common stock for cash previously subscribed at \$2.50 per share.

During the fiscal year ended September 30, 2003, the Company issued 154,000 shares of common stock in exchange for previously issued options to purchase the Company's common stock at \$1.00 per share.

During the fiscal year ended September 30, 2003, the Company issued 74,400 shares of common stock in exchange for cash at approximately \$0.89 per share.

In October 2003, the Company issued 15,000 shares of convertible preferred stock in exchange for services. The Company valued the shares issued at the \$15 par value and recorded the value for services when the shares were converted into common shares as identified below.

-32-

---

During the fiscal year ended September 30, 2004, the Company issued 5,149,472 shares of common stock, net of cancellation of 155,000 shares, in exchange for consulting services. The Company valued the shares issued at \$8,787,315, net of cancellation of \$408,575, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

During the fiscal year ended September 30, 2004, the Company issued 340,500 shares of common stock for shares previously subscribed at approximately \$2.04 per share.

In March 2004, the Company issued 55,000 of common stock for options exercised at \$1.00 per share.

During the fiscal year ended September 30, 2004, the Company converted 15,000 preferred shares into 375,000 shares of common stock at \$1.47 per share in exchange for employee services valued at \$549,750.

In June 2004, the Company sold 250,000 shares of common stock at \$1.00 per share for total proceeds of \$250,000 pursuant to a private placement.

In September 2004, the Company issued 60,000 convertible preferred shares at \$25, in exchange for consulting services valued at \$1,500,000.

During the fiscal year ended September 30, 2005, the Company issued 11,040,647 shares of common stock, net of cancellation of 2,329,600 shares, in exchange for consulting and employee services. The Company valued the shares issued at \$13,008,371, net of cancellation of \$1,328,269, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

During the fiscal year ended September 30, 2005, the Company issued 1,500,000 shares of common stock for shares previously subscribed at approximately \$0.54 per share.

In February 2005, the Company in exchange for a related party note in the outstanding principal amount of \$600,000 and as settlement for certain claims related thereto issued 1,500,000 shares of common stock using a price of \$1.31 per share (See note G).

In March, 2005, the Company granted an aggregate of 300,000 stock options to employees that vested immediately. The exercise prices of the stock options granted were below the fair value of the Company's common stock at the grant date. Compensation expense of \$180,000 and \$0 was charged to operations during the period ended March 31, 2005 and 2004, respectively.

In June 2005, the Company cancelled 300,000 stock options previously granted valued at \$180,000. In accordance with EITF 96-18 the measurement date to determine fair value was the date at which a commitment for performance by the counter party to earn the equity instrument was reached. The Company valued the shares issued for consulting services at the rate which represents the fair value of the services received which did not differ materially from the value of the stock issued.

In July 2005, the Company issued 36 million shares in exchange for intellectual property at approximately \$0.67 per share for a total of \$24,120,000. The value of the acquired intangible assets was established at \$9,430,900, with the balance of the purchase price, or \$14,689,100, charged to operations as a cost of the transaction (See Note B).

In 2005, the Company issued 8,550,000 shares of its common stock without restriction to employees in exchange for services rendered. The Company valued the shares issued at market value and charged to operations in the period the shares were issued. The Company investigated the circumstances surrounding the issuance of the shares and the possible subsequent resale of certain of the shares on the open market and the possibility of violations of securities

laws and reported its findings to the Securities and Exchange Commission (see Note H).

-33-

---



**APPLIED DNA SCIENCES, INC**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION**  
**JUNE 30, 2007**  
**(Unaudited)**

**NOTE D - CAPITAL STOCK (continued)**

Until the Company successfully completes its pending registration statement on SEC Form SB-2, the Company is subject to liquidated damages (see Note D). In connection with the \$1,465,000 and \$7,371,000 million convertible debt financing, the Company was obligated to deliver registered shares underlying the convertible notes and warrants by July 2005. Since the registration was not effective by July 2005, the Company has been accruing and charging to operations the stipulated liquidated damages in shares of the Company's common stock accruing at a rate of 3.5% per month on the face value of the previously issued convertible notes. During the year ended September 30, 2005, the Company has paid and charged to operations penalties of \$776,529 in the form of 605,382 unregistered shares of its common stock to the former note holders.

In October, 2005, the Company issued 400,000 shares of common stock subscribed for cash at \$0.50 per share for a total of \$200,000 pursuant to the terms of a subscription payable. This issuance is considered exempt under Regulation D of the Securities Act of 1933 and Rule 506 promulgated thereunder.

In October 2005, the Company issued 100,000 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately \$0.75 per share for a total of \$75,000, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

In October 2005, the Company cancelled 350,000 shares previously issued for services valued at \$210,000.

In December, 2005, the Company issued 40,000 shares of common stock subscribed for cash at \$0.50 per share for a total of \$20,000 pursuant to the terms of a subscription payable. This issuance is considered exempt under Regulation D of the Securities Act of 1933 and Rule 506 promulgated thereunder.

For the fiscal year ended September 30, 2005, the Company issued a total of 2,096,139 penalty shares pursuant to a registration rights agreement. In connection with the 7,371,000 million convertible debt financing in the quarter ended March 31, 2005, the Company was obligated to complete a stock registration by July 2005. Since the registration statement was not effective by July 2005, the Company paid the required \$773,959 of liquidated damages in shares of Company stock accruing at the rate of 3.5% per month on the face value of the Notes for the month of September 2005. The Company valued the shares issued at approximately \$0.30 per share for a total of \$773,959. The Company continues to accrue the penalties relating to the pending registration statement.

In January, 2006, the Company cancelled 250,000 shares previously issued for services valued at \$150,000.

In January 2006, the Company issued 2,096,139 penalty shares pursuant to a registration rights agreement. In connection with the 7,371,000 million convertible debt financing in the quarter ended March 31, 2005, the Company was obligated to complete a stock registration by July 2005. Since the registration statement was not effective by July 2005, the Company paid the required \$257,985 of liquidated damages in shares of Company stock accruing at the rate of 3.5% per month on the face value of the Notes for the month of November and December 2005. The Company valued the shares issued at approximately \$0.25 per share for a total of \$515,973. The Company continues to accrue the penalties relating to the pending registration statement.

In February 2006, the Company issued 160,000 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately \$0.17 per share for a total of \$27,200, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

In February 2006, the Company issued 3,800,000 shares of common stock in exchange for consulting services. The Company valued the shares issued at approximately \$0.16 per share for a total of \$608,000, which represents the fair value of the services received which did not differ materially from the value of the stock issued.

In March 2006, the Company cancelled 150,000 shares previously issued for services valued at \$120,000.

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.

**APPLIED DNA SCIENCES, INC**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION**  
**JUNE 30, 2007**  
**(Unaudited)**

**NOTE D - CAPITAL STOCK (continued)**

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

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

-35-

---

**APPLIED DNA SCIENCES, INC**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION**  
**JUNE 30, 2007**  
**(Unaudited)**

**NOTE E - 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	Weighted Average Contract Life (Years)	Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$0.09	18,900,000			4,176,464	\$ 0.09
\$0.10	105,464			2,016,464	\$ 0.10
\$0.20	5,000			5,000	\$ 0.20
				17,450,000	\$ 0.50
\$0.55	9,000,000	1.72	\$ 0.55	9,000,000	\$ 0.55
\$0.60	8,847,000	2.63	\$ 0.60	8,847,000	\$ 0.60
\$0.70	950,000	0.84	\$ 0.70	950,000	\$ 0.70
\$0.75	17,727,000	3.00	\$ 0.75	17,727,000	\$ 0.75
	72,984,464			71,984,464	

Transactions involving warrants are summarized as follows:

	Balance, September 30, 2004	Number of Shares	Weighted Average Price Per Share
		4,870,253	\$ 0.63
Granted		32,873,000	0.71
Exercised		(142,500)	.034
Canceled or expired		(731,289)	0.65
Balance, September 30, 2005		36,869,464	0.67
Granted		35,500,000	0.29
Exercised		-	-
Canceled or expired		-	-
Outstanding at September 30, 2006		72,369,464	0.48
Granted		1,000,000	0.50
Exercised		-	-
Canceled or expired		(385,000)	(0.71)

Balance, June 30, 2007

72,984,464 \$ 0.48

*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.

-36-

---

**APPLIED DNA SCIENCES, INC**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION**  
**JUNE 30, 2007**  
**(Unaudited)**

**NOTE E - STOCK OPTIONS AND WARRANTS (continued)**

Options Outstanding			Options Exercisable		
Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ 0.68	3,660,000	4.25	\$ 0.68	3,660,000	\$ 0.68
0.09	2,000,000	4.41	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, 2005	3,660,000	\$ 0.68
Granted	2,000,000	0.09
Exercised	-	-
Cancelled or expired	-	-
Outstanding at September 30, 2006	5,660,000	\$ 0.47
Granted	-	-
Exercised	-	-
Canceled or expired	-	-
Outstanding at June 30, 2007	5,660,000	\$ 0.47

The Company did not grant any employee options during the nine months ended June 30, 2007.

Effective January, 2006, the Company adopted SFAS 123R and recognized compensation expense in its financial statements in fiscal 2006. Prior to the adoption of SFAS 123R, the Company accounted for its stock option plans according to Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, no compensation costs were recognized upon issuance or exercise of stock options for fiscal 2005.

SFAS No. 123, "Accounting for Stock-Based Compensation," required the disclosure of the estimated fair value of employee option grants and their impact on net income using option pricing models that are designed to estimate the value of options that, unlike employee stock options, can be traded at any time and are transferable. In addition to restrictions on trading, employee stock options may include other restrictions such as vesting periods. Further, such models require the input of highly subjective assumptions, including the expected volatility of the stock price.



**APPLIED DNA SCIENCES, INC**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION**  
**JUNE 30, 2007**  
**(Unaudited)**

**NOTE F - DEBT DERIVATIVE AND WARRANT LIABILITY**

In accordance with SFAS 133 "Accounting for Derivative Instruments and Hedging Activities and EITF 00-19 "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock", the Company accounted for identified embedded derivatives and warrants to purchase its common stock that provide for the payment of liquidated damages if the stipulated registration deadlines were not met as liabilities.

As of the date of this filing, the registration statement has not yet been declared effective by the SEC. The Company determined the fair value of the embedded derivatives and valued the warrants using the Black-Scholes option pricing model. Assumptions regarding the life were one to five years, expected dividend yield of 0%, a risk free rate of 4.28 to 4.92%, and a volatility of 123.8%. The determined value of both the warrants and the underlying embedded derivatives as of June 30, 2007 was \$4,468,404. The net change in the fair value of the derivative and warrant liability values from September 30, 2006 has been recorded as a gain from change in debt derivative and warrant liabilities in the consolidated condensed statement of operations.



**APPLIED DNA SCIENCES, INC**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION**  
**JUNE 30, 2007**  
**(Unaudited)**

**NOTE G - RELATED PARTY TRANSACTIONS**

On December 12, 2006, the Company issued 180,000 shares of its common stock as settlement of the outstanding related party note payable of \$410,429 and related accrued interest of \$8,884.

The Company's officers have advanced funds to the Company for travel related and working capital purposes. No formal repayment terms or arrangements exist. There were no advances due at June 30, 2007.

On July 15, 2005, the Company entered into a consulting agreement with Timpix International Limited ("Timpix") for the consulting services of three former Biowell employees, Drs. Jun-Jei Sheu, Ben Liang and Johnson Chen, which agreement was subsequently amended. Pursuant to the amended agreement, the Company is obligated to pay \$120,000, \$100,000 and \$80,000 per year pro-rated for each week, or part thereof, of time spent within the United States providing full time services for Drs Jun-Jei Sheu, Ben Lang and Johnson Chen, respectively. The Company is obligated to provide a corporate house available for the consultants while working in the United States. On June 11, 2007, we gave notice to Timpix pursuant to the terms of the consulting agreement of our intention not to renew the term of the consulting agreement will therefore terminate on July 11, 2007.

In July 2005, the Company entered into a license agreement with Biowell, whereby the Company granted Biowell an exclusive license to sell, market, and sub-license the Company's products in selected Asian countries. The exclusive license for such selected territories is for an initial period of until December 31, 2010, and if Biowell meets its performance goals, the license agreement will extend for an additional five year term. The license agreement gives Biowell the initial rights to future anti-fraud biotechnologies developed by the Company and also new applications for the existing technology that may be developed for the marketplace as long as the license agreement remains in effect. In the event that Biowell shall sub-license the products within its territories, Biowell shall pay the Company 50% of all fees, payments or consideration or any kind received in connection with the grant of the sublicense. Biowell is required to pay a royalty of 10% on all net sales made and is required to meet certain minimum annual net sales in its various territories. Cumulative royalties earned from the period July 2005 through June 30, 2007 totaled \$34,698. Net amounts owed to the Company by Biowell in connection with the royalty agreement as of June 30, 2007 were \$-0-.

As described in Note C above, the Company issued secured convertible promissory notes totally \$350,000 in exchange for funds to an officer and director.

**APPLIED DNA SCIENCES, INC**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION**  
**JUNE 30, 2007**  
**(Unaudited)**

**NOTE H - COMMITMENTS AND CONTINGENCIES**

*Operating Lease Commitments*

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 November 2007. In November 2005, the Company vacated the Los Angeles facility to relocate to the new Stony Brook New York address. Total lease rental expenses for the nine months ended June 30, 2007 was \$37,500.

*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.

On July 15, 2005, the Company entered into a consulting agreement with Timpix for the consulting services of three former Biowell employees, Drs. Jun-Jei Sheu, Ben Liang and Johnson Chen, which agreement was subsequently amended. Pursuant to the amended agreement, the Company is obligated to pay \$120,000, \$100,000 and \$80,000 per year pro-rated for each week, or part thereof, of time spent within the United States providing full time services for Drs Jun-Jei Sheu, Ben Lang and Johnson Chen, respectively. The Company is obligated to provide a corporate house available for the consultants while working in the United States. On June 11, 2007, we gave notice to Timpix pursuant to the terms of the consulting agreement of our intention not to renew the term of the consulting agreement will therefore terminate on July 11, 2007.

*Litigation*

On or about November 24, 2004, Oceanic Consulting, S.A. filed a complaint against the Company in the Superior Court of the State of New York. The Complaint alleges a breach of contract. The Company and the Plaintiff settled the dispute and the Company recorded the settlement amount as of September 30, 2006.

On or about January 10, 2005, Stern & Co. filed a complaint against the Company in the United States District Court for the Southern District of New York. The Complaint alleges a breach of contract. Subsequent to the date of the financial statements, the Company and the Plaintiff settled the dispute and the Company recorded the settlement amount as of September 30, 2006.

On April 29, 2005, Crystal Research Associates, LLC obtained a default judgment against us for \$13,000 in the Superior Court of New Jersey, Middlesex County. The Company settled this matter in May 2006.

On or about January 12, 2006, James Paul Brown, a former consultant to the Company filed a complaint against the Company in the Superior Court of the State of California. The Complaint alleges a breach of contract. Subsequent to the date of the financial statements, the Company and the Plaintiff settled the dispute and the Company recorded the settlement amount as of September 30, 2006.

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.

On or about April 4, 2006, the Company filed a complaint against Paul Reep, Adrian Butash, John Barnett, Chanty Cheang, Jaime Cardona (former Company employees and officers), and Angela Wiggins ( a former consultant to the Company) in the United States District Court for the Central District of California . The Company has asked the court to make a judicial determination that an agreement, which the Company did not authorize and which is the basis of previously disclosed litigation against the Company by Paul Reep, a former employee of the Company, and a new action filed by former employees of the Company as set forth in the subsequent paragraph, is invalid and unenforceable. This matter is in its early stages.

-40-

---

**APPLIED DNA SCIENCES, INC**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION**  
**JUNE 30, 2007**  
**(Unaudited)**

**NOTE H - COMMITMENTS AND CONTINGENCIES (continued)**

On or about April 17, 2006, former employees of the Company filed a complaint against the Company and certain of its current officers and Directors in Los Angeles County Superior Court. The Complaint alleges a breach of contract, violations of California Labor Code and wrongful termination and is seeking \$950,000 in specified damages, plus fees and costs. The complaint alleges a breach of contract. The Company believes that it has meritorious defenses to the plaintiff's claims and intends to vigorously defend itself against the Plaintiff's claims. Subsequent to the date of the financial statements, the Company and the Plaintiff settled the dispute and the Company recorded a settlement amount of \$605,000, a net reduction of \$121,000 to the previous accrual of \$795,982.

The Company is subject to other legal proceedings and claims, which arise in the ordinary course of its business.

*Registration of Company's Shares of Common Stock*

Until the Company successfully completes its pending registration statement on SEC Form SB-2, the Company is subject to liquidated damages (see Notes C and H). In connection with the \$1,465,000 and \$7,371,000 million convertible debt financing during the quarters ended December 31, 2004 and March 31, 2005, respectively, the Company was obligated to deliver registered shares underlying the convertible notes and warrants by July 2005 (see Note C). Since the registration was not effective by July 2005, the Company has been accruing and charging to operations the stipulated liquidated damages in shares of Company stock accruing at the rate of 3.5% per month on the face value of the previously issued convertible notes. During the year ended September 30, 2006, the Company has paid and charged to operations penalties of \$773,958 in the form of unregistered shares of its common stock to the former note holders, and has accrued and charged to operations an additional \$7,336,321 representing unpaid penalties through June 30, 2007.

*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 (see Note G), and had engaged our then new 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.

-41-

---

**APPLIED DNA SCIENCES, INC**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION**  
**JUNE 30, 2007**  
**(Unaudited)**

**NOTE I - RESTATEMENT OF FINANCIAL STATEMENTS**

During the preparation of the September 30, 2006 financial statements, the Company concluded its consolidated financial statements as of June 30, 2006 and the three, nine and inception to date Statements of Operations and Statements of Cash Flows should be restated to correct its accounting for: a) the accounting treatment for issued warrants both relating to non financing and financing activities b) corrections in proper period reporting of capitalized finance costs and c) error in report preparation and miscellaneous accounting adjustments appropriate for the fair presentation of the financial statements.

Following the restatements, specific line items of the Statement of Operations have changed to properly reflect the classification of warrant valuations relating to the issuance of both financing and non financing related activities. The impact of these restatement adjustments is to increase net loss by \$136,401 from September 16, 2002 (date of inception) through June 30, 2006 and to increase net income \$766,698 and \$2,148,364 for the three and nine months ended June 30, 2006, respectively. There was no effect on total cash flows provided by (used in) operations, investing or financing activities.

The following tables summarize the effects of these adjustments on the Company's consolidated balance sheet as of June 30, 2006, consolidated statements of operations for the three, nine and September 16, 2002 (date of inception) through June 30, 2006 and the consolidated statements of cash flow for the nine months and September 16, 2002 (date of inception) through June 30, 2006:

**Condensed Consolidated Balance Sheet**  
**June 30, 2006**

	<b>As Previously Reported</b>	<b>Adjustment</b>	<b>Reference</b>	<b>As Restated</b>
Cash	\$ 1,931,173			\$ 1,931,173
Accounts receivable, net	\$ 18,900			\$ 18,900
Advances and other receivables	\$ 11,611			\$ 11,611
Prepaid expenses	\$ 146,667			\$ 146,667
Total current assets	\$ 2,108,351			\$ 2,108,351
Property, plant and equipment, net	\$ 38,286			\$ 38,286
Deposits	\$ 8,322			\$ 8,322
Capitalized finance costs	\$ 1,437,862			\$ 1,437,862
Patents, net	\$ 17,376			\$ 17,376

Intellectual property, net	\$ 8,083,629	\$ 8,083,629
Total assets	\$ 11,693,826	\$ 11,693,826
Accounts payable and accrued liabilities	\$ 4,680,849	\$ 4,680,849
Notes payable, related party	\$ 410,429	\$ 410,429
Total current liabilities	\$ 5,091,278	\$ 5,091,278

-42-

---

**APPLIED DNA SCIENCES, INC**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION**  
**JUNE 30, 2007**  
**(Unaudited)**

**NOTE I - RESTATEMENT OF FINANCIAL STATEMENTS (continued)**

	As Previously Reported	Adjustment	Reference	As Restated
Convertible notes payable, net	\$ 3,306,371	\$		\$ 3,306,371
Debt derivative and warrant liability	\$ 5,698,286	\$		\$ 5,698,286
Total liabilities	\$ 14,095,935	\$		\$ 14,095,935
Preferred stock	\$ 6	\$		\$ 6
Common stock	\$ 118,582	\$		\$ 118,582
Common stock subscription	\$ (200,000)	\$		\$ (200,000)
Additional paid in capital	\$ 81,860,606	\$ 136,400	a	\$ 81,997,006
Accumulated deficit	\$ (84,181,303)	\$ (136,400)	a	\$ (84,317,703)
Total deficiency in stockholders' equity	\$ (2,402,109)			\$ (2,402,109)
Total liabilities and Deficiency in Stockholders' equity	\$ 11,693,826			\$ 11,693,826

**Condensed Consolidated Statement of Income (Losses)**  
**For the Three Months Ended June 30, 2006**

	As Previously Reported	Adjustment	Reference	As Restated
Sales	\$ 18,900	\$		18,900
Cost of sales	\$ 15,639	\$		15,639
Gross margin	\$ 3,261	\$		3,261
Selling, general & administrative	\$ 1,190,967	\$ 390,000	b	\$ 1,580,967
Research and development	\$ -	\$		-
Depreciation and amortization	\$ 336,824	\$		336,824
Total operating expenses	\$ 1,527,791	\$ 390,000	b	\$ 1,917,791
Net loss from operations	\$ (1,524,530)	\$ (390,000)	b	\$ (1,914,530)
Net gain (loss) in fair value of debt derivative and warrant liability	\$ 2,337,263	\$ 1,156,698	c	\$ 3,493,961
Other income (expense)	\$ 8,483	\$		8,483



Edgar Filing: APPLIED DNA SCIENCES INC - Form 10QSB

Interest income (expense)	\$	(826,827)	\$	(826,827)
Net income (loss)	\$	(5,611)		