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APPLIED DNA SCIENCES INC
Form NT 10-Q
May 16, 2006

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

FORM 12b-25

Commission File Number: 002-78682

NOTIFICATION OF LATE FILING

Form 10-K Form 20-F Form 11-K Form 10-Q
 Form 10-D Form N-SAR
 Form N-SAR
For Period Ended: March 31, 2006

Transition Report on Form 10-K
 Transition Report on Form 20-F
 Transition Report on Form 11-k
 Transition Report on Form 10-Q
 Transition Report on Form N-SAR
For the Transition Period Ended: _____

Nothing in this form shall be construed to imply that the Commission has verified any information contained herein.

If the notification relates to a portion of the filing checked above, identify the item(s) to which the notification relates:

PART I - REGISTRANT INFORMATION

Applied DNA Sciences, Inc.

Full name of registrant

Former name if applicable

25 Health Sciences Drive, Suite 113

Address of principal executive office

Stony Brook, New York 11790

City, state and zip code

PART II - RULE 12b-25 (b) AND (c)

If the subject report could not be filed without unreasonable effort or expense and the registrant seeks relief pursuant to Rule 12b-25(b), the following should be completed. (Check box if appropriate)

(a) The reasons described in reasonable detail in Part III of this form could not be eliminated without unreasonable effort or expense;

(b) The subject annual report, semi-annual report, transition report
 on Form 10-K, Form 20-F, Form 11-K, Form n-SAR or Form N-CSR, or

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| portion thereof, will be filed on or before the fifteenth calendar day
| following the prescribed due date; or the subject quarterly report or
| transition report on Form 10-Q or subject distribution report on Form
| 10-D, or portion thereof, will be filed on or before the fifth
| calendar day following the prescribed due date; and
|
| (c) The accountant's statement or other exhibit required by Rule
| 12b-25(c) has been attached if applicable.

PART III - NARRATIVE

State below in reasonable detail the reasons why Forms 10-K, 20-F, 11-K, 10-Q,
10-D, N-SAR, N-CSR, or the transition report, or portion thereof, could not be
filed within the prescribed time period.

Applied DNA Sciences, Inc. (the "Company" or "we" or "us") will be
restating its financial statements as of and for the fiscal year ended September
30, 2005 and as of and for the fiscal quarters ended March 31, 2005, June 30,
2005 and December 31, 2005. Because the analysis and preparation of the
financial statements for the periods affected by the restatement are not yet
complete, we will not be in a position to timely file our Quarterly Report on
Form 10-Q for the quarter ended March 31, 2006 without undue hardship and
expense.

PART IV -OTHER INFORMATION

(1) Name and telephone number of person to contact in regard to this
notification

James A. Hayward (631) 444-6861
(Name) (Area Code) (Telephone Number)

(2) Have all other periodic reports required under Section 13 or 15(d) of the
Securities Exchange Act of 1934 or Section 30 of the Investment Company Act of
1940 during the preceding 12 months or for such shorter period that the
registrant was required to file such report(s) been filed? If the answer is no,
identify report(s).

|X| Yes | | No

(3) Is it anticipated that any significant change in results of operations from
the corresponding period for the last fiscal year will be reflected by the
earnings statements to be included in the subject report or portion thereof?

|X| Yes | | No

If so, attach an explanation of the anticipated change, both narratively and
quantitatively, and, if appropriate, state the reasons why a reasonable estimate
of the results cannot be made.

On January 28, 2005 and February 11, 2005, we closed on a private
placement of our securities in which we sold \$7,371,000 in aggregate principal
amount of 10% secured convertible promissory notes (the "Notes") and warrants to
purchase 14,742,000 shares of our common stock (the "Warrants").

On May 16, 2006, our Board of Directors concluded that its previously
issued financial statements as of and for (i) the fiscal year ended September
30, 2005, and (ii) the three month periods ended March 31, 2005, June 30, 2005
and December 31, 2005, should no longer be relied upon as a result of the
Company having erroneously recorded the Warrants, and the common stock issued
upon the conversion of all of the Notes in February, 2005, as "permanent

equity."

Accordingly, we will restate our financial statements as of and for the fiscal year ended September 30, 2005, and as of and for the quarters ended March 31, 2005 and June 30, 2005, by disclosing the effect of these errors in an amended Form 10-KSB for the fiscal year ended September 30, 2005. We will restate our financial statements for the quarter ended December 31, 2005 by disclosing the effect of these errors in an amended Form 10-QSB for the three month period ended December 31, 2005.

These errors were discovered in connection with comments raised by the Securities and Exchange Commission (the "SEC") in their review and comment on the Registration Statement on Form SB-2, as amended, that we filed with the SEC on February 15, 2005 (the "Registration Statement") pursuant to the Registration Rights Agreement (the "Registration Rights Agreement") by and between the Company and VC Arjent Ltd., on behalf of the holders of the Registrable Securities (as defined in such agreement), in connection with our private placement in January and February, 2005 described above. These comments related to the Company's accounting for the Warrants and the common stock issued upon conversion of the Notes (pursuant to their terms, the Notes automatically converted into shares of our common stock upon the filing of the Registration Statement) considering the rights provided by the Registration Rights Agreement to the holders of these securities. Pursuant to the terms of the Registration Rights Agreement, if the Registration Statement was not declared effective on or before June 15, 2005, we are obligated to pay liquidated damages in the amount of 3.5% of the face amount of the Notes per month until the Registration Statement is declared effective. The Registration Statement has not been declared effective by the SEC, and we have been obligated to pay the liquidated damages set forth in the Registration Rights Agreement. The Registration Rights Agreement provides that, at our option, these liquidated damages can be paid in cash or restricted shares of our common stock. We paid liquidated damages in the form of restricted shares of our common stock for the period from June 15, 2005 to December 15, 2005. Based on the closing market prices of \$0.66, \$0.58, \$0.70, \$0.49, \$0.32 and \$0.20 for our common stock on July 15, 2005, August 15, 2005, September 15, 2005, October 17, 2005, November 15, 2005 and December 15, 2005, respectively, we issued a total of 3,807,375 shares of common stock in liquidated damages from August, 2005 to January, 2006.

The Emerging Issues Task Force ("EITF") is currently reviewing the accounting for securities with such liquidated damages provisions as stated in EITF 05-04, "The Effect of a Liquidated Damages Clause on a Freestanding Financial Instrument Subject to EITF 00-19." There are currently several views as to how to account for this type of transaction and the EITF has not yet reached a consensus. For instance, one could conclude that taken together, EITF 00-19, "Accounting for Derivative Financial Instruments Indexed To, and Potentially Settled in the Company's Own Stock," and EITF 05-04 provide that because the maximum potential liquidated damages for the failure to have the Registration Statement declared effective by June 15, 2005 is greater than the difference between the fair value of registered and unregistered shares of our common stock, the value of our common stock issued upon conversion of the Notes should be classified as temporary, rather than permanent equity. Similarly, one could conclude that given the terms of the Warrants, under EITF 00-19 the fair value of the Warrants should be recorded as a liability, with an offsetting reduction to shareholders' equity, rather than permanent equity. This warrant liability would initially be measured at fair value using the Black-Scholes option pricing model, and then re-valued at each reporting date, with changes in the fair value reported as non-cash charges or credits to earnings.

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The SEC announced its preferred interpretation of the accounting for common stock and warrants with registration rights under EITF 00-19 on December 1, 2005 in the Current Accounting and Disclosures Issues in the Division of Corporation Finance. The SEC concluded that for agreements containing registration rights where significant liquidated damages could be required to be paid to the holder of the instrument in the event the issuer fails to obtain or maintain the effectiveness of a registration statement for a preset time period, the common stock subject to such liquidated damages does not meet the tests required for shareholders' equity classification, and accordingly must be treated as temporary equity, or reflected between liabilities and shareholders' equity in the balance sheet until the requirements for treatment as permanent equity are satisfied. In analyzing instruments under EITF 00-19, the SEC concluded that the likelihood or probability of the Company's failure to have the Registration Statement declared effective is not a factor.

Historically, we classified the Warrants and the common stock issued upon conversion of the Notes as shareholders' equity, as we believed these securities met the requirements necessary to record them as shareholders' equity. After further review in accordance with the SEC's recent preferred interpretation of EITF 00-19 as it relates to the Warrants and the common stock issued upon conversion of the Notes, we have concluded that our financial statements for the fiscal year ended September 30, 2005, and interim periods ended March 31, 2005, June 30, 2005, and December 31, 2005, will be restated. The restatement will include the reclassification of the common stock issued upon conversion of the Notes from shareholders' equity to temporary equity, and the reclassification of the liability for the fair value of the Warrants from shareholders' equity and to warrant liability as of the date they were issued.

We are still completing our analysis of the effects of the change in the accounting for the Warrants and have not quantified the change in the results of operations for the period ended March 31, 2005 that will be included in the earnings statements to be reflected in the Form 10-QSB for the interim period ended March 31, 2006. Accordingly, we are not yet providing a reasonable estimate of the change in previously reported results.

Our Board of Directors discussed this matter with the Company's independent public accounting firm who agreed that the Company's annual and quarterly financial statements could not be relied upon and needed to be restated as described above.

Applied DNA Sciences, Inc.

Name of Registrant as Specified in Charter.

Has caused this notification to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: May 16, 2006

By: /s/ JAMES A. HAYWARD

James A. Hayward
Title: Chief Executive Officer

s New Roman" SIZE="2">(4)The grant date fair value of each stock option awarded to our non-affiliate independent Directors was \$11.45 on February 26, 2007, \$11.38 on May 15, 2007, \$12.06 on August 15, 2007 and \$14.25 on November 15, 2007, computed in accordance

with SFAS 123R.

- (5) Mr. Heinen chose not to stand for re-election and his term as a Director ended on May 16, 2007.
- (6) Mr. McDermott was elected to the Company's Board of Directors on July 10, 2007.
- (7) Mr. Thurk was elected to the Company's Board of Directors on May 18, 2007.

Transactions with Related Persons

We have adopted a written policy providing that all material transactions between the Company and its officers, directors and other affiliates must (i) be approved by a majority of the members of our Board of Directors and by a majority of the disinterested members of our Company's Board of Directors, and (ii) be on terms no less favorable to the Company than could be obtained from unaffiliated third parties.

OWNERSHIP OF OUR COMMON STOCK

Security Ownership of Certain Beneficial Owners

The following table presents information about persons or entities known to the Company to be the beneficial owner of more than five percent of our Common Stock as of March 15, 2008. The following information is based solely upon copies of filings of Schedule 13G received by the Company pursuant to the rules of the Securities and Exchange Commission (SEC).

Name and Address of Beneficial Owner	Shares Beneficially Owned Number	Percent
FMR LLC 82 Devonshire Street Boston, MA 02109	8,361,671(1)	10.67%
Eagle Asset Management, Inc. 880 Carillon Parkway St. Petersburg, FL 33716	4,361,389(2)	5.57%
Barclays Global Investors NA 45 Fremont Street, 17 th Floor San Francisco, CA 94105	4,065,000(3)	5.19%

- (1) The information reported is based on a Schedule 13G/A filed with the SEC on February 14, 2008 reporting beneficial ownership as of December 31, 2007.
- (2) The information reported is based on a Schedule 13F filed with the SEC on January 10, 2008 reporting beneficial ownership as of December 31, 2007.
- (3) The information reported is based on a Schedule 13G filed with the SEC on February 5, 2008 reporting beneficial ownership as of December 31, 2007.

Table of Contents**Security Ownership of Our Management**

The following table presents certain information pertaining to all of our executive officers and Directors as of March 15, 2008, based on their representations to the Company. All such information was provided by the stockholders listed and reflects their beneficial ownership as of March 15, 2008.

Name and Address of Beneficial Owner (1)	Shares Beneficially Owned	
	Number	Percent (2)
Peter J. Smith (3)	325,284	*
James E. Cashman III (4)	1,707,671	2.2%
Maria T. Shields (5)	241,939	*
Brian C. Drew (6)	32,050	*
Joseph C. Fairbanks, Jr. (7)	94,452	*
J. Christopher Reid (8)	84,664	*
William R. McDermott (9)	3,420	*
Jacqueline C. Morby (10)	173,500	*
Bradford C. Morley (11)	112,735	*
John F. Smith (12)	172,832	*
Michael C. Thurk (13)	0	*
Patrick J. Zilvitis (14)	108,500	*
All executive officers and Directors as a group (14 persons) (15)	3,251,598	4.2%

* Less than 1%.

(1) Except as otherwise indicated, addresses are c/o ANSYS, Inc., Southpointe, 275 Technology Drive, Canonsburg, PA 15317.

(2) All percentages have been determined as of March 15, 2008 in accordance with Rule 13d-3 under the Exchange Act. For purposes of this table, a person or group of persons is deemed to have beneficial ownership of any shares of Common Stock which such person has the right to acquire within 60 days after March 15, 2008. For purposes of computing the percentage of outstanding shares of Common Stock held by each person or group of persons named above, any security which such person or persons has or have the right to acquire within 60 days after March 15, 2008 is deemed to be outstanding, but is not deemed to be outstanding for the purpose of computing the percentage ownership of any other person. As of March 15, 2008, a total of 78,359,805 shares of Common Stock were issued and outstanding.

(3) Includes vested options to purchase 148,500 shares. Excludes unvested options to purchase 61,500 shares.

(4) Includes vested options to purchase 1,340,860 shares. Excludes unvested options to purchase 465,000 shares.

(5) Includes vested options to purchase 214,000 shares. Excludes unvested options to purchase 86,000 shares.

(6) Includes vested options to purchase 7,000 shares. Excludes unvested options to purchase 49,000 shares.

(7) Includes vested options to purchase 85,250 shares. Excludes unvested options to purchase 86,750 shares.

(8) Includes vested options to purchase 79,000 shares. Excludes unvested options to purchase 57,000 shares.

(9) Includes 3,420 deferred stock units (DSUs).

(10) Includes vested options to purchase 52,500 shares. Excludes unvested options to purchase 49,500 shares.

(11) Includes vested options to purchase 99,360 shares. Excludes unvested options to purchase 49,500 shares.

(12) Includes vested options to purchase 136,500 shares. Excludes unvested options to purchase 49,500 shares.

(13) Includes no vested options to purchase shares. Excludes unvested options to purchase 15,000 shares.

(14) Includes vested options to purchase 96,500 shares. Excludes unvested options to purchase 49,500 shares.

(15) Includes vested options to purchase 2,345,846 shares. Excludes unvested options to purchase 1,110,874 shares.

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Section 16(a) of the Exchange Act requires our executive officers and Directors, and persons who own more than 10% of our outstanding shares of Common Stock (collectively, Section 16 Persons), to file reports of ownership and changes in ownership with the SEC and NASDAQ. Section 16 Persons are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file.

Based solely on our review of the copies of such forms received by us, or written representations from certain Section 16 Persons that no Section 16(a) reports were required for such persons, we believe that no Section 16 Person filed a late report.

OUR EXECUTIVE OFFICERS**Named Executive Officer Profiles**

The names and ages of our named executive officers, and the principal occupation and business experience for at least the last five years for each named executive officer who is not also a Director, are set forth below as of December 31, 2007.

Name	Age	Position
James E. Cashman III (1)	54	President and Chief Executive Officer (CEO)
Maria T. Shields	43	Chief Financial Officer (CFO)
Brian C. Drew	50	Vice President, Central Development Unit
Joseph C. Fairbanks, Jr.	53	Vice President, Sales and Support
J. Christopher Reid	53	Vice President, Marketing

(1) Mr. Cashman is also a Director and his biographical information appears on page 3.

Maria T. Shields has been our Chief Financial Officer and Vice President, Finance and Administration since September 1998. Previously, she served as our Corporate Controller since September 1994 and as a Vice President since May 1998. Prior to joining the Company, Ms. Shields held various positions as a CPA with Deloitte and Touche LLP, including that of Audit Manager. Ms. Shields holds a Bachelor of Science degree in Accounting from Pennsylvania State University.

Brian C. Drew has been our Vice President and General Manager of the Central Development Business Unit since November 2006. Prior to joining the Company, Mr. Drew was the Vice President of Product Development & Internal Services at Fluent Inc. since July 1999. He became Fluent's Business Unit Director for the Power Generation industry and the ICEPAK business unit in April 1995 after serving as Fluent's Sales Director for North America since April 1991. Prior to Fluent, Mr. Drew's industrial experience includes the design of rocket engines and spacesuits at Hamilton Sundstrand and the development of high heat flux cooling systems at Create Inc. Mr. Drew holds Bachelor and Master of Science degrees in Mechanical Engineering from Georgia Institute of Technology.

Joseph C. Fairbanks, Jr. has been our Vice President, Worldwide Sales and Support since October 2001. Prior to joining the Company, Mr. Fairbanks was President and Chief Operating Officer for Black Oak Computer Services Incorporated from August 2000 to October 2001. Prior to Black Oak, Mr. Fairbanks was the Vice President, Sales and Marketing for the IBM Business Unit of Avnet Hallmark, an IBM distributor, from August 1997 to August 2000. Prior to August 1997, Mr. Fairbanks was the Director of Sales Operations for Aspen Technology, a chemical engineering software company. Mr. Fairbanks majored in Computer Sciences at West Chester University.

J. Christopher Reid has been our Vice President, Marketing since May 2006. Prior to that, Mr. Reid served as our Vice President and General Manager, Fluids Business Unit since February 2003. Prior to joining the Company, Mr. Reid served as President and Chief Executive Officer of the CFX division of AEA Technology from May 2001 to February 2003. During his career, Mr. Reid held a variety of senior management positions, including sales, marketing and product development, 20 years of which were with Honeywell International Industrial Automation and Control. Subsequent to Honeywell, Mr. Reid served as Chief Operating Officer with ProFac Facilities Management, Inc., a leading supplier of real estate outsourcing services. Additionally, Mr. Reid represented Open Options Corporation as an independent management consultant specializing in marketing, strategic planning and model-based decision support tools. Mr. Reid holds a Bachelor of Applied Science degree in Civil Engineering from the University of Waterloo.

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Compensation Discussion and Analysis

Overview of Compensation Program

Our Compensation Committee has responsibility for establishing, implementing and continually monitoring adherence with our compensation philosophy. Our Compensation Committee is solely responsible for determining each element of the compensation of our CEO, James E. Cashman III. Since each of the other named executive officers reports to Mr. Cashman, he prepares an analysis for our Compensation Committee recommending each element of the compensation to be paid to the other named executive officers. Our Compensation Committee, however, has final approval over all compensation decisions and may accept or adjust such recommendations as it determines in the best interests of the Company and its stockholders. Our Compensation Committee ensures that the total compensation paid to our named executive officers is fair, reasonable and competitive. Generally, the types of compensation and benefits provided to our named executive officers are similar to those provided to our other officers and employees.

Throughout this Proxy Statement, the individuals who served as our CEO and CFO during Fiscal 2007, as well as the other individuals included in the Summary Compensation Table on page 19, are referred to as the named executive officers.

Objectives of Compensation Program

The main objectives of our executive compensation program are to create a competitive total rewards package based on the attainment of short-term performance objectives and long-term strategic goals and to retain and attract qualified executive officers that will lead to our long-term success and enhance stockholder value. Each element of our compensation program supports these objectives. Accordingly, our executive compensation program consists of the following three principal elements: base salary, cash bonus and equity grants in the form of stock options and restricted stock, with an emphasis on incentive compensation rather than base salary. Our executives are also generally eligible to participate in employee benefit and retirement plans offered by us, which currently include defined contribution and 401(k) plans, an employee stock purchase plan, and health care and other insurance programs. The benefit programs available to executives are the same as those available to all other eligible employees.

Role of Compensation Committee and Executive Officers in Compensation Decisions

Our Compensation Committee is comprised solely of non-affiliate independent Directors who meet the independence requirements of the NASDAQ and qualify as outside directors under Section 162(m) of the Internal Revenue Code.

Our Compensation Committee makes all decisions regarding the compensation of our CEO, including establishing the performance goals and objectives for our CEO, evaluating our CEO's performance in light of the goals and objectives that were set, and determining and recommending to our Board the CEO's compensation based on that evaluation. As noted above, our CEO prepares an analysis for our Compensation Committee recommending each element of compensation to be paid to all other named executive officers, which our Compensation Committee may accept or adjust as they determine appropriate. To the extent not established by our Board of Directors, our Compensation Committee is also authorized to establish compensation and benefits for our Chairman and for new and existing non-affiliate independent Directors.

Our Chairman, CEO, Vice President of Human Resources and our external compensation consultant provide advice, analysis and recommendations to our Compensation Committee.

Setting Executive Compensation

To achieve our compensation objectives, our Compensation Committee has structured our annual and long-term incentive-based cash and non-cash executive compensation to motivate executives to achieve the business goals set by us and reward executives for achieving such goals. In furtherance of these goals, our Compensation Committee has engaged Frederick W. Cook & Co. (F.W. Cook), an independent compensation consulting firm, to conduct a review of the total compensation program for our CEO and CFO, as well as for other key executives. F.W. Cook provides our Compensation Committee with relevant market data and alternatives to consider when making compensation decisions for our CEO and the recommendations made by our CEO for our CFO and other executives.

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In setting executive compensation, our Compensation Committee reviews all of the elements of each executive officer's total compensation, and considers the analysis and recommendations of its compensation consultant, industry surveys and comparison with the following internally and externally developed peer group companies within our industry:

Advent Software, Inc.	Informatica Corporation	MTS Systems Corporation
Agile Software Corporation	Kronos Incorporated	Parametric Technology Corp.
Ansoft Corporation	Lawson Software, Inc.	QUEST Software, Inc.
Aspen Technology, Inc.	MAGMA Software	The Reynolds and Reynolds Co.
FactSet Research Systems Inc.	Manhattan Associates, Inc.	Synopsys, Inc.
Fair Isaac Corporation	Mentor Graphics Corp.	TIBCO Software Inc.
FileNet Corporation	MicroStrategy, Inc.	Verint Systems Inc.
Hyperion Solutions Corporation	Moldflow Corporation	

In regard to this peer group, for the fiscal year ended December 31, 2007, our Company was between the 25th and 50th percentiles in revenue and number of employees, between the 50th and 75th percentiles in market capitalization and 1-year total returns, and above the 75th percentile in net income in relation to the peer companies.

In setting executive compensation for 2007, our Compensation Committee established base salaries and target bonus levels at or below a mid-point level in relation to the peer companies listed above. Mr. Cashman was at a mid-point range of the peer companies listed above for total cash compensation and below the 25th percentile for equity compensation.

In his analysis for the cash compensation to be paid to the other named executive officers for 2007, among other considerations described in greater detail below under the subsections entitled *Base Salaries Awarded in 2007* and *Total Cash Compensation Awarded in 2007*, Mr. Cashman focused principally on internal equity compensation comparisons, and also considered the following factors: compensation levels of peers, legacy compensation levels, individual growth rates and growth relative to Company performance. The starting point for his analysis for 2007 was the total cash compensation plan for each executive for the prior year (*2006 Compensation Plans*). In setting the 2006 Compensation Plans, Mr. Cashman benchmarked each executive against a different set of peer companies consisting of Agile Software Corporation, Ansoft Corporation, Aspen Technology, Inc., MAGMA Software and Moldflow Corporation. Mr. Cashman selected this set of peer companies because of their similar business characteristics, comparable size and readily available public information. His process for formulating compensation recommendations for the other named executive officers is independent of our Compensation Committee's process for setting compensation for the CEO. Ms. Shields, Mr. Fairbanks and Mr. Reid were at a mid-point range of the peer companies utilized by Mr. Cashman for the 2006 Compensation Plans that formed the basis for his analysis and internal equity assessment in setting the total cash compensation for 2007. Because Mr. Drew joined the Company as the result of our acquisition of Fluent Inc., he was not part of Mr. Cashman's analysis for 2006. In setting Mr. Drew's compensation for 2007, Mr. Cashman considered his legacy compensation, internal equity matching and a modest increase primarily in variable compensation for increased performance. Ms. Shields, Mr. Fairbanks, Mr. Drew and Mr. Reid were in the 25th to 50th percentile range of the peer companies listed at the top of page 11 for equity compensation in 2007. Our Compensation Committee determined that this range was appropriate considering the factors described below for equity compensation, as well as our historic equity grant levels, the equity grants to the employee population generally and each executive's overall level of compensation.

Elements of Executive Compensation and Allocation among Elements

Our executive compensation program consists of the following three principal elements: base salary, cash bonus and equity grants in the form of stock options and restricted stock, with an emphasis on incentive compensation rather than base salary. Each element of compensation is chosen in order to attract and retain the necessary executive talent and to reward corporate performance by creating a balanced focus on shorter-term corporate performance and providing incentives for the attainment of long-term strategic goals and enhancing stockholder value. The allocation of each element of compensation is determined by our Compensation Committee for each executive based on the following factors:

performance against corporate, individual and organizational objectives for the fiscal year;

importance of particular skill sets and professional abilities to the achievement of long-term strategic goals; and

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contribution as a leader, corporate representative and member of the senior management team.

While we believe in structuring executive compensation plans that give our executives incentive to deliver certain objective elements of corporate financial performance over specified time periods, we do not believe in a purely mechanical approach. Instead, part of our executive compensation philosophy includes an element of reward for non-quantitative achievements demonstrated by our

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executives in the actions and decisions they have taken throughout the year. When establishing our executive compensation plans for a given year, it is not possible to foresee all of the challenges and demands that will be made of our executives, both as a management team and in their areas of individual responsibility. We believe that by rewarding decision-making and leadership, in addition to the achievement of quantifiable results, we are building a management team capable of creating stockholder value over the longer-term, while remaining disciplined in delivering shorter-term financial results.

The allocation of an executive officer's compensation among each of the compensation components is based on our competitive benchmarking, as appropriate, our recruiting and retention goals, our view of internal fairness and consistency and other considerations that our Compensation Committee deems relevant, such as extraordinary performance. However, our Compensation Committee does not structure compensation so that significant compensation derived from one component of compensation negates or offsets compensation from other components. While our Compensation Committee does not have a policy for determining the appropriate allocation between cash and non-cash compensation or short-term and long-term incentive compensation, historically our Compensation Committee has allocated a greater percentage of an employee's total compensation to equity compensation as he or she becomes more senior in the organization.

Base Salary, Cash Bonus and Total Cash Compensation

Cash Compensation Generally

Base salaries are intended to provide a fixed amount of compensation for an executive's regular work and are set at appropriate market levels, while cash bonuses are designed to reward our executives for the achievement of shorter-term financial goals and individual performance objectives. Our base salary determinations principally reflect the skills and performance levels of individual executives, our needs, and pay practices of comparable public companies. It is not our policy to pay our executive officers at the highest base salary level. Instead, we establish executive base salaries conservatively at or below a midpoint level relative to an appropriate set of peers. We believe this policy sets a prudent and fiscally responsible tone for our overall base salary compensation programs, while still enabling us to attract and retain employees who can contribute to our long-term success.

Cash bonuses effectively link individual contributions to overall business and individual performance and encourage executives to increase stockholder value in both the short and long term. Our philosophy with respect to the allocation of our earnings in the form of cash bonuses is to reward our stockholders first and then to allocate bonus payments first to our employees and then to senior management and the CEO. The amount of cash incentive bonus payments to be awarded to all executives including the CEO depends upon the achievement of corporate performance in the key areas of revenue growth, operating profit and earnings per share in accordance with internal plan goals, which are established by our Board prior to the start of each fiscal year. Bonus payments up to 100% of target are based upon the achievement of these internal plan goals. Since 2000, the Company has failed to achieve its internal plan revenue goal more often than it has achieved it. Bonus payments exceeding 100% of target are determined based upon our overachievement of earnings. Individual differences in payments above or below 100% of target are based on individual performance factors depending on the particular executive's role. Target bonuses for our executives range from 30% to 100% of base salary for Fiscal 2007, depending on the specific role and job responsibilities held by each of our executives. Our CEO's cash bonus is determined semi-annually based on corporate, individual and organizational performance at mid-year and year-end. Cash bonuses for our other executive officers are determined quarterly and at year-end.

Base Salaries Awarded in 2007

In setting base salary compensation for Mr. Cashman for 2007, our Compensation Committee began by analyzing the compensation practices of the peer companies listed on page 11 and targeted a mid-point range for base salary. Our Compensation Committee selected the mid-point as the appropriate point of comparison because we have moderately conservative compensation practices and want to balance our goals of retaining and rewarding our executives and serving our stockholders' interests by not being a compensation leader. Mr. Cashman's base salary for 2007 of \$470,000 was within the mid-point range at 103% of the median.

In his analysis for the base salaries to be paid to the other named executive officers for 2007, Mr. Cashman focused principally on internal equity compensation comparisons, and also considered the following factors: compensation levels of peers, legacy compensation levels, individual growth rates and growth relative to Company performance. The starting point for his analysis for 2007 was the 2006 Compensation Plans. In setting the 2006 Compensation Plans, Mr. Cashman benchmarked each executive against the smaller set of peer companies noted on page 11 under "Setting Executive Compensation," to test the reasonableness of his base salary recommendations, and adjusted downward for geographic cost of living differences using Standard Metropolitan Statistical

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Area metrics based on his belief that the cost of living is lower in certain regions where executives are located. In setting total cash compensation for 2007, Mr. Cashman compared the 2006 Cash Compensation Plans for Ms. Shields, Mr. Fairbanks and Mr. Reid to the total cash compensation paid in 2006 to new members of the executive team who had joined the Company as the result of the Fluent acquisition. His recommendations for total cash compensation for 2007 reflect adjustments from the 2006 Compensation Plans and actual compensation paid in 2006 to achieve internal equity among the combined executive team considering each executive's role, responsibilities, individual growth rate and growth relative to Company performance.

The base salaries for Ms. Shields (\$189,167), Mr. Fairbanks (\$199,000), Mr. Drew (\$170,132) and Mr. Reid (\$272,618) established for 2007 were principally determined based on internal equity considerations to reflect the first year of the combined executive team subsequent to the acquisition of Fluent. Our Compensation Committee concurred with Mr. Cashman's recommendations upon review of his analysis.

Cash Bonuses Awarded in 2007

Our Compensation Committee awarded cash bonuses greater than 100% of target amounts for Fiscal 2007 because of our over-achievement of internal plan goals and because of achievement of our 2007 executive bonus plan approved by our Compensation Committee. Under our executive bonus plan for 2007, target bonuses were set between 30% and 100% of base salary depending on the role and individual goals for each executive. As noted above, annual bonus payments up to 100% of target for executives are based on our achievement of internal plan goals, while cash bonus payments above 100% of target are determined based upon our corporate overachievement of earnings, and individual differences in bonus payments for each executive depend on individual goals.

Individual goals for Mr. Cashman included achievement of corporate business objectives relating to revenue, profit, cash position and earnings per share. Our Compensation Committee also considered achievement in our organic growth as well as the quality of our strategic acquisition process and implementation. In particular, the integration of Fluent, the largest in our history, provided the basis for several of these objectives, including the effective integration planning and implementation for the technology, sales, marketing and financial aspects of the business. Our Compensation Committee also focused on certain organizational development goals in support of acquisition and organic growth, such as progress in succession planning and the enhancement of management and organizational development. Also considered was the attainment of customer satisfaction goals, as measured by ISO ratings and user survey results, and the continued enhancement of our investor base. Mr. Cashman was successful in achieving these goals in 2007 because we exceeded our internal financial plan by 105% of revenue, 124% of operating profit and 126% of earnings per share, ISO and user survey objectives were achieved, and our Compensation Committee determined that Mr. Cashman had achieved his individual goals.

Individual goals for Ms. Shields in 2007 included improvements in the organization and staff development, corporate governance, sales operations, business modeling and acquisitions effectiveness. Individual goals for Mr. Fairbanks in 2007 included improvements in the development of a scalable, motivated, effective sales organization, forecast accuracy, services development and marketing integration. Individual goals for Mr. Drew in 2007 included organization of an integrated development function, product development, product management, staff development, key function leadership and common quality processes. Individual goals for Mr. Reid in 2007 included corporate marketing and branding, marketing communications and third party relationship management.

At our actual achievement level of 105% of revenue, 124% of operating profit and 126% of diluted earnings per share, and for non-quantitative achievements, including our integration of Fluent Inc., Mr. Cashman, Ms. Shields, Mr. Fairbanks and Mr. Drew each received bonus payments for 2007 that exceeded their targets because we achieved our revenue, operating profit and earnings per share internal plan goals and overachieved our earnings target, and because of their performance of the individual goals identified above. Bonus payments in excess of 100% of target to Ms. Shields, Mr. Fairbanks and Mr. Drew also reflect their exceptional performance in connection with the integration of Fluent. Mr. Reid's bonus payment relative to target was based on his performance of individual goals and is also influenced by currency effects because he is paid in Canadian dollars.

In 2007, Mr. Cashman received a cash bonus of \$536,900, or 117% of his target bonus of \$460,000; Ms. Shields received a cash bonus of \$156,800, or 143% of her target bonus of \$110,000; Mr. Fairbanks received a cash bonus of \$217,500, or 145% of his target bonus of \$150,000; Mr. Drew received a cash bonus of \$138,000, or 110% of his target bonus of \$125,000; and Mr. Reid received a cash bonus of \$145,272, or 87% of his target bonus of \$167,616. Our Compensation Committee deemed the resultant payout levels in excess of 100% of the target for named executive officers appropriate because we overachieved on our corporate objectives at 105% of revenue, 124% of operating profit and 126% of earnings per share for 2007. Individual differences in bonus payments relative to targets below and above 100% were based on individual performance goals described above.

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Total Cash Compensation Awarded in 2007

In setting cash compensation for Mr. Cashman for 2007, our Compensation Committee began by analyzing the compensation practices of the peer companies listed on page 11 and targeted a mid-point range for total compensation. Our Compensation Committee selected the mid-point as the appropriate point of comparison because we have moderately conservative compensation practices and want to balance our goals of retaining and rewarding our executives and serving our stockholders' interests by not being a compensation leader. Mr. Cashman's total targeted cash compensation for 2007 was within the mid-point range at 107% of the median.

Utilizing the peer companies listed above, Mr. Cashman's targeted total cash compensation (\$930,000) consisting of base salary (\$470,000) and target bonus (\$460,000) was established at 107% of the median (\$873,211). Base salary (\$470,000) was at 103% of median (\$454,977) and target bonus (\$460,000) was at 105% of median (\$436,778). His actual base salary (\$470,000) plus achieved bonus (\$536,900) resulted in actual total cash compensation (\$1,006,900) equal to 116% of median for the peer group.

In his analysis for the total cash compensation to be paid to the other named executive officers for 2007, Mr. Cashman focused principally on internal equity compensation comparisons, and also considered the following factors: compensation levels of peers, legacy compensation levels, individual growth rates and growth relative to Company performance. The starting point for his analysis for 2007 was the 2006 Compensation Plans. In setting the 2006 Compensation Plans, Mr. Cashman benchmarked each executive against the smaller set of peer companies noted on page 11 under "Setting Executive Compensation." Mr. Cashman utilized the benchmarks to test the reasonableness of his total cash compensation recommendations for 2006, and adjusted downward for geographic cost of living differences using on Standard Metropolitan Statistical Area metrics based on his belief that the cost of living is lower in certain regions where executives are located. The total cash compensation levels for Ms. Shields, Mr. Fairbanks and Mr. Reid established for 2006 were all within a mid-point range of the peer group examined by Mr. Cashman. Because Mr. Drew joined the Company as the result of the Fluent acquisition, he was not part of Mr. Cashman's analysis for 2006. In setting total cash compensation for 2007, Mr. Cashman compared the 2006 Cash Compensation Plans for Ms. Shields, Mr. Fairbanks and Mr. Reid to the total cash compensation paid in 2006 to new members of the executive team who had joined the Company as the result of the Fluent acquisition. In setting Mr. Drew's compensation for 2007, Mr. Cashman considered his legacy compensation, internal equity matching and a modest increase primarily in variable compensation for increased performance. His recommendations for total cash compensation for 2007 reflect adjustments from the 2006 Compensation Plans and actual compensation paid in 2006 to achieve internal equity among the combined executive team considering each executive's role, responsibilities, individual growth rate and growth relative to Company performance. Our Compensation Committee concurred with Mr. Cashman's recommendations for 2007 upon review of his analysis.

Variations Among Executive Officer Compensation

As our CEO and President, Mr. Cashman has primary responsibility for delivering results and managing operations so his compensation is determined based on Company-wide financial, organizational and strategic goals. Mr. Cashman has the highest variable component of his target bonus relative to his base salary, reflecting his overall operational and strategic responsibilities and their direct relationship to stockholder value. We enjoyed success in 2007 and in years when we are performing well he is rewarded for our success, which is consistent with our Compensation Committee's compensation philosophy to enhance long-term stockholder value. Based in part on Mr. Cashman's leadership and strategic decision-making, stockholder value has been increasing, and it is our Compensation Committee's intent that Mr. Cashman be rewarded for those stockholder gains and his long-term record of delivering value.

As described above, our Compensation Committee also relies on benchmarking data in assessing the reasonableness of the compensation for all of the named executive officers. Despite being compensated more highly than the other named executive officers, Mr. Cashman's base salary of \$470,000 was at 103% of the median for CEOs in the peer group. Mr. Cashman's target bonus was planned at 98% of base salary as compared to the peer group median of 96% of base salary, although Mr. Cashman was actually awarded a cash bonus of \$536,900, or 114% of base salary, because of achievement of our internal revenue and profitability plans, as well as above target achievement of Company earnings plan and his individual goals.

There are also variations among decisions relating to other executive officers based on their respective roles in the organization.

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Ms. Shields, our chief financial officer, has a variable component in her target bonus that is principally tied to corporate performance because of her corporate-wide finance and administration responsibilities, including considering any potential acquisitions. Ms. Shields received more than Mr. Drew because of her role in the successful integration of Fluent, including heavy involvement in financial reporting system integration.

Mr. Fairbanks, our vice president of worldwide sales and support, has a higher variable component in his target bonus relative to his base salary because of his responsibilities in driving revenue and the heightened risk associated with his role. For example, individual goals for Mr. Fairbanks in 2007 included improvements in the development of a scalable, motivated, effective sales organization, forecast accuracy, services development and marketing integration. Mr. Fairbanks received the largest total compensation following Mr. Cashman because revenue increased in 2007 and the internal revenue plan was exceeded due principally to his efforts.

Mr. Drew, our vice president of the central development unit, has variable components that reflect his role in organizing and coordinating a new development group within the Company and the assumption of responsibilities as a new member of the Company's senior management team. For example, individual goals for Mr. Drew in 2007 included organization of an integrated development function, product development, product management, staff development, key function leadership and common quality processes. Mr. Drew received total compensation commensurate with his new role and significant organizational objectives.

Mr. Reid, our vice president of marketing, has variable components that reflect his overall corporate marketing responsibilities. For example, individual goals for Mr. Reid in 2007 included corporate marketing and branding, marketing communications and third party relationship management. Mr. Reid has a relatively higher base salary than other executives because he entered the Company as a result of our acquisition of CFX in 2003 and was being paid a higher rate of compensation than Company executives at the time of the acquisition. While we did not reduce his salary following the acquisition, his rate of increase is lower than the rates of base salary increase of other executives to eventually bring his compensation into line with the other named executive officers. Mr. Reid's cash compensation is also influenced by currency effects because he is paid in Canadian dollars.

Equity Compensation

Equity compensation is intended to align the interest of executives with long-term stockholder interests and to create incentives for executives to work cooperatively to ensure we continue our successful growth. We have no set formula or timeframe for the granting of equity awards to individual executives or employees. In determining equity grants made in 2007, our Compensation Committee set aside a pool of options by considering the number of options available for grant under our stock option plan and reviewing an analysis prepared by our compensation consultant to determine market and stockholder value transfer levels. Our Compensation Committee believes that stock option and restricted stock grants help it achieve our compensation goals by giving executives a significant, long-term interest in our success, helping to attract and retain key executives in a competitive market for executive talent and aligning the interests of executives with long-term stockholder interests thereby enhancing stockholder value.

Our Compensation Committee monitors industry trends and applicable tax, accounting and regulatory changes and may in the future, for financial, competitive or other reasons, use other equity incentive vehicles in place of or in combination with stock options and restricted stock.

Equity Awards Granted for 2007

During Fiscal 2007, we granted options to acquire an aggregate of 1,125,500 shares of our Common Stock to our employees, officers and non-affiliate independent Directors, representing 1% of the outstanding shares of our Common Stock as of December 31, 2007. Of this aggregate amount, our five named executive officers received stock options to acquire an aggregate of 223,000 shares, or approximately 20% of the total options we granted in Fiscal 2007. Our employees and other officers received approximately 71% of the total options we granted in Fiscal 2007. Our non-affiliate independent Directors received approximately 9% of the total options we granted in Fiscal 2007 pursuant to the terms of our Option Plan.

In setting the individual equity awards based on the available options, our Compensation Committee considered comparisons to the peer group, longer-term performance, leadership potential, the responsibilities to be assumed by each executive in the upcoming fiscal year, the responsibilities of each executive in prior periods, existing option holdings, the size of awards made to each executive in prior years relative to our overall performance, available stock for issuance under our option plan, potential grants in future years and the projected retention incentive profile for each executive beyond 2007. Mr. Cashman received an equity award below the 25th

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percentile identified by the compensation consultant, while the equity grants for the named executive officers other than Mr. Cashman were in the 25th to 50th percentile range, which our Compensation Committee determined to be appropriate levels considering the factors noted below as well as our historic equity grant levels, the equity grants to the employee population generally and each executive's overall level of compensation.

Mr. Cashman received a grant of options to purchase 110,000 shares of our common stock, which was significantly more than the other named executive officers received, because in his role as CEO he bears more of the responsibility for our performance and has a larger variable compensation component that reflects this greater risk. In determining the option awards for Mr. Cashman in 2007, our Compensation Committee considered short and long-term performance, long-term potential and leadership capability, our broader scope given the Fluent acquisition and future retention incentives. Our Compensation Committee also reviewed past stock awards and Mr. Cashman's current option holdings, internal comparisons and utilized the benchmark data from the peer companies listed at the top of page 11 in order to target Mr. Cashman's 2007 grant below the 25th percentile.

Ms. Shields received a grant of options to purchase 32,000 shares of our common stock consistent with competitive benchmarks and an analysis provided by our compensation consultant and in recognition of her exceptional performance in connection with the integration of Fluent. The grant to Ms. Shields was between the 25th and 50th percentiles of the consultant's peer group. Mr. Fairbanks received a grant of options to purchase 35,000 shares of our common stock consistent with competitive benchmarks and an analysis provided by our compensation consultant and in recognition of the over-achievement of the sales organization and his exceptional performance in connection with the integration of Fluent. The grant to Mr. Fairbanks was between the 25th and 50th percentiles of the consultant's peer group. Mr. Drew received a grant of options to purchase 28,000 shares of our common stock consistent with competitive benchmarks and an analysis provided by our compensation consultant. The grant to Mr. Drew was in the 50th percentile range of the consultant's peer group. Mr. Reid received a grant of options to purchase 18,000 shares of our common stock consistent with competitive benchmarks and an analysis provided by our compensation consultant. The grant to Mr. Reid was in the 25th percentile range of the consultant's peer group.

Differences in equity grant levels among Ms. Shields, Mr. Fairbanks, Mr. Drew and Mr. Reid reflect their varying roles and responsibilities, contributions to the Company's overachievement in 2007 and contributions to the integration of Fluent.

Equity Grant Policy

In October 2006, our Compensation Committee approved and adopted the ANSYS, Inc. Equity Grant Policy effective December 31, 2006. Under our policy, all grants, and the terms and conditions thereof, are authorized and approved by our Compensation Committee. Our Compensation Committee may authorize block grants of options or stock for employees who are not our executive officers or directors, and delegate the allocation of those awards to our CEO, CFO, General Counsel and Vice President of Human Resources. Our Compensation Committee has delegated to our CEO and Vice President of Human Resources authority to make new hire option grants of less than 10,000 options per new hire, not to exceed an aggregate of 50,000 delegated new hire option grants per calendar quarter. Our Compensation Committee must authorize and approve any change to the terms and conditions of any grant and any exceptions to our policy.

Under our policy, grants to existing directors, officers, employees, consultants and key persons occur during open trading windows when all material information, including our earnings, has been publicly disclosed. Accordingly, the grant date for all grants will be the later of (i) forty-five (45) days after the end of each calendar quarter or the next business day thereafter, or (ii) two (2) business days after the start of our next open trading window after the end of a calendar quarter or the next business day thereafter. No grant date shall precede the date the grant was authorized by our Compensation Committee. The grant date for delegated new hire grants shall be the last business day of the month in which the hire date occurs and shall not precede the employee's hire date.

The grant or exercise price for all grants will be the fair market value of the stock on the grant date. It is our policy to set the fair market value equal to the closing price of the stock on the grant date.

Equity Ownership by Executives

On July 25, 2007, our Committee approved Management Stock Ownership Guidelines. Under these guidelines, all members of our senior management team are required to own equity in the Company equal to a minimum of two times their base salary, and to attain this minimum stock ownership level within four years. For purposes of this calculation, at least one half of the minimum must be comprised of shares of stock and the balance may be comprised of up to one half of the value of an executive's vested stock option gains. The Management Stock Ownership Guidelines are part of our Corporate Governance Guidelines and are available on our website at www.ansys.com.

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Perquisites

Our executives are entitled to few benefits that are not available to all of our employees. We do not provide aircraft or premium travel allowances to our executives, and we have no deferred compensation, pension arrangements, post-retirement health coverage or similar benefits for our executives.

Perquisites Provided in 2007

All of our named executive officers participated in the same Company retirement plans that are available to all of our eligible employees. Mr. Cashman, Ms. Shields and Mr. Fairbanks each received a Company retirement plan contribution of \$29,250. Mr. Drew received a Company retirement plan contribution of \$5,125, and Mr. Reid received a Company retirement plan contribution of \$1,092. Mr. Cashman received an auto allowance and reimbursement for auto usage-related expenses of \$8,797, life insurance premiums totaling \$3,430, and spouse paid travel for the President's Club trip of \$641. Mr. Fairbanks received an auto allowance of \$6,000 and spouse paid travel for the President's Club trip of \$1,047. Mr. Drew received health club benefits of \$90. Mr. Reid received life insurance premiums totaling \$527. Our corporate health and other insurance plans are the same for all eligible employees, and our executives pay the same premiums as our other employees who are enrolled in our plans.

Post-Employment Compensation

Retirement Benefits

We do not provide pension arrangements or post-retirement health coverage for our executives or employees. Our U.S.-based employees are eligible to participate in our defined contribution and 401(k) plans. In any plan year, we will contribute to each participant a matching contribution equal to 100% of the participant's deferred salary contribution, up to a maximum matching contribution of 3-5% of the participant's total wages or salary subject to federal income tax withholding. A large portion of our U.S.-based employees are also eligible to receive a discretionary profit share contribution of 0-5% of their total wages or salary subject to federal income tax withholding. Those who joined us prior to January 1, 2004 are also eligible to receive a discretionary retirement plan contribution of 0-5% of their total wages or salary subject to federal income tax withholding. U.S.-based executive officers who participated in legacy retirement plans of the Company during Fiscal 2007 received matching contributions of up to 5%, a discretionary profit share contribution of up to 3% and a discretionary retirement plan contribution of up to 5%. U.S.-based executive officers who participated in the legacy retirement plan of Fluent during Fiscal 2007 received matching contributions of up to 25%. All other executives are eligible to participate in the retirement plans offered generally to employees in the location where they are employed.

Nonqualified Deferred Compensation

We do not provide any nonqualified defined contribution or other deferred compensation plans.

Other Post-Employment Payments

We do not provide post-employment health coverage or other benefits, except in connection with certain employment agreements, details of which are included below under Employment, Severance and Change-of-Control Agreements.

Employment, Severance and Change-of-Control Agreements

All of our employees, including our executive officers, are employees-at-will and as such do not have employment contracts with us, except in the case of our Chairman, CEO and some employees of our foreign or acquired subsidiaries, which is consistent with our moderately conservative compensation philosophy. We have entered into severance agreements with these individuals because of the unique situations of each of these executives.

We have an employment agreement with Mr. Peter J. Smith, our Chairman, dated March 28, 1994, which was entered into in connection with his employment with us. Mr. Smith's severance payment and change of control benefits were established in 1994 and reflect competitive conditions at the time of his employment and have been maintained because his role is viewed by our Compensation Committee as critical to any change of control that could be advantageous to our stockholders. Mr. Smith's employment agreement (i) provides for an annual base salary and participation in our executive bonus plan, (ii) is for an indefinite

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term unless terminated by either party, (iii) provides for severance at the annual rate of \$300,000 and continuation of then-existing benefits in the event Mr. Smith's employment is terminated by us without cause or in the event of a constructive termination (as defined therein) until the earlier of one year after termination or Mr. Smith's acceptance of other employment and (iv) restricts competitive activities by Mr. Smith for one year following termination of his employment other than for cause or in the event of a constructive termination. We provided Mr. Smith with \$309,058 at the time of his employment to purchase an annuity that will result in payments to Mr. Smith beginning at age 62.

We have an employment agreement with Mr. Cashman, which was entered into in April 2003 based on competitive and benchmark data at that time. Mr. Cashman's severance payment and change of control benefits were established in 2003 for retention reasons and because his role is viewed by our Compensation Committee as critical to any change of control which could be advantageous to our stockholders. His payments reflect competitive comparisons made at the time to the following peer companies: Advent Software, Inc., Ansoft Corp., Business Objects SA, Cadence Design Systems Inc., Citrix Systems, Inc., Kronos Inc., Manhattan Associates, Inc., MapInfo Corp., Mentor Graphics Corp., Mercury Interactive, Moldflow Corp., MSC Software Corp., MTS Systems Corp. and Parametric Technology Corp. Mr. Cashman's employment agreement (i) provides for an annual base salary and participation in our executive bonus plan, (ii) is for an indefinite term unless terminated by either party, (iii) provides for termination benefits equal to two times his combined salary and target bonus and continuation of benefits then in effect if we terminate him without cause at any time or demote or terminate him with or without cause within 180 days following a change of control of us, or if he resigns following our material breach of his employment agreement, (iv) in the case of change of control of us, provides that all awarded stock options shall become fully vested upon the effective date of the transaction, (v) provides Mr. Cashman with a \$2.0 million term life insurance policy, the proceeds of which are payable to beneficiaries designated by Mr. Cashman, and (vi) restricts competitive activities by Mr. Cashman for two years following the termination of his employment with us regardless of the basis of that termination. Our compensation consultant reviewed these terms in December 2006 and verified that they were in line with competitive practices.

We have an employment agreement with Mr. Reid, which was entered into on February 20, 2003 and amended on May 1, 2006. Mr. Reid's employment agreement reflects his contractual arrangements at the time of our acquisition of CFX in 2003, and (i) provides for an annual base salary and participation in our executive bonus plan, (ii) is for an indefinite term unless terminated by either party, (iii) provides for termination benefits equal to twelve months salary then in effect if we terminate him other than for cause at any time or terminate him following a change of control of us, and (iv) restricts competitive activities by Mr. Reid for one year following the termination of his employment with us.

Given their roles in ensuring the success of any corporate transactional activities and the relative exposure of their roles following any such transaction, we have agreements with Mr. Peter J. Smith, our Chairman, Mr. Cashman, and Ms. Shields, which provide that all stock options awarded to each of them are subject to single-trigger vesting and shall become fully vested in the event of a change of control of us. The value of these benefits was considered appropriate because of the key role of these individuals in any change of control transaction and because this payment would be a function of our success and the delivery of stockholder value, as reflected in the stock price at the time of the change of control. Assuming a change of control occurred on December 31, 2007 and that the price per share is the closing market price as of that date, Mr. Peter J. Smith would receive \$1,067,775, Mr. Cashman would receive \$11,919,350 and Ms. Shields would receive \$1,277,700, respectively, in connection with the vesting of their stock options.

We have stock option agreements with all employees and executive officers who have been granted stock options. With the exception of Mr. Peter J. Smith, Mr. Cashman and Ms. Shields, all of our employee stock option agreements, including those of Mr. Fairbanks, Mr. Drew and Mr. Reid, are subject to double-trigger vesting, meaning that if within 18 months of a change of control, their respective employment is terminated by us without cause or is terminated by such employee after any material adverse modification of his duties, principal employment location or compensation, then all stock options awarded to that employee would become fully vested. These named executive officers are subject to double-trigger vesting rather than single-trigger vesting because they are less likely to lose their positions with us upon a change of control. Assuming a change of control occurred on December 31, 2007, their employment terminated on December 31, 2007, and the price per share is the closing market price as of that date, Mr. Fairbanks, Mr. Drew and Mr. Reid would receive \$1,226,458, \$442,330 and \$901,250, respectively, in connection with the vesting of their stock options.

In addition, each of Mr. Cashman, Ms. Shields, Mr. Fairbanks, Mr. Drew and Mr. Reid have stock award grants totaling 4,294, 2,528, 2,528, 800, and 1,542 shares, respectively. These shares were fully vested upon grant and are subject only to a lock-up agreement restricting transfer until the earlier of (i) the fourth anniversary of the grant date, (ii) termination of employment with us, or (iii) a change of control of us.

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Had a change of control occurred during Fiscal 2007 and had their employment been terminated on December 31, 2007, Mr. Smith, Mr. Cashman, Mr. Reid, Ms. Shields, Mr. Fairbanks and Mr. Drew would have been eligible to receive the severance payments set forth in the table entitled "Potential Payments Under Employment, Severance and Change-of-Control Agreements" on page 22 of this Proxy Statement.

Our Compensation Committee has implemented these change of control arrangements because it believes that such arrangements are necessary to protect the interests of our senior executives when a potential change of control could affect such executive's job security, authority, or compensation and that these arrangements help us recruit and retain executive-level talent. These change of control arrangements also promote the interests of our stockholders by mitigating the senior executives' concerns about such potential matters and thereby assuring that management provides guidance to the Board of Directors and stockholders that is not related to such concerns. Our Compensation Committee considers these potential payments in tally sheet format when considering decisions on the compensation elements. In general, change of control agreements are in place to provide appropriate incentive in a change of control situation positive to stockholders. Our Compensation Committee gives significantly greater weight to Company performance and individual goal achievement than it does to prospective change of control payments in making compensation decisions.

Compensation Earned**Summary Compensation Table****(Fiscal Year 2007)**

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)(1)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation	All Other Compensation (\$)(2)	Total (\$)
							Earnings (\$)		
James E. Cashman III, CEO	2007	\$ 470,000	\$ 536,900		\$ 1,567,192			\$ 42,118	\$ 2,616,210
	2006	\$ 440,000	\$ 647,106		\$ 1,502,900			\$ 38,423	\$ 2,628,429
Maria T. Shields, CFO	2007	\$ 189,167	\$ 156,800		\$ 455,910			\$ 29,250	\$ 831,127
	2006	\$ 168,333	\$ 178,297		\$ 429,400			\$ 26,400	\$ 802,430
Joseph C. Fairbanks, Jr., Vice President	2007	\$ 199,000	\$ 217,500		\$ 498,652			\$ 36,297	\$ 951,449
	2006	\$ 176,583	\$ 224,897		\$ 429,400			\$ 34,125	\$ 865,005
Brian C. Drew, Vice President	2007	\$ 170,132	\$ 138,000		\$ 398,922			\$ 5,215	\$ 712,269
J. Christopher Reid, Vice President(3)	2007	\$ 272,618	\$ 145,272		\$ 256,450			\$ 1,619	\$ 675,959
	2006	\$ 246,966	\$ 213,559		\$ 364,990			\$ 11,534	\$ 837,049

- (1) The grant date fair value of these option grants was determined using a Black-Scholes option pricing model. Refer to Note 2, "Stock-Based Compensation" beginning on page 53 of the Notes to Consolidated Financial Statements included in the Annual Report on Form 10-K filed on February 28, 2007 for the relevant assumptions used to determine the valuation of our option awards. The amounts in the table reflect the dollar amount that will be recognized for financial statement reporting purposes over the four-year vesting period, in accordance with SFAS 123R, of stock options issued in 2007 pursuant to our Option Plan. These amounts reflect the fair values of these awards on the grant date, and do not correspond to the actual value that may be recognized by the NEOs.
- (2) For Mr. Cashman, consists of life insurance premiums of \$3,430, costs for auto allowance and reimbursement for auto usage-related expenses of \$8,797, Company contributions to the defined contribution and 401(k) plans of \$29,250 and spouse paid travel for the President's Club trip of \$641 for 2007. For Mr. Fairbanks, consists of costs for auto allowance of \$6,000, Company contributions to the defined contribution and 401(k) plans of \$29,250, and spouse paid travel at the President's Club trip of \$1,047 for 2007. For Mr. Drew, consists of Company contributions to the retirement plan in which he participates of \$5,125 and health club benefits of \$90 for 2007. For

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Mr. Reid, consists of Company contributions to the retirement plan in which he participates of \$1,092 and life insurance premiums totaling \$527 for 2007. For Ms. Shields, consists solely of Company contributions to the Company retirement plan in which she participates for 2007.

- (3) Mr. Reid is paid in Canadian Dollars. Amounts are presented using a conversion rate equal to 1 CAD = 0.93123 USD for 2007 and 1 CAD = 0.88202 USD for 2006.

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Name	Grant Date	Date of Compensation Committee Approval	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Options Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards (\$/Sh)	Grant Date Fair Value of Option Awards (\$ (1))
			Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (\$)	Target (\$)	Maximum (\$)				
James E. Cashman III, CEO	11/15/07	10/24/07							110,000	\$ 38.75	\$ 1,567,192	
Maria T. Shields, CFO	11/15/07	10/24/07							32,000	\$ 38.75	\$ 455,910	
Joseph C. Fairbanks, Jr., Vice President	11/15/07	10/24/07							35,000	\$ 38.75	\$ 498,652	
Brian C. Drew, Vice President	11/15/07	10/24/07							28,000	\$ 38.75	\$ 398,922	
J. Christopher Reid, Vice President	11/15/07	10/24/07							18,000	\$ 38.75	\$ 256,450	

- (1) The grant date fair value of these option grants was determined using a Black-Scholes option pricing model. Refer to Note 2, Stock-Based Compensation beginning on page 53 of the Notes to Consolidated Financial Statements included in the Annual Report on Form 10-K filed on February 28, 2007 for the relevant assumptions used to determine the valuation of our option awards. The amounts in the table reflect the dollar amount that will be recognized for financial statement reporting purposes over the four-year vesting period, in accordance with SFAS 123R, of stock options issued in 2007 pursuant to our Option Plan. These amounts reflect the fair values of these awards on the grant date, and do not correspond to the actual value that may be recognized by the NEOs.

Our Compensation Committee authorized the grant of stock option awards to our named executive officers at a regularly scheduled meeting, which was held on October 24, 2007, the same date on which it authorized the grant of stock option awards to our other officers and employees. In keeping with our standard policy and practice, the employee option allocation was finalized and all of the awards were granted on November 15, 2007, which was during the next open trading window after our Compensation Committee meeting. The exercise price of the stock options that were awarded was \$38.75 per share, the closing price of our Common Stock on the grant date as reported on the NASDAQ Global Select Market. The terms of the options provide for vesting in four equal annual installments commencing one year from the date of grant. The options have a 10-year life.

Outstanding Equity Awards at Fiscal Year-End**(Fiscal Year 2007)**

Option Awards					Stock Awards				
Number of Securities Underlying Unexercised	Number of Securities Underlying	Equity Incentive Plan Awards: Number of	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock that Have	Market Value of Shares or Units of	Equity Incentive Plan Awards: Number of	Equity Incentive Plan Awards: Market	

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	Options (#) Exercisable	Options (#) Unexercisable	Securities Underlying Unexercised Unearned Options (#)	Not Vested (#)	Stock that Have Not Vested (\$)	Unearned Shares, Units or Other Rights that Have Not Vested (#)	or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)
James E. Cashman III, CEO	20,000		\$ 2.41	06/02/08			
	14,000		\$ 1.50	10/14/08			
	42,180		\$ 1.72	03/31/09			
	93,680		\$ 2.56	01/28/10			
	400,000		\$ 2.86	02/02/11			
	320,000		\$ 5.63	02/06/12			
	225,000	75,000(1)	\$ 9.28	02/05/14			
	100,000	300,000(2)	\$ 16.88	02/10/15			
	35,000	105,000(3)	\$ 24.01	11/20/16			
		110,000(4)	\$ 38.75	11/15/17			

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	Option Awards					Stock Awards		Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock that Have Not Vested (#)	Market Value of Shares or Units of Stock that Have Not Vested (\$)	
Maria T. Shields, CFO	60,000			\$ 2.66	05/01/10			
	60,000			\$ 4.68	08/20/11			
	52,000			\$ 4.94	10/22/12			
	20,000			\$ 7.15	05/30/13			
	8,000	8,000(5)		\$ 16.88	02/10/15			
		20,000(6)		\$ 17.92	07/27/15			
	10,000	30,000(7)		\$ 24.01	11/20/16			
		32,000(8)		\$ 38.75	11/15/17			
Joseph C. Fairbanks, Jr.,								
Vice President	50,000			\$ 4.70	10/10/11			
	14,000			\$ 4.94	10/22/12			
	7,500	7,500(9)		\$ 16.88	02/10/15			
		18,000(10)		\$ 17.92	07/27/15			
	10,000	30,000(11)		\$ 24.01	11/20/16			
		35,000(12)		\$ 38.75	11/15/17			
Brian C. Drew,								
Vice President	7,000	21,000(13)		\$ 24.01	11/20/16			
		28,000(14)		\$ 38.75	11/15/17			
J. Christopher Reid,								
Vice President	60,000			\$ 5.86	02/26/13			
	7,000	7,000(15)		\$ 16.88	02/10/15			
		10,000(16)		\$ 17.92	07/27/05			
	8,500	25,500(17)		\$ 24.01	11/20/16			
		18,000(18)		\$ 38.75	11/15/17			

- (1) An option to acquire 75,000 shares vests on February 5, 2008.
- (2) An option to acquire 50,000 shares vests on February 10 of each year from 2008-2013.
- (3) An option to acquire 35,000 shares vests on November 20 of each year from 2008-2010.
- (4) An option to acquire 27,500 shares vests on November 15 each year from 2008-2011.
- (5) An option to acquire 4,000 shares vests on February 10 of each year from 2008-2009.
- (6) An option to acquire 5,000 shares vests on July 27 of each year from 2008-2011.
- (7) An option to acquire 10,000 shares vests on November 20 of each year from 2008-2010.
- (8) An option to acquire 8,000 shares vests on November 15 of each year from 2008-2011.
- (9) An option to acquire 3,750 shares vests on February 10 of each year from 2008-2009.
- (10) An option to acquire 4,500 shares vests on July 27 of each year from 2008-2011.
- (11) An option to acquire 10,000 shares vests on November 15 of each year from 2008-2011.
- (12) An option to acquire 8,750 shares vests on November 15 of each year from 2008-2011.
- (13) An option to acquire 7,000 shares vests on November 20 of each year from 2008-2010.

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- (14) An option to acquire 7,000 shares vests on November 15 of each year from 2008-2011.
- (15) An option to acquire 3,500 shares vests on February 10 of each year from 2008-2009.
- (16) An option to acquire 2,500 shares vests on July 27 of each year from 2008-2011.
- (17) An option to acquire 8,500 shares vests on November 20 of each year from 2008-2010.
- (18) An option to acquire 4,500 shares vests on November 15 of each year from 2008-2011.

Table of Contents**Option Exercises and Stock Vested****(Fiscal Year 2007)**

Name (a)	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
James E. Cashman III, CEO	196,368	\$ 5,256,627		
Maria T. Shields, CFO	39,948	\$ 1,100,042		
Joseph C. Fairbanks, Jr., Vice President				
Brian C. Drew, Vice President				
J. Christopher Reid, Vice President	10,000	\$ 214,875		

Potential Payments Under Employment, Severance and Change-of-Control Agreements

The table below sets forth the payments that the Company would be required to make in the event that any of the named executed officers were terminated without cause or, in the case of Mr. Cashman, by the employee for good reason, or, in the case of Mr. Reid, upon a change in control.

Name	Salary & Bonus		Outplacement	
	Bonus (\$)	Benefits (\$)(1)	Services (\$)	Total (\$)
James E. Cashman III, CEO (2)	\$ 1,860,000	\$ 26,370	\$ 56,400	\$ 1,942,770
Maria T. Shields, CFO				
Joseph C. Fairbanks, Jr., Vice President				
Brian C. Drew, Vice President				
J. Christopher Reid, Vice President	\$ 272,618	\$ 16,812		\$ 289,430

- (1) Consists of health, dental, vision, life and disability insurance coverage. The value is based upon the type of insurance coverage we carried for each executive officer as of December 31, 2007 and is valued at the premium in effect on December 31, 2007.
- (2) Mr. Cashman is entitled to two years of salary and bonus and benefits. The amounts set forth in this row show the aggregate payments to which he is entitled over the two-year period.

In addition to the payments set forth in the table above, upon a change in control, the named executed officers would be entitled to vesting of their options under certain circumstances as further described above under Post-Employment Compensation Employment, Severance and Change-of-Control Agreements.

Mr. Cashman and Ms. Shields are subject to single-trigger vesting, so upon a change of control, all of their options would immediately vest. Assuming a change of control occurred on December 31, 2007 and that the price per share is the closing market price as of that date, Mr. Cashman would receive \$11,919,350 and Ms. Shields would receive \$1,277,700, respectively.

Each of Mr. Fairbanks, Mr. Drew and Mr. Reid are subject to double-trigger vesting. Assuming a change of control occurred and termination of employment on December 31, 2007 and that the price per share is the closing market price as of that date, Mr. Fairbanks, Mr. Drew and Mr. Reid would receive \$1,226,458, \$442,330 and \$901,250, respectively.

Each of Mr. Cashman, Ms. Shields, Mr. Fairbanks, Mr. Drew and Mr. Reid have stock award grants totaling 4,294, 2,528, 2,528, 800, and 1,542 shares that would no longer be subject to a lock-up agreement restricting transfer upon a change of control of the Company.

Compensation Consultant

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In October 2006, our Compensation Committee retained the services of F.W. Cook. F.W. Cook who was charged, among other things, with updating its competitive assessment of our CEO compensation and executive equity compensation, and with performing a competitive assessment of our executive base salary and target bonus compensation. In addition to talking to members of our Compensation Committee, they also contacted certain of our executive officers and other employees in our human resources stock administration departments to obtain historical data and information about previous compensation practices. In preparing its analysis, F.W. Cook developed a peer group of public companies consisting of firms comparable in size and industry to ours, and analyzed

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our relative performance in terms of revenue, net income, market capitalization, 1-year total return and number of employees. Our Compensation Committee considered the recommendations of F.W. Cook when setting the base salary and target bonus of our CEO and executive officers for Fiscal 2007 and when making executive equity awards in Fiscal 2007.

Tax and Accounting Considerations

The Internal Revenue Code of 1986, as amended, limits the federal income tax deductibility of compensation paid to the Company's CEO and the four highest compensated executive officers. For this purpose, compensation can include, in addition to cash compensation, the difference between the exercise price of stock options and the value of the underlying stock on the date of exercise. The Company may deduct compensation with respect to any of these individuals only to the extent that during any fiscal year such compensation does not exceed \$1 million or meets certain other conditions (such as stockholder approval). Considering the Company's current compensation plans and policy, the Company and the Compensation Committee believe that, for the near future, there is little risk that the Company will lose any significant tax deduction relating to executive compensation. We reserve the right, however, to use our judgment to modify the Company's compensation plans and policies to maximize deductibility, and to authorize compensation payments that do not comply with the exemptions in Section 162(m) when we believe that such payments are appropriate and in the best interests of the stockholders, after taking into consideration changing business conditions or the officer's performance.

Compensation Committee Report

Our Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis (the CD&A) for Fiscal 2007 with management, and has recommended to our Board of Directors that the CD&A be included in our proxy statement for Fiscal 2007, and be incorporated by reference in our Annual Report on Form 10-K for Fiscal 2007 for filing with the Securities and Exchange Commission.

COMPENSATION COMMITTEE

John F. Smith, Chairman
William R. McDermott
Jacqueline C. Morby

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INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Deloitte and Touche LLP, an independent registered public accounting firm, served as our independent auditor for Fiscal 2007, and has reported on our 2007 consolidated financial statements and internal control over financial reporting. Our Audit Committee re-appointed Deloitte and Touche LLP to serve as our independent auditor for fiscal year 2008 and we are seeking your ratification of that appointment. A representative of Deloitte and Touche LLP will be present at our Annual Meeting, will be given the opportunity to make a statement if he or she so desires, and will be available to respond to appropriate questions.

Audit Committee Report to Stockholders

The Audit Committee selects the Company's independent registered public accounting firm to audit financial statements and to perform services related to the audit, reviews the scope and results of the audit with the independent registered public accounting firm, reviews with management and the independent registered public accounting firm the Company's quarterly and annual operating results, reviews the periodic disclosures related to the Company's financial statements, considers the adequacy of the Company's internal accounting procedures, oversees internal audit and compliance with the Sarbanes-Oxley Act of 2002, oversees the Company's risk management policies and practices and establishes policies for business values, ethics and employee relations.

With respect to Fiscal 2007, the Audit Committee:

Reviewed and discussed the audited financial statements with the Company's management;

Discussed with Deloitte and Touche LLP, the Company's independent registered public accounting firm, the matters required to be discussed by the Statement on Auditing Standards No. 61, as amended, (Communications with Audit Committees) and SEC Rule 2-07 of Regulation S-X; and

Received the written disclosures and the letter from Deloitte and Touche LLP required by Independence Standards Board Standard No. 1, and has discussed with Deloitte and Touche LLP its independence.

Based on these reviews and discussions, our Audit Committee has recommended to our Board of Directors that the audited financial statements be included in our Annual Report on Form 10-K for Fiscal 2007 for filing with the Securities and Exchange Commission.

AUDIT COMMITTEE

Bradford C. Morley, Chairman
Michael C. Thurk
Patrick J. Zilvitis

Independent Registered Public Accounting Firm Services and Fees

The Company has selected Deloitte and Touche LLP as its independent registered public accounting firm for the fiscal year ending December 31, 2008.

A representative of Deloitte and Touche LLP will be present at our Annual Meeting and will be given the opportunity to make a statement if he or she so desires. The representative will be available to respond to appropriate questions.

Our Audit Committee pre-approves all auditing services and the terms thereof and all non-audit services, provided that the pre-approval requirement is waived for any non-audit services if the de minimus exception set forth in Section 10A(i)(1)(B) of the Securities Exchange Act is satisfied.

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The following table sets forth the aggregate fees billed to the Company for professional services rendered by our principal accounting firm, Deloitte and Touche LLP, for the fiscal years ended December 31, 2007 and 2006, including the reviews of the financial statements included in our Form 10-Q filings and general accounting consultations.

	2007	2006
Audit Fees	\$ 941,000	\$ 1,068,000
Audit-Related Fees	\$ 43,000	\$ 514,000
Tax Fees	\$ 328,000	\$ 174,000
All Other Fees	\$ 2,000	
	\$ 1,314,000	\$ 1,756,000

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Deloitte and Touche LLP did not provide any services to us related to financial information systems design and implementation during 2007 or 2006.

Audit Fees in 2007 and 2006 consisted of fees billed for professional services rendered for the audit of our annual financial statements and management's report on internal control included in our Annual Reports on Form 10-K and for the review of the financial statements included in our Quarterly Reports on Form 10-Q, as well as services that generally only our independent registered public accountants can reasonably provide, including statutory audits and services rendered in connection with SEC filings.

Audit-Related Fees are for assurance and related services by Deloitte and Touche LLP that are reasonably related to the performance of the audit or review of our financial statements, including financial and tax due diligence related to business acquisitions.

Tax Fees consisted of fees billed for tax compliance, consultation and planning services.

The services performed by the independent registered public accounting firm in 2007 and 2006 were pre-approved in accordance with the pre-approval policy and procedures adopted by our Audit Committee. The policy requires that during each of the Audit Committee's scheduled quarterly meetings, a description of services requested to be provided by the independent registered public accounting firm during the following quarter will be submitted to the Audit Committee for approval. Any requests for audit, audit-related, tax and other services not contemplated during the quarterly approval process must be submitted to the Audit Committee for specific pre-approval and cannot commence until such approval has been granted. Our Audit Committee has considered whether the provision of services, including non-audit services, by Deloitte and Touche LLP is compatible with maintaining Deloitte and Touche LLP's independence, and has concluded that it is compatible.

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STOCKHOLDER PROPOSALS FOR 2009 ANNUAL MEETING

Stockholder proposals intended to be presented at the Company's 2009 annual meeting of stockholders must be received by the Company on or before December 9, 2008, in order to be considered for inclusion in the Company's proxy materials for that meeting. These proposals must also comply with the rules of the SEC and should be mailed to: Secretary, ANSYS, Inc., Southpointe, 275 Technology Drive, Canonsburg, PA, 15317.

Stockholder proposals intended to be presented at the Company's 2009 annual meeting, which are not to be included in the Company's proxy materials, must be received by the Company no earlier than January 15, 2009, nor later than February 28, 2009, in accordance with the Company's By-laws.

Stockholders who wish to submit director candidates for consideration by the Nominating and Corporate Governance Committee should send such recommendations to the Secretary of the Company at the Company's executive offices not less than 120 calendar days prior to the first anniversary of the date on which the Company's proxy statement for the prior year was released. Such recommendations must include: (1) the name and address of record of the stockholder; (2) a representation that the stockholder is a record holder of the Company's Common Stock, or if the stockholder is not a record holder, evidence of ownership in accordance with Rule 14a-8(b)(2) of the Exchange Act; (3) the name, age, business and residential address, educational background, current principal occupation or employment, and principal occupation or employment for the preceding five (5) full fiscal years of the proposed director candidate; (4) a description of the qualifications of the proposed director candidate which address the minimum qualifications described above; (5) a description of all arrangements or understandings between the stockholder and the proposed director candidate; and (6) the consent of the proposed director candidate to be named in the proxy statement and to serve as a director if elected at such meeting. At a minimum, each nominee, whether proposed by a stockholder or any other party, is expected to have the highest personal and professional integrity, shall demonstrate sound judgment, and shall be expected to effectively interact with other members of the Board to serve the long-term interests of the Company and its stockholders. Stockholders must also submit any other information regarding the proposed candidate that is required to be included in a proxy statement filed pursuant to the rules of the SEC.

EXPENSES OF SOLICITATION

The Company will pay the entire expense of soliciting proxies for our Annual Meeting. In addition to solicitations by mail, certain directors, officers and regular employees of the Company (who will receive no compensation for their services other than their regular compensation) may solicit proxies by telephone, telegram or personal interview. Banks, brokerage houses, custodians, nominees and other fiduciaries have been requested to forward proxy materials to the beneficial owners of shares held of record by them and such custodians will be reimbursed for their expenses.

OTHER MATTERS

Our Board of Directors does not know of any matters other than those described in this Proxy Statement which will be presented for action at the Annual Meeting. If other matters are duly presented, proxies will be voted in accordance with the best judgment of the proxy holders.

WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING, YOU ARE REQUESTED TO COMPLETE, DATE, SIGN AND RETURN YOUR PROXY IN ONE OF THE FOLLOWING WAYS: (1) USE THE WEBSITE ADDRESS SHOWN ON THE ENCLOSED PROXY CARD AND VOTE OVER THE INTERNET; (2) USE THE TOLL-FREE TELEPHONE NUMBER SHOWN ON THE ENCLOSED PROXY CARD; OR (3) MARK, DATE AND SIGN THE PROXY CARD AND RETURN IT IN THE ENCLOSED ENVELOPE WHICH REQUIRES NO POSTAGE IF MAILED IN THE UNITED STATES. VOTES SENT BY INTERNET OR TELEPHONE MUST BE RECEIVED BY 11:59 PM UNITED STATES EASTERN TIME ON MAY 13, 2008. IF YOU ATTEND THE ANNUAL MEETING, YOU MAY VOTE IN PERSON IF YOU WISH, EVEN IF YOU HAVE PREVIOUSLY RETURNED YOUR PROXY CARD.

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The Board of Directors recommends a vote **FOR** the election of the nominees as directors and **FOR** Proposal 2.

Please
Mark Here
for Address
Change or
Comments
SEE REVERSE SIDE

FOR the nominees listed to the left WITHHOLD AUTHORITY

to the left (except as to vote for the nominees

marked to the contrary) listed to the left

1. ELECTION OF DIRECTORS

.. ..

- Nominees: 01. James E. Cashman III
02. William R. McDermott
03. John F. Smith

If you wish to withhold authority to vote for any individual nominee, write that nominee's name in the space provided below.

2. RATIFY SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.

FOR AGAINST ABSTAIN

.. ..

3. IN THEIR DISCRETION, THE PROXIES ARE AUTHORIZED TO VOTE UPON SUCH OTHER BUSINESS AS MAY PROPERLY COME BEFORE THE MEETING OR ANY ADJOURNMENTS OR POSTPONEMENTS THEREOF.

THIS PROXY WILL BE VOTED AS DIRECTED HEREON, OR IF RETURNED EXECUTED, WITH NO DIRECTION GIVEN, WILL BE VOTED FOR THE NOMINEES AS DIRECTORS AND FOR THE RATIFICATION OF THE SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.

PLEASE SIGN, DATE AND RETURN PROMPTLY IN ENCLOSED ENVELOPE. THIS PROXY SHOULD BE SIGNED EXACTLY AS NAME APPEARS HEREON.

Executors, administrators, trustees, attorneys, etc., should give full title as such. If the signer is a corporation or partnership, please sign full corporate or partnership name by duly authorized officer.

PLAN TO ATTEND THE MEETING ..

Signature(s)

Date

, 2008

p FOLD AND DETACH HERE p

**WE ENCOURAGE YOU TO TAKE ADVANTAGE OF INTERNET OR TELEPHONE VOTING,
BOTH ARE AVAILABLE 24 HOURS A DAY, 7 DAYS A WEEK.**

**Internet and telephone voting is available through 11:59 PM Eastern Time
the day prior to annual meeting day.**

**Your Internet or telephone vote authorizes the named proxies to vote your shares in the same manner
as if you marked, signed and returned your proxy card.**

INTERNET

<http://www.proxyvoting.com/anss>

TELEPHONE

1-866-540-5760

OR

Use the internet to vote your proxy.

Use any touch-tone telephone to

Have your proxy card in hand when

vote your proxy. Have your proxy

you access the web site.

card in hand when you call.

If you vote your proxy by Internet or by telephone, you do NOT need to mail back your proxy card.

To vote by mail, mark, sign and date your proxy card and return it in the enclosed postage-paid envelope.

Choose **MLinkSM** for fast, easy and secure ^{24/7} online access to your future proxy materials, investment plan statements, tax documents and more. Simply log on to **Investor ServiceDirect[®]** at www.bnymellon.com/shareowner/isd where step-by-step instructions will prompt you through enrollment.

Admittance Pass

2008 Annual Meeting of Stockholders

ANSYS, Inc.

You can view the Annual Report and Proxy

Statement on the Internet at

<http://bnymellon.mobular.net/bnymellon/ANSS>

Wednesday, May 14, 2008

2:00 p.m. Eastern Time

Southpointe Club

Southpointe

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360 Southpointe Blvd.

Canonsburg, Pennsylvania

Please Present This Admittance Pass When Entering The Meeting

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ANSYS, Inc.

Southpointe

275 Technology Drive

Canonsburg, Pennsylvania 15317

PROXY

SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

FOR

THE ANNUAL MEETING OF STOCKHOLDERS, MAY 14, 2008

The undersigned hereby appoints JAMES E. CASHMAN III and MARIA T. SHIELDS, attorneys and proxies, with full power of substitution, to represent the undersigned and to vote all shares of stock of ANSYS, Inc. which the undersigned is entitled to vote at the Annual Meeting of Stockholders of ANSYS, Inc. to be held at the Southpointe Club, Southpointe, 360 Southpointe Blvd., Canonsburg, Pennsylvania on Wednesday, May 14, 2008, at 2:00 p.m. Eastern Time, or at any adjournments or postponements thereof, upon all matters as set forth in the Notice of Annual Meeting and Proxy Statement, receipt of which is hereby acknowledged.

(Continued, and to be signed and dated, on reverse side)

Address Change/Comments (Mark the corresponding box on the reverse side)

p FOLD AND DETACH HERE p

You can now access your ANSYS, Inc. account online.

Access your ANSYS, Inc. stockholder account online via Investor ServiceDirect® (ISD).

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The transfer agent for ANSYS, Inc., now makes it easy and convenient to get current information on your stockholder account.

View account status
View certificate history
View book-entry information

View payment history for dividends
Make address changes
Obtain a duplicate 1099 tax form
Establish/change your PIN

Visit us on the web at <http://www.bnymellon.com/shareowner>

For Technical Assistance Call 1-877-978-7778 between 9am-7pm

Monday-Friday Eastern Time

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Available 24 hours per day, 7 days per week

TOLL FREE NUMBER: 1-800-370-1163

Should you choose to attend the Annual Meeting and vote in person, directions are provided below.

DRIVING DIRECTIONS:

From Pittsburgh, PA:

From Pittsburgh, follow directions to I-79 South, towards Washington.

From I-79 South, take Exit 48 (Southpointe).

Make a right turn at the end of the exit ramp onto Southpointe Blvd.

Follow Southpointe Blvd. until you come to the first stop sign.

Make a left turn into the Southpointe Club parking lot.

From Pittsburgh International Airport:

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Leaving the airport, follow the signs that direct you toward Pittsburgh.

Traveling approximately 10 miles, take I-79 South, towards Washington.

From I-79 South, take Exit 48 (Southpointe).

Make a right turn at the end of the exit ramp onto Southpointe Blvd.

Follow Southpointe Blvd. until you come to the first stop sign.

Make a left turn into the Southpointe Club parking lot.

From Washington, PA:

From Washington, follow directions to I-79 North, towards Pittsburgh.

From I-79 North, take Exit 48 (Southpointe).

Make a left turn at the end of the exit ramp onto Southpointe Blvd.

Follow Southpointe Blvd. until you come to the first stop sign.

Make a left turn into the Southpointe Club parking lot.

PRINT AUTHORIZATION

(THIS BOXED AREA DOES NOT PRINT)

To commence printing on this proxy card please sign, date and fax this card to: [212-691-9013](tel:212-691-9013)

SIGNATURE:

DATE: _____ **TIME:** _____

Mark this box if you would like the Proxy Card EDGARized:

ASCII EDGAR II (HTML)

Registered Quantity (common) 0

Broker Quantity 0