APPLIED DNA SCIENCES INC
Form 10-Q
February 08, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2017

OR

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

For the transition period from to

Commission File Number: 001-36745

Applied DNA Sciences, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**59-2262718**

(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

50 Health Sciences Drive
Stony Brook, New York **11790**
(Address of principal executive offices) (Zip Code)

631-240-8800

(Registrant's telephone number, including area code)

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

x Yes ¨ No

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

x Yes ¨ No

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

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company x
(Do not check if a smaller reporting company)	Emerging Growth Company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

¨ Yes x No

At February 5, 2018, the registrant had 30,112,057 shares of common stock outstanding.

Applied DNA Sciences, Inc.

Form 10-Q for the Quarter Ended December 31, 2017

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Part I - Financial Information

Item 1 - Financial Statements.

APPLIED DNA SCIENCES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2017 (unaudited)	**September 30, 2017**
ASSETS		
Current assets:		
Cash and cash equivalents	$4,764,553	$2,959,781
Accounts receivable, net of allowance of $10,000 at December 31, 2017 and September 30, 2017, respectively	2,155,737	2,587,969
Inventories	314,088	326,468
Prepaid expenses and other current assets	540,048	366,954
Total current assets	7,774,426	6,241,172
Property and equipment, net	500,452	523,688
Other assets:		
Deposits	62,453	61,626
Goodwill	285,386	285,386
Intangible assets, net	986,260	1,042,076
Total Assets	$9,608,977	$8,153,948
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$1,127,536	$944,133
Deferred revenue	342,960	351,735
Total current liabilities	1,470,496	1,295,868
Commitments and contingencies		
Stockholders' Equity		
Preferred stock, par value $0.001 per share; 10,000,000 shares authorized; -0- shares issued and outstanding as of December 31, 2017 and September 30, 2017	—	—
Series A Preferred stock, par value $0.001 per share, 10,000,000 shares authorized; -0- issued and outstanding as of December 31, 2017 and September 30, 2017	—	—
	—	—

Series B Preferred stock, par value $0.001 per share, 10,000,000 shares authorized; -0- issued and outstanding as of December 31, 2017 and September 30, 2017		
Common stock, par value $0.001 per share; 500,000,000 shares authorized; 30,112,057 and 27,377,057 shares issued and outstanding as of December 31, 2017 and September 30, 2017, respectively	30,112	27,377
Additional paid in capital	247,965,236	243,503,858
Accumulated deficit	(239,856,867)	(236,673,155)
Total stockholders' equity	8,138,481	6,858,080
Total Liabilities and Stockholders' Equity	$9,608,977	$8,153,948

See the accompanying notes to the unaudited condensed consolidated financial statements

APPLIED DNA SCIENCES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended December 31,	
	2017	2016
Revenues:		
Product revenues	$350,133	$704,417
Service revenues	297,544	198,591
Total revenues	647,677	903,008
Cost of revenues	331,440	274,832
Operating expenses:		
Selling, general and administrative	2,593,154	3,900,917
Research and development	740,067	518,628
Depreciation and amortization	157,648	161,977
Total operating expenses	3,490,869	4,581,522
LOSS FROM OPERATIONS	(3,174,632)	(3,953,346)
Other income (expense):		
Interest income, net	-	1,331
Other (expense) income, net	(9,080)	(9,369)
Loss before provision for income taxes	(3,183,712)	(3,961,384)
Provision for income taxes	—	—
NET LOSS	$(3,183,712)	$(3,961,384)
Net loss per share-basic and diluted	$(0.12)	$(0.16)
Weighted average shares outstanding-Basic and diluted	27,674,340	25,427,407

See the accompanying notes to the unaudited condensed consolidated financial statements

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APPLIED DNA SCIENCES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended December 31,	
	2017	2016
Cash flows from operating activities:		
Net loss	$(3,183,712)	$(3,961,384)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	157,648	161,977
Stock-based compensation expense	231,113	1,458,020
Provision for bad debts	—	5,646
Change in operating assets and liabilities:		
Accounts receivable	432,232	828,076
Inventories	12,380	(26,065)
Prepaid expenses and other current assets and deposits	(173,921)	66,776
Accounts payable and accrued liabilities	(39,737)	(124,053)
Deferred revenue	(8,775)	(477,881)
Net cash used in operating activities	(2,572,772)	(2,068,888)
Cash flows from investing activities:		
Purchase of property and equipment	(48,349)	(42,647)
Net cash used in investing activities	(48,349)	(42,647)
Cash flows from financing activities:		
Net proceeds from sale of common stock and warrants	4,425,893	4,333,847
Net cash provided by financing activities	4,425,893	4,333,847
Net increase in cash and cash equivalents	1,804,772	2,222,312
Cash and cash equivalents at beginning of period	2,959,781	4,479,274
Cash and cash equivalents at end of period	$4,764,553	$6,701,586
Supplemental Disclosures of Cash Flow Information:		
Cash paid during period for interest	$—	$—
Cash paid during period for income taxes	$—	$—
Non-cash investing and financing activities:		
Property and equipment acquired, and included in accounts payable	$30,247	$—

Reclassification of deferred offering costs to additional paid-in capital	$—	$13,986
Offering costs incurred, and included in accounts payable	$192,893	$—

See the accompanying notes to the unaudited condensed consolidated financial statements

APPLIED DNA SCIENCES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017

(unaudited)

NOTE A — SUMMARY OF ACCOUNTING POLICIES

General

The accompanying condensed consolidated financial statements as of December 31, 2017 and for the three month periods ended December 31, 2017 and 2016 are unaudited. These unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and are presented in accordance with the requirements of Regulation S-X of the Securities and Exchange Commission (the "SEC") and with the instructions to Form 10-Q. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month period ended December 31, 2017 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2018. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements as of and for the fiscal year ended September 30, 2017 and footnotes thereto included in the Annual Report on Form 10-K of Applied DNA Sciences, Inc. (the "Company") filed with the SEC on December 28, 2017.

The condensed consolidated balance sheet as of September 30, 2017 contained herein has been derived from the audited consolidated financial statements as of September 30, 2017, but does not include all disclosures required by GAAP.

Business and Basis of Presentation

The Company is principally devoted to developing and marketing plant-based or other DNA technology solutions in the United States, Europe and Asia. To date, the Company has produced limited recurring revenues from its products and services and has incurred expenses and has sustained losses. Consequently, its operations are subject to all the risks inherent in the establishment and development of a biotechnology company.

The unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, APDN (B.V.I.) Inc., Applied DNA Sciences Europe Limited, and Applied DNA Sciences India Private Limited. Applied DNA Sciences India Private Limited was incorporated in India on June 22, 2017. Significant inter-company transactions and balances have been eliminated in consolidation.

Inventories

Inventories, which consist primarily of raw materials, and finished goods, is stated at the lower of cost or net realizable value, with cost determined by using the first-in, first-out (FIFO) method.

Revenue Recognition

The Company recognizes revenue in accordance with Accounting Standards Codification (“ASC”) 605, Revenue Recognition (“ASC 605”). ASC 605 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred and/or service has been performed; (3) the selling price is fixed and determinable; and (4) collectability is reasonably assured. Determination of criteria (3) and (4) are based on management’s judgments regarding the fixed nature of the selling prices of the products delivered or services provided and the collectability of those amounts. Provisions for allowances and other adjustments are provided for in the same period the related sales are recorded. The Company defers any revenue for which the product has not been delivered, service has not been provided, or is subject to refund until such time that the Company and the customer jointly determine that the product has been delivered, the service has been provided, or no refund will be required. At December 31, 2017 and September 30, 2017, the Company recorded deferred revenue of $342,960 and $351,735, respectively.

APPLIED DNA SCIENCES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017

(unaudited)

NOTE A — SUMMARY OF ACCOUNTING POLICIES (continued)

Revenue Recognition, continued

Revenue arrangements with multiple components are divided into separate units of accounting if certain criteria are met, including whether the delivered component has stand-alone value to the customer. Consideration received is allocated among the separate units of accounting based on their respective selling prices. The selling price for each unit is based on vendor-specific objective evidence, or VSOE, if available, third party evidence if VSOE is not available, or estimated selling price if neither VSOE nor third party evidence is available. The applicable revenue recognition criteria are then applied to each of the units.

Revenue for government contract awards, which supports the Company's development efforts on specific projects, is recognized as firm fixed price government contract awards and are recognized over the period of the contract. The Company recognized revenue from a government contract of $187,010 for the three month period ended December 31, 2017. The Company did not recognize revenue from government contract awards during the three month period ended December 31, 2016.

APPLIED DNA SCIENCES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017

(unaudited)

NOTE A — SUMMARY OF ACCOUNTING POLICIES (continued)

The cotton ginning season in the United States takes place between September and March each year; therefore, revenues from these customer contracts may be seasonal and recognized primarily during the second half of the Company's fiscal year.

Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Management bases its estimates on historical experience and on various assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. The most complex and subjective estimates include recoverability of long-lived assets, including the values assigned to goodwill, intangible assets and property and equipment, fair value calculations for stock based compensation, contingencies, allowance for doubtful accounts and management's anticipated liquidity. Management reviews its estimates on a regular basis and the effects of any material revisions are reflected in the condensed consolidated financial statements in the period they are deemed necessary. Accordingly, actual results could differ from those estimates.

Income Taxes

The Company recognizes deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The Company estimates the degree to which tax assets and credit carry forwards will result in a benefit based on expected profitability by tax jurisdiction.

In its interim financial statements, the Company follows the guidance in ASC 270, “Interim Reporting” and ASC 740 “Income Taxes”, whereby the Company utilizes the expected annual effective tax rate in determining its income tax provisions for the interim periods. That rate differs from U.S. statutory rates primarily as a result of valuation allowance related to the Company’s net operating loss carryforward as a result of the historical losses of the Company.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the “Tax Act”). The Tax Act makes broad and complex changes to the U.S. tax code that will affect the Company’s fiscal year ending September 30, 2018, including, but not limited to, reducing the U.S. federal corporate tax rate. The Tax Act reduces the federal corporate tax rate to 21 percent in the fiscal year ending September 30, 2018. Section 15 of the Internal Revenue Code stipulates that our fiscal year ending September 30, 2018, will have a blended corporate tax rate of approximately 25 percent, which is based on the applicable tax rates before and after the Tax Act and the number of days in the year. The reduction of the corporate tax rate will cause the Company to reduce its deferred tax asset to the lower federal base rate of 21% and adjust the allowance against the deferred tax asset by the same amount. The Company has not yet determined the impact the rate reduction will have on its gross deferred tax asset and liabilities and offsetting valuation allowance. The Company has a full allowance against the deferred tax asset and as a result there was no impact to income tax expense for the quarter ended December 31, 2017.

The changes included in the Tax Act are broad and complex. The final transition impacts of the Tax Act may differ from the above estimate, possibly materially, due to, among other things, changes in interpretations of the Tax Act, any legislative action to address questions that arise because of the Tax Act, any changes in accounting standards for income taxes or related interpretations in response to the Tax Act, or any updates or changes to estimates the company has utilized to calculate the transition impact. The Securities Exchange Commission has issued rules that would allow for a measurement period of up to one year after the enactment date of the Tax Act to finalize the recording of the related tax impacts. We currently anticipate finalizing and recording any resulting adjustments by the end of our current fiscal year ending September 30, 2018.

APPLIED DNA SCIENCES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017

(unaudited)

NOTE A — SUMMARY OF ACCOUNTING POLICIES (continued)

Net Loss Per Share

The Company presents loss per share utilizing a dual presentation of basic and diluted loss per share. Basic loss per share includes no dilution and has been calculated based upon the weighted average number of common shares outstanding during the period. Dilutive common stock equivalents consist of shares issuable upon the exercise of the Company's stock options and warrants.

For the three month periods ended December 31, 2017 and 2016, common stock equivalent shares are excluded from the computation of the diluted loss per share as their effect would be anti-dilutive.

Securities that could potentially dilute basic net income per share in the future were not included in the computation of diluted net loss per share because to do so would have been anti-dilutive for the three month periods ended December 31, 2017 and 2016 are as follows:

	2017	2016
Warrants	12,275,455	9,548,969
Stock options	5,304,411	5,237,478
	17,579,866	14,786,447

Stock-Based Compensation

The Company accounts for stock-based compensation for employees and directors in accordance with ASC 718, Compensation ("ASC 718"). ASC 718 requires all share-based payments to employees, including grants of employee stock options, to be recognized in the statement of operations based on their fair values. Under the provisions of ASC 718, stock-based compensation costs are measured at the grant date, based on the fair value of the award, and are recognized as expense over the employee's requisite service period (generally the vesting period of the equity grant). The fair value of the Company's common stock options are estimated using the Black Scholes option-pricing model with the following assumptions: expected volatility, dividend rate, risk free interest rate and the expected life. The Company expenses stock-based compensation by using the straight-line method. In accordance with ASC 718 and, excess tax benefits realized from the exercise of stock-based awards are classified as cash flows from operating activities. All excess tax benefits and tax deficiencies (including tax benefits of dividends on share-based payment awards) are recognized as income tax expense or benefit in the condensed consolidated statements of operations.

The Company accounts for stock-based compensation awards issued to non-employees for services, as prescribed by ASC 718-10, at either the fair value of the services rendered or the instruments issued in exchange for such services, whichever is more readily determinable, using the measurement date guidelines enumerated in ASC 505-50.

Concentrations

Financial instruments and related items, which potentially subject the Company to concentrations of credit risk, consist primarily of cash, cash equivalents and trade receivables. The Company places its cash and cash equivalents with high credit quality institutions. At times, such investments may be in excess of the FDIC insurance limit.

APPLIED DNA SCIENCES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017

(unaudited)

NOTE A — SUMMARY OF ACCOUNTING POLICIES (continued)

The Company's revenues earned from sale of products and services for the three month period ended December 31, 2017 included an aggregate of 37%, 22% and 17% from three customers, respectively.

The Company's revenues earned from sale of products and services for the three month period ended December 31, 2016 included an aggregate of 50% and 19% from two customers, respectively.

One customer accounted for 88% of the Company's accounts receivable at December 31, 2017 and two customers accounted for approximately 93% of the Company's total accounts receivable at September 30, 2017.

APPLIED DNA SCIENCES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017

(unaudited)

NOTE A — SUMMARY OF ACCOUNTING POLICIES (continued)

Recent Accounting Pronouncements

In July 2017, the Financial Accounting Standards Board ("FASB") issued a two-part Accounting Standards Update ("ASU") No. 2017-11, I. Accounting for Certain Financial Instruments With Down Round Features and II. Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests With a Scope Exception ("ASU 2017-11"). ASU 2017-11 amends guidance in FASB ASC 260, Earnings Per Share, FASB ASC 480, Distinguishing Liabilities from Equity, and FASB ASC 815, Derivatives and Hedging. The amendments in Part I of ASU 2017-11 change the classification analysis of certain equity-linked financial instruments (or embedded features) with down round features. The amendments in Part II of ASU 2017-11 re-characterize the indefinite deferral of certain provisions of Topic 480 that now are presented as pending content in the Codification, to a scope exception. Those amendments do not have an accounting effect. ASU 2017-11 is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The Company has adopted this guidance for the three month period ended December 31, 2017.

In May 2017, FASB issued ASU 2017-09, Compensation – "Stock Compensation (Topic 718): Scope of Modification Accounting", which provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. This pronouncement is effective for annual reporting periods and interim periods within those annual periods beginning after December 15, 2017. Early adoption is permitted. The Company does not expect the adoption of ASU 2016-09 to have a material impact on our condensed consolidated financial statements and related disclosures.

In January 2017, the FASB ASU 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business" ("ASU 2017-01"). The amendments in this update are to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The guidance is effective for annual periods beginning after

December 15, 2017, including interim periods within those periods. The Company is currently evaluating the impact of adopting this guidance.

In January 2017, the FASB issued ASU No. 2017-04, “Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment” (“ASU 2017-04”). The purpose of the amendment is to simplify how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit’s goodwill with the carrying amount of that goodwill. For public entities, the amendments in ASU 2017-04 are effective for interim and annual reporting periods beginning after December 15, 2019. The Company is currently assessing the impact of ASU 2017-04 on our condensed consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, "Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." The objective of this update is to simplify several aspects of the accounting for employee share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This ASU is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted. The Company has adopted this guidance during the three month period ended December 31, 2017. The adoption of this pronouncement did not have a material impact on the Company’s condensed consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)." The objective of this update is to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. This ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those annual periods and is to be applied utilizing a modified retrospective approach. The Company is currently evaluating the new guidance to determine the impact it may have on its condensed consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers” (“ASU 2014-09”), which was subsequently modified in August 2015 by ASU No. 2015-14, Revenue from Contracts with Customers: Deferral of the Effective Date. This guidance will be effective for fiscal years (and interim reporting periods within those years) beginning after December 15, 2017. The core principle of ASU No. 2014-09 is that companies should recognize revenue when the transfer of promised goods or services to customers occurs in an amount that reflects what the company expects to receive. It requires additional disclosures to describe the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. In 2016 and 2017, the FASB issued additional ASUs that clarify the implementation guidance on principal versus agent considerations (ASU 2016-08), on identifying performance obligations and licensing (ASU 2016-10), and on narrow-scope improvements and practical expedients (ASU 2016-12), revenue recognition criteria and other technical corrections (ASU 2016-20) as well as clarifying the scope of asset derecognition guidance and accounting for partial sales of nonfinancial assets (ASU 2017-05). The Company is in the process of evaluating the provisions of these ASU’s and assessing the potential effect on the Company’s condensed consolidated financial position or results of operations. However, based upon the revenue recognized for the current contracts in place as of December 31, 2017, we expect to identify similar performance obligations under these ASUs as compared with the deliverables and separate units of accounting previously identified. The Company is also evaluating the transition guidance under ASU 2014-09 to determine if it will apply the full retrospective or modified retrospective approach.

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APPLIED DNA SCIENCES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017

(unaudited)

NOTE B — LIQUIDITY AND MANAGEMENT'S PLAN

The Company has recurring net losses, which have resulted in an accumulated deficit of $239,856,867 as of December 31, 2017. The Company incurred a net loss of $3,183,712 and generated negative operating cash flow of $2,572,772 for the three month period ended December 31, 2017. The Company also had working capital of $6,303,930 and cash and cash equivalents of $4,764,553 as of December 31, 2017. The Company's current capital resources include cash and cash equivalents, accounts receivable, and inventories. Historically, the Company has financed its operations principally from the sale of equity securities. As discussed in Note E, on December 20, 2017, the Company entered into a securities purchase agreement with certain institutional investors providing for the purchase and sale of 2,735,000 shares of the Company's common stock and warrants to purchase an aggregate of 2,735,000 shares of common stock in a registered direct offering with an aggregate gross proceeds of $4,786,250, at a combined purchase price of $1.75 per share for total net proceeds of approximately $4,200,000, after placement agent fees and other estimated offering costs. The offering closed on December 22, 2017.

The Company expects to finance operations and capital expenditures primarily through cash received from the December 2017 registered direct offering, and the collection of its accounts receivables. The Company estimates that it will have sufficient cash and cash equivalents to fund operations and to meet its obligations as they become due for the next twelve months from the date of filing of this quarterly report.

The Company may require additional funds to expand the marketing and complete the continued development of its products, product manufacturing, and to fund expected additional losses from operations, until revenues are sufficient to cover the Company's operating expenses. If revenues are not sufficient to cover the Company's operating expenses, and if the Company is not successful in obtaining necessary additional financing, it will most likely be forced to reduce operations.

NOTE C — INVENTORIES

Inventories consist of the following:

	December 31, 2017 (unaudited)	September 30, 2017
Raw materials	$ 187,173	$ 193,069
Finished goods	126,915	133,399
Total	$ 314,088	$ 326,468

NOTE D — ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are as follows:

	December 31, 2017 (unaudited)	September 30, 2017
Accounts payable	$ 602,218	$ 382,984
Accrued salaries payable	346,844	446,012
Other accrued expenses	178,474	115,137
Total	$ 1,127,536	$ 944,133

APPLIED DNA SCIENCES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017

(unaudited)

NOTE E — CAPITAL STOCK

On December 20, 2017, the Company entered into a securities purchase agreement with certain institutional investors for the purchase and sale of 2,735,000 shares of its common stock and warrants to purchase an aggregate of 2,735,000 shares of common stock in a registered direct offering with aggregate gross proceeds of $4,786,250, at a combined purchase price of $1.75 per share and warrant. The warrants will be immediately exercisable at a price of $2.00 per share of common stock and will expire five years from the date of issuance.

After deducting placement agent fees and other estimated expenses related to the registered direct offering, the aggregate net proceeds were approximately $4,200,000.

The warrants include an adjustment provision that, subject to certain exceptions, reduces their exercise price if the Company issues common stock or common stock equivalents at a price lower than the then-current exercise price of the warrants, subject to a minimum exercise price of $0.44. The exercise price and number of the shares of the Company’s common stock issuable upon the exercise of the warrants will be subject to adjustment as set forth therein (including for stock dividends and splits, reverse stock split, recapitalization, reorganization or similar transaction). The warrants are subject to a call provision whereby the Company may, subject to certain provisions, including that the weighted average price of the Company’s common stock has exceeded $5.00 for twenty consecutive trading days, call for cancellation of all or any portion of the warrants not yet exercised.

In addition, if and only if there is no effective registration statement registering, or no current prospectus available for, the resale of the warrants, the Purchasers may exercise the warrants by means of a “cashless exercise.”

The offering closed on December 22, 2017.

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APPLIED DNA SCIENCES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017

(unaudited)

NOTE F — STOCK OPTIONS AND WARRANTS

Warrants

The following table summarizes the changes in warrants outstanding. These warrants were granted in lieu of cash compensation for services performed or financing expenses in connection with the sales of the Company's common stock.

Transactions involving warrants (see Note E) are summarized as follows:

	Number of Shares	Weighted Average Exercise Price Per Share
Balance at October 1, 2017	9,540,455	$ 3.60
Granted	2,735,000	2.00
Exercised	-	-
Cancelled or expired	-	-
Balance at December 31, 2017	12,275,455	$ 3.24

Stock Options

In 2005, the Board of Directors and the holders of a majority of the outstanding shares of common stock approved the 2005 Incentive Stock Plan (the "Incentive Plan"). The number of shares of common stock that can be issued as stock awards and stock options thereunder is an aggregate of 8,333,333 shares and the number of shares of common stock

that can be covered by awards made to any participant in any calendar year is 833,334 shares. The Incentive Plan's expiration date is January 25, 2025.

The Incentive Plan is designed to retain directors, executives, and selected employees and consultants by rewarding them for making contributions to the Company's success with an award of options to purchase shares of common stock. As of December 31, 2017, a total of 275,752 shares have been issued and options to purchase 5,826,979 shares have been granted under the Incentive Plan.

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

	Number of Shares	**Weighted Average Exercise Price Per Share**	**Aggregate Intrinsic Value**	**Weighted Average Contractual Life (Years)**
Outstanding at October 1, 2017	5,333,227	$ 3.71		
Granted	-	-		
Exercised	-	-		
Cancelled or expired	(28,816)	(10.79)		
Outstanding at December 31, 2017	5,304,411	$ 3.67		4.75
Vested at December 31, 2017	4,490,618	$ 3.83	$ -	4.10
Non-vested at December 31, 2017	813,793		$ -	

APPLIED DNA SCIENCES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017

(unaudited)

NOTE F — STOCK OPTIONS AND WARRANTS (continued)

Stock Options, continued

The Company uses the Black Scholes Option Pricing Model to determine the fair value of options granted. The following significant weighted average assumptions in the Black Scholes Option Pricing Model were utilized to estimate the fair value of share based payment awards during the three month periods ended December 31, 2017 and 2016:

	Three Month Period Ended December 31, 2017		Three Month Period Ended December 31, 2016	
Stock price	$ 2.21		$ 2.06	
Exercise price	$ 1.64		$ 2.06	
Expected term, years	8.89		5.35	
Dividend yield	-	%	-	%
Volatility	125	%	112	%
Risk free rate	2.36	%	2.0	%

The Company recorded $231,113 and $1,458,020 as stock compensation expense for the three month periods ended December 31, 2017 and 2016, respectively. As of December 31, 2017, unrecorded compensation cost related to non-vested awards was $1,697,139, which is expected to be recognized over a weighted average period of approximately 3.70 years. The weighted average grant date fair value per share for options granted during the three month period ended December 31, 2016 was $1.68.

APPLIED DNA SCIENCES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017

(unaudited)

NOTE G — COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company leases office space under an operating lease in Stony Brook, New York for its corporate headquarters. The lease is for a 30,000 square foot building. The term of the lease commenced on June 15, 2013 and expired on May 31, 2016, with the option to extend the lease for two additional three-year periods. The Company has exercised its option to extend the lease for one additional three-year period ending May 31, 2019. The base rent during the additional three-year period is $458,098 per annum. In addition to the office space, the Company also has 1,500 square feet of laboratory space. The term of the lease commenced on November 1, 2015 and expired on October 31, 2017. Effective November 20, 2017, the Company renewed this lease for one additional year, ending October 31, 2018. The Company set up a satellite testing facility in Ahmedabad, India during fiscal 2017. On November 17, 2017, it leased 1,108 square feet for a three-year term beginning November 1, 2017. The base rent is approximately $6,500 per annum.

Total rent expense for the three month periods ended December 31, 2017 and 2016 were $133,216 and $140,397, respectively.

Employment Agreement

The Company has an employment agreement with Dr. James Hayward, its Chief Executive Officer effective July 1, 2016. The initial term was through June 30, 2017, with automatic one-year renewal periods. As of June 30, 2017, the employment contract renewed for an additional year. Under the agreement, Dr. Hayward will be eligible for a special cash incentive bonus of up to $800,000, $300,000 of which will be payable if and when annual revenue reaches $8 million and $100,000 of which would be payable for each $2 million of annual revenue in excess of $8 million. Dr Hayward's annual salary under the agreement was $400,000.

Effective May 7, 2016, the Chief Executive Officer's annual salary was voluntarily reduced by $100,000. Effective May 20, 2017, the Chief Executive Officer’s annual salary was voluntarily reduced by an additional $50,000. Accordingly, his current annual base salary as of December 31, 2017 is $250,000.

Litigation

From time to time, the Company may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. When the Company is aware of a claim or potential claim, it assesses the likelihood of any loss or exposure. If it is probable that a loss will result and the amount of the loss can be reasonably estimated, the Company will record a liability for the loss. In addition to the estimated loss, the recorded liability includes probable and estimable legal costs associated with the claim or potential claim. Litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm the Company’s business. There is no pending litigation involving the Company at this time.

NOTE H– GEOGRAPHIC AREA INFORMATION

Net revenues by geographic location of customers are as follows:

Three Month Period Ended December 31,		
	2017	2016
United States	$ 292,730	$ 588,900
Europe	191,827	294,333
Asia and other	163,120	19,775
Total	$ 647,677	$ 903,008

Item 2. — Management's Discussion and Analysis of Financial Condition and Results of Operations.

Forward-Looking Statements

This Quarterly Report on Form 10-Q (including but not limited to this Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations") contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that are intended to qualify for the "safe harbor" created by those sections. In addition, we may make forward-looking statements in other documents filed with or furnished to the Securities and Exchange Commission ("SEC"), and our management and other representatives may make forward-looking statement orally or in writing to analysts, investors, representatives of the media and others. Forward-looking statements can generally be identified by the fact that they do not relate strictly to historical or current facts and include, but are not limited to, statements using terminology such as "can", "may", "could", "should", "assume", "forecasts", "believe", "designate "will", "expect", "plan", "anticipate", "estimate", "potential", "position", "predicts", "strategy", "guidance", "intend", "budget "continue", or the negative thereof or other comparable terminology regarding beliefs, plans, expectations or intentions regarding the future. You should read statements that contain these words carefully because they:

·discuss our future expectations;

·contain projections of our future results of operations or of our financial condition; and

·state other "forward-looking" information.

We believe it is important to communicate our expectations. However, forward-looking statements are based on our current expectations, assumptions, estimates and projections about our business and our industry and are subject to known and unknown risks, uncertainties and other factors. Accordingly, our actual results and the timing of certain events may differ materially from those expressed or implied in such forward-looking statements due to a variety of factors and risks, including, but not limited to, those set forth in this Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in our unaudited condensed consolidated financial statements and notes thereto included in this Quarterly Report, those set forth from time to time in our other filings with the SEC, including our Annual Report on Form 10-K for the fiscal year ended September 30, 2017, and the following factors and risks:

·our lack of significant revenues;

- our history of net losses, which may continue, and our potential inability to achieve profitability;

- the possibility that we may require additional financing, which may involve the issuance of additional shares of common stock or securities exercisable or convertible into common stock and dilute the percentage of ownership held by our current stockholders;

- difficulty in obtaining or inability to obtain, additional financing if such financing becomes necessary;

- volatility in the price and/or trading volume of our common stock;

- future short selling and/or manipulation of the price of our common stock;

- our inability to implement our short and long-term strategies;

- competition from products and services provided by other companies;

- potential difficulties and failures in manufacturing our products;

- loss of strategic relationships;

- dependence on a limited number of key customers;

- lack of acceptance of our products and services by potential customers;

- potential failure to introduce new products and services;

- difficulty or failure in expanding/and or maintaining our sales, marketing and support organizations and our distribution arrangements necessary to enable us to reach our goals with respect to increasing market acceptance of our products and services;

- seasonality in revenues related to our cotton customer contracts

- inability to continue to retain the services of Dr. Hayward, our Chief Executive Officer;

- inability to compete effectively in the industries in which we operate;

- lack of success in our research and development efforts for new products;

- failure to manage our growth in operations and acquisitions of new technologies and businesses;

- inability to protect our intellectual property rights;

- intellectual property litigation against us or other legal actions or proceedings in which we may become involved;

- unauthorized disclosure of sensitive or confidential data (including customer data) and cybersecurity breaches; and

- adverse changes in worldwide or domestic economic, political or business conditions.

All forward-looking statements and risk factors included in this Quarterly Report are made as of the date hereof, and all forward-looking statements and risk factors included in documents incorporated herein by reference are made as of their original date, in each case based on information available to us as of the date hereof, or in the case of documents incorporated by reference, the original date of any such document, and we assume no obligations to update any forward-looking statement or risk factor, unless we are required to do so by law. If we do update one or more forward-looking statements, no inference should be drawn that we will make updates with respect to other forward-looking statements or that we will make any further updates to those forward-looking statements at any future time.

Forward-looking statements may include our plans and objectives for future operations, including plans and objectives relating to our products and our future economic performance, projections, business strategy and timing and likelihood of success. Assumptions relating to the forward-looking statements included in this Quarterly Report involve judgments with respect to, among other things, future economic, competitive and market conditions, future business decisions, and the time and money required to successfully complete development and commercialization of our technologies, all of which are difficult or impossible to predict accurately and many of which are beyond our control.

Any of the assumptions underlying the forward-looking statements contained in this Quarterly Report could prove inaccurate and, therefore, we cannot assure you that any of the results or events contemplated in any of such forward-looking statements will be realized. Based on the significant uncertainties inherent in these forward-looking statements, the inclusion of any such statement should not be regarded as a representation or as a guarantee by us that our objectives or plans will be achieved, and we caution you against relying on any of the forward looking-statements contained herein.

Note

Our trademarks in the United States include Applied DNA Sciences®, SigNature® molecular tags, SigNature® T molecular tags, fiberTyping®, DNAnet®, digitalDNA®, SigNify®, BackTrac®, Beacon® and CertainT® All trademarks, service marks and trade names included or incorporated by reference in this Quarterly Report are the property of their respective owners.

Introduction

Using biotechnology as a forensic foundation, we create unique security solutions addressing the challenges of modern commerce. Whether for supply chain security, brand protection or law enforcement applications, it is our goal to help establish secure flourishing environments that foster quality, integrity and success. With secure taggants, high-resolution DNA authentication, and comprehensive reporting, our SigNature molecular tag technologies are designed to deliver what we believe to be the greatest levels of security, deterrence and legal recourse strength. We are also engaged in the large-scale production of specific DNA sequences using the polymerase chain reaction ("PCR") method.

SigNature molecular tags, the core of our technology platform, are what we believe to be nature's ultimate means of authentication and supply chain security. Our precision-engineered molecular tags have not and, we believe, cannot be broken. Additional layers of protection and complexity are added to the mark in a proprietary manner. SigNature molecular tags in various carriers have proven highly resistant to UV radiation, heat, cold, vibration, abrasion and other extreme environments and conditions. We work closely with our customers to develop solutions that will be optimized to their specifications to deliver maximum impact. Our products and technology are protected by what we believe to be a robust portfolio of patents and trademarks.

Using our products and technology, manufacturers, brands, and other stakeholders can ensure authenticity and protect against diversion throughout a product's journey from manufacturer to use.

The core technologies of our business allow us to use molecular tags to mark objects in a unique manner that we believe cannot be replicated, and then identify these objects by detecting the absence or presence of the molecular tag. We believe that our disruptive platform offers broad commercial relevance across many industry verticals. Our underlying strategy is to become a solutions provider for supply chains of process industries in which contracts for our products and services are larger and of longer duration as compared to our historic norms, where the benefits to customers and consumers are more significant, and where our forensic security and traceability offer a unique and protected value. Consumers, governments and companies are demanding details about the systems and sources that deliver their goods. They worry about quality, safety, ethics, and the environmental impact. Farsighted organizations are directly addressing new threats and opportunities presented by this question: Where do these goods come from? These are the questions and concerns we are beginning to address for a growing number of companies. We supply key building blocks for creating secure supply chains with traceability of goods, which in turn can help ensure integrity in supply, honest sales and marketing claims, and ethical and sustainable sourcing.

Signature Molecular Tags

SigNature Molecular Tags. The SigNature molecular tag is our patented molecular taggant technology, at the core of our platform. It provides forensic power and protection for a wide array of applications. Highly secure, robust and durable, SigNature molecular tags are an ingredient that can be used to fortify brand protection efforts; strengthen supply chain security; and mark, track and convict criminals. Through our SigNature molecular tags, custom DNA sequences can be embedded into a wide range of host carriers including ink, varnish, thread and metal coatings. SigNature molecular tags can be made resistant to challenging environments such as heat, cold, vibration, abrasion, organic solvents, chemicals, UV radiation and other extreme environmental conditions, and so can be identified for numerous years after being embedded directly, or into media applied or attached to the item to be marked. Each individual molecular tag is recorded and stored in a secure database so that we can later detect it using a simple spot test, or the molecular tags can be forensically analyzed in our laboratories to obtain definitive proof of the presence or absence of a specific SigNature molecular tag (e.g., one designed to mark a particular product). Our in-lab forensic testing capability delivers an expert witness Certificate of DNA Authentication ("CODA"). Because DNA is one of the densest information carriers known, and can be amplified with high fidelity, only minute quantities of SigNature

molecular tags are necessary for successful analysis and authentication. As a result, SigNature molecular tags can fold seamlessly into production and logistics workflows at extremely low concentrations.

SigNature molecular tags have been subjected to rigorous testing by the Idaho National Laboratory, a U.S. National Laboratory, by CALCE (the Center for Advanced Life Cycle Engineering), the largest electronic products and systems research center focused on electronics reliability, and by verified procedures in our laboratories. The molecular tag has passed all tests across a broad spectrum of materials and substrates, and has met key military stability standards. SigNature molecular tags have also passed a strenuous “red-team” vetting on behalf of the U.S. Defense Logistics Agency.

Hundreds of millions of SigNature molecular tags now exist on items ranging from consumer product packaging to microcircuits to cotton and synthetic fibers; to our knowledge, none has ever been copied.

SigNature T Molecular Tags and fiberTyping

SigNature T Molecular Tags. SigNature T molecular tags are a unique patented tagging and authentication system specifically designed for textiles and apparel. Specially engineered to adhere tenaciously to textile substrates, including natural and synthetic fibers, SigNature T molecular tags are resistant to standard textile production conditions, and cannot be copied. The result: an enduring forensic level molecular tag that remains present from the fiber stage through to the finished product.

Our SigNature T technology allows for better quality control and assurance at any point in the supply chain. SigNature T molecular tags are currently used for brand protection efforts and raw material source compliance programs. For example, American grown cotton fibers can be tagged at the gin in the United States, verified as “American grown” and then traced through every step of the supply chain.

fiberTyping. Our patented cotton genotyping platform, known as "fiberTyping," described below, complements our SigNature T molecular tag system. fiberTyping is employed to identify the genus and species of the fibers before or after they are tagged with SigNature T molecular tags. fiberTyping cannot be used to provide unique identity or traceability of a specific cotton batch through the supply chain, a function which can only be accomplished by our SigNature T molecular tag system combined with our digital software platform.

fiberTyping is not a molecular tag, but a genotyping test of native cotton fiber DNA, which gives a clear result that determines whether the intended "nature-made" endogenous cotton DNA is present in fiber, yarn or fabric. Samples from the primary material are sent to our forensic labs for DNA analysis and authentication. Cotton classification and the authentication of cotton species after cotton has left its place of origin are issues of global significance, important to brand owners and to governments that must regulate the international cotton trade. The use of endogenous DNA to identify the cotton fiber content of finished textiles, along with the SigNature T molecular tag system is a significant opportunity for brand license holders to control their intellectual property, for brands to shield themselves against legal liabilities, and for governments to improve their ability to enforce compliance with trade agreements between nations.

In addition to the global cotton trade, the potential markets for genotyping include biotherapeutics, nutraceuticals, natural foods, wines and fermented alcohols and other natural textiles.

We believe that our proprietary DNA extraction protocols and methodologies are more effective than existing forensic systems. We believe that the combination of our SigNatureT molecular tags and fiberTyping solutions cover the forensic authentication market for textiles and that the related protocols we have developed may be applicable to multiple industry verticals, and can mark and authenticate products at every stage of their life cycle, from beginning to end.

DNAnet, Smart DNA and Backtrac

Recognizing that DNA-based evidence is the cornerstone of modern-era law enforcement, we have developed what we believe to be the ultimate crime fighting tools – currently being used in home asset and vehicle marking, as well as commercial applications.

These molecular tags can be used to definitively link evidence and offenders to specific crime scenes. As the crime is investigated, the fluorescing molecular marker can assist police in linking the offender and stolen items to a specific crime scene, creating a greater ability to identify and convict.

These long lasting tagging solutions contain unique molecular tags that can help return stolen or lost property to its rightful owner.

Beacon

Beacon locked optical markers deliver secure real-time inspection capabilities. A unique encrypted mechanism (patent-pending) creates a protected, covert screening tool that can be easily adapted to packaging, security labels and high–value assets through inks, varnishes and coatings. When Beacon locked optical markers are combined with SigNature molecular tags, a strong and flexible end-to-end security solution is created where authenticity and provenance can be determined with confidence.

SigNify

Developing a secure method for real-time, in-field screening of molecularly-tagged items has long been a priority for us. We believe that standard fluorophores, up-converting phosphors, holograms and other more-traditional screening tools provide little to no defense against counterfeiting. We believe that secure in-field inspection backed with forensic-level molecular tag authentication is the key to maintaining a well-defended supply chain or asset management program.

The SigNify IF portable DNA reader provides definitive real-time authentication of SigNature and SigNature T molecular tags in the field. With SigNify IF, Signature molecular tags become a true, front-line solution for supply chain integrity.

Information Technology Systems

digitalDNA. digitalDNA is a software platform that enables customers to manage the security of company-marked goods from point of marking to point of authentication or validation to end of life. The base platform is configurable to customer requirements which differ by vertical market, company business process and IT environment. Basic functions offered include molecular tag inventory management, program training and communications, a database of marked items information, associated documents and images, chain of custody and location tracking, sample authentication processing and CODA downloads, and other administrative functions. Designed for either cloud or local operation, the system supports mobile data capture using bar codes or other technologies. Of special note is the power of embedding our proprietary DNA into tag ink or substrate as a covert method of forensic authentication to be recorded on the system. The system is architected as the controller and repository for other validation and authentication devices such as our SigNify DNA Readers, Multi-Mode Reader (prototype), DNA Transfer Systems, and other third party devices and is designed to share data with third party applications through standard interfaces.

DNA Transfer Systems. Our DNA Transfer Systems are developed for DNA marking applications which are high volume with a need for monitoring and control. They are computer based, fully automated, offer remote internet access for real-time monitoring and can be configured for application-specific alerts and reporting online. They were used to mark cotton at eight U.S. cotton gins in the 2016 ginning season.

CertainT Supply Chain Platform

CertainT helps brands confirm their product’s authenticity and origin with certified, trust, transparency and traceability through the seamless amalgamation of several of our platform technologies to tag, test and track. The CertainT trademark indicates use of the CertainT tagging, testing and tracking platform to enable proof of product claims for any material, item or product. Secure and proven, the CertainT Platform helps manufacturers, brands or other commercial organizations deliver on their promise that customers are buying products that are ethically-sourced, safe and authentic.

Large-scale production of specific DNA sequences using PCR.

Our patented Triathlon™ PCR systems allow for the large-scale production of specific DNA sequences. The systems are self-contained and modular, can work together in mass production or can be used individually throughout the world, offering the advantage of delivering DNA locally and securely. These DNA sequences are being used by customers as a diagnostic and reagent and provide us the opportunity to cross-sell our DNA-based supply chain security solutions. We have the ability to manufacture longer DNA sequences valuable in gene therapy, DNA vaccines and diagnostics,

with what we believe is a distinct competitive advantage in cost, cleanliness, and time-to-market. These types of DNA are distinct from our DNA security markers and represent a potential new entry into medical markets, where we believe there are opportunities for our broader platform.

Plan of Operations

General

To date, the substantial portion of our revenues has been generated from sales of our SigNature and SigNature T molecular tags, our principal supply chain security and product authentication solutions. We expect to continue to grow revenues from sales of our SigNature molecular tags, SigNature T molecular tags, DNAnet, BackTrac, digitalDNA, Beacon, SigNify and CertainT offerings as we work with companies and governments to secure supply chains and restore confidence to products and product labeling throughout the world. In addition, we expect to continue to grow revenues from the large-scale production of specific DNA sequences using our Triathlon™ PCR systems which have multiple applications including as a diagnostic and reagent and for gene therapy, DNA vaccines and diagnostics. We also expect to see new revenue in the pharmaceutical market during the current fiscal year. We have continued to incur expenses in expanding our business and increasing our personnel to meet current and anticipated future demand. We have limited sources of liquidity. Our products and services are offered in the United States, Europe and Asia. At the present time, we are focusing our efforts on textile and apparel, microcircuits and other electronics, pharmaceuticals, bulk DNA production (for therapeutics, diagnostics and vaccines), cash-in-transit, consumer asset marking, printing and packaging businesses, and agrochemicals. In the future, we plan to expand our focus to include additional consumer products, food and beverage and industrial materials. The cotton ginning season in the United States takes place between September and March each year; therefore, revenues from our cotton customer contracts may be seasonal and recognized primarily during the second half of our fiscal year, which may cause our operating results to fluctuate significantly quarterly and annually. For a discussion on seasonality see Note A to the accompanying condensed consolidated financial statements.

Critical Accounting Policies

See Note A to the accompanying unaudited condensed consolidated financial statements for our critical accounting policies.

Comparison of Results of Operations for the Three Month Periods Ended December 31, 2017 and 2016

Revenues

Product revenues

For the three month periods ended December 31, 2017 and 2016, we generated $350,133 and $704,417 in revenues from product sales, respectively. Product revenue decreased by $354,284 or 50% for the three month period ended December 31, 2017 as compared to the three month period ended December 31, 2016. The decrease was primarily related to a decrease of approximately $353,000 of textile revenue for protecting cotton supply chains. The decrease in textile product revenue was primarily the result of the timing of shipments and the recognition of deferred revenue related to our cotton contracts. During the three month period ended December 31, 2016, we had sales of DNA concentrate to protect the organic cotton supply chain of $155,000 as well as the recognition of deferred revenue of $198,000.

Service revenues

For the three month periods ended December 31, 2017 and 2016, we generated $297,544 and $198,591 in revenues from sales of services, respectively. The increase in service revenues of $98,953 or 50% for the three month period ended December 31, 2017 as compared to the same period in the prior fiscal year is attributable to an increase in revenue from a government contract award of approximately $187,000, which began during June 2017. This increase in service revenue was further offset by decreases in revenues from development projects primarily consisting of a $45,000 decrease in industrial materials.

Costs and Expenses

Cost of Revenues

Cost of revenues for the three month period ended December 31, 2017 increased by $56,608 or 21% from $274,832 for the three month period ended December 31, 2016 to $331,440 for the three month period ended December 31, 2017. Cost of revenues as a percentage of product revenues was 95% and 39% for the three month periods ended

December 31, 2017 and 2016, respectively. This increase in cost of revenues as a percentage of product revenues is due to the product sales mix as sales during the three month period ended December 31, 2016 were primarily comprised of textile sales, which are at a higher margin. Also, during the three month period ended December 31, 2017, due to decreased product revenue, our production decreased, and, as a result, our fixed production costs primarily comprised of payroll expenses and other building costs allocated to our production facilities were not absorbed by product sales.

Selling, General and Administrative

Selling, general and administrative expenses for the three month period ended December 31, 2017 decreased by $1,307,763 or 34% from $3,900,917 for the three month period ended December 31, 2016 to $2,593,154 for the three month period ended December 31, 2017. The decrease is attributable to a decrease of $1,226,907 in stock compensation expense associated with immediate vesting of employee grants in the prior year.

Research and Development

Research and development expenses increased to $740,067 for the three month period ended December 31, 2017 from $518,628 for the three month period ended December 31, 2016, an increase of $221,439 or 43%. This increase is primarily due to increased development costs of $155,000 incurred in relation to the government development contract award.

Depreciation and Amortization

In the three month period ended December 31, 2017, depreciation and amortization decreased by $4,329 or 3% from $161,977 for the three month period ended December 31, 2016 to $157,648 for the three month period ended December 31, 2017.

Other income (expense)

In the three month period ended December 31, 2017, total other income (expense) decreased by $289 from expense of $9,369 for the three month period ended December 31, 2016 to expense of $9,080 for the three month period ended December 31, 2017.

Net Loss

Net loss decreased by $777,672 or 20% from a loss of $3,961,384 for the three month period ended December 31, 2016 to a loss of $3,183,712 for the three month period ended December 31, 2017, due to the factors noted above.

Liquidity and Capital Resources

Our liquidity needs consist of our working capital requirements and research and development expenditure funding. As of December 31, 2017, we had working capital of $6,303,930. For the three month period ended December 31, 2017, we generated a net cash flow deficit from operating activities of $2,572,772 consisting primarily of our loss of $3,183,712 net with non-cash adjustments of $157,648 in depreciation and amortization charges and $231,113 for stock-based compensation. Additionally, we had a net decrease in operating assets of $270,691 and a net decrease in operating liabilities of $48,512. Cash used in investing activities was $48,349 for the purchase of property and equipment. Cash provided by financing activities was $4,425,893 consisting primarily of net proceeds from the December securities purchase agreement.

We have recurring net losses, which have resulted in an accumulated deficit of $239,856,867 as of December 31, 2017. We have incurred a net loss of $3,183,712, for the three month period ended December 31, 2017. At December 31, 2017 we had cash and cash equivalents of $4,764,553. Our current capital resources include cash and cash equivalents, accounts receivable, and inventories. Historically, we have financed our operations principally from the sale of equity securities. As disclosed in Note E to the accompanying condensed consolidated financial statements, on December 22, 2017, we closed on a securities purchase agreement with certain institutional investors for the purchase and sale of 2,735,000 shares of our common stock and warrants to purchase an aggregate of 2,735,000 shares of common stock in a registered direct offering with aggregate gross proceeds of $4,786,250 exclusive of warrant exercise proceeds. After deducting placement agent’s commissions and other offering expenses total net proceeds were approximately $4,200,000.

We expect to finance operations primarily through cash received from the December 2017 registered direct offering, as well as collection of our accounts receivables. We estimate that we will have sufficient cash and cash equivalents to fund operations and meet our obligations as they become due for the next twelve months from the date of filing of this quarterly report.

We may require additional funds to complete the continued development of our products, product manufacturing, and to fund expected additional losses from operations, until revenues are sufficient to cover our operating expenses. If revenues are not sufficient to cover our operating expenses, and if we are not successful in obtaining the necessary additional financing, we will most likely be forced to reduce operations.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Inflation

The effect of inflation on our revenue and operating results was not significant.

Item 3. — Quantitative and Qualitative Disclosures About Market Risk.

Information requested by this Item is not applicable as we are electing scaled disclosure requirements available to smaller reporting companies with respect to this Item.

Item 4. — Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q, we conducted an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on the evaluation of these disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2017, our disclosure controls and procedures were effective to ensure that the information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Changes in Internal Control over Financial Reporting

During the fiscal quarter ended December 31, 2017, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II — Other Information

Item 1. — Legal Proceedings.

None.

Item 1A. — Risk Factors.

You should carefully consider the risks and uncertainties described under the caption “Forward-Looking Statements” in Part I, Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” of this Quarterly Report and in our other filings with the SEC, including our Annual Report on Form 10-K for the fiscal year ended September 30, 2017, and our subsequent filings. The risks and uncertainties described in this Quarterly Report and in our other filings with the SEC are not the only ones facing us. Additional risks and uncertainties not currently known to us or that we currently deem immaterial may also affect us. If any of these risks actually materialize, our business, financial position, results of operations and cash flows could be materially adversely impacted. In that event, the market price of our common stock could decline and you may lose all or part of your investment. As further described under the caption “Forward-Looking Statements” in Part I, Item 2, this Quarterly Report also contains forward-looking statements that involve additional risks and uncertainties. Our actual results and the timing of certain events could differ materially from those anticipated in these forward-looking statements due to the factors and risks described above or other factors.

During the fiscal quarter ended December 31, 2017, there have been no material changes in our risk factors previously disclosed under Part 1, Item 1A of our Annual Report on Form 10-K for the fiscal year ended September 30, 2017.

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

None.

Item 3. — Defaults Upon Senior Securities.

None.

Item 4. — Mine Safety Disclosures.

None.

Item 5. — Other Information.

None.

Item 6. — Exhibits.

4.1*	Form of Purchase Warrant, incorporated by reference to the designated exhibit of the Company's Current Report on Form 8-K filed with the SEC on December 20, 2017
10.1*	Placement Agency Agreement by and between Applied DNA Sciences, Inc. and Maxim Group LLC, dated December 20, 2017, incorporated by reference to the designated exhibit of the Company's Current Report on Form 8-K filed with the SEC on December 20, 2017
10.2*	Securities Purchase Agreement dated as of December 20, 2017, by and between Applied DNA Sciences, Inc. and the Purchasers named therein, incorporated by reference to the designated exhibit of the Company's Current Report on Form 8-K filed with the SEC on December 20, 2017
31.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14 and Rule 15d-14(a), promulgated under the Securities Exchange Act of 1934, as amended
31.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14 and Rule 15d-14(a), promulgated under the Securities Exchange Act of 1934, as amended
32.1**	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer)
32.2**	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Financial Officer)
101 INS*	XBRL Instance Document
101 SCH*	XBRL Taxonomy Extension Schema Document
101 CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101 DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101 LAB*	XBRL Extension Label Linkbase Document
101 PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

** Furnished herewith.

Exhibits 32.1 and 32.2 are being furnished and shall not be deemed to be “filed” for purposes of Section 18 of the Exchange Act or otherwise subject to the liability of that section, nor shall such exhibits be deemed to be incorporated by reference in any registration statement or other document filed under the Securities Act or the Exchange Act, except as otherwise stated in any such filing.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Applied DNA Sciences, Inc.

Dated: February 8, 2018 /s/ JAMES A. HAYWARD
James A. Hayward, Ph. D.
Chief Executive Officer
(Duly authorized officer and principal executive officer)

/s/ BETH JANTZEN
Dated: February 8, 2018 Beth Jantzen, CPA
Chief Financial Officer
(Duly authorized officer and
principal financial and accounting officer)