

APPLIED DNA SCIENCES INC  
Form 10-Q  
February 14, 2013

---

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2012

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: 33-17387

Applied DNA Sciences, Inc.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

59-2262718  
(I.R.S. Employer  
Identification No.)

25 Health Sciences Drive, Suite 215  
Stony Brook, New York  
(Address of principal executive offices)

11790  
(Zip Code)

631-444- 8090  
(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.

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).

Yes  No

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10-Q

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

Large accelerated filer <input type="radio"/>	Accelerated filer <input type="radio"/>
Non-accelerated filer <input type="radio"/>	Smaller reporting company <input checked="" type="radio"/>

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
 Yes  No

As of February 14, 2013, the registrant had 682,398,201 shares of common stock outstanding.

---

Applied DNA Sciences, Inc.

Form 10-Q for the Quarter Ended December 31, 2012

Table of Contents

	Page
PART I - FINANCIAL INFORMATION	
<u>Item 1 - Financial Statements</u>	1
<u>Condensed Consolidated Balance Sheets as of December 31, 2012 (Unaudited) and September 30, 2012</u>	1
<u>Unaudited Condensed Consolidated Statements of Operations for the Three Months Ended December 31, 2012 and 2011</u>	2
<u>Unaudited Condensed Consolidated Statements of Cash Flows for the Three Months Ended December 31, 2012 and 2011</u>	3
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	4
<u>Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	16
<u>Item 3 - Quantitative and Qualitative Disclosures About Market Risk</u>	21
<u>Item 4 - Controls and Procedures</u>	21
PART II - OTHER INFORMATION	
<u>Item 1 – Legal Proceedings</u>	21
<u>Item 6 - Exhibits</u>	22

---

## Part I

## Item 1 - Financial Statements

APPLIED DNA SCIENCES, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2012 (unaudited)	September 30, 2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$984,410	\$724,782
Accounts receivable	361,782	296,994
Prepaid expenses	52,355	80,037
Total current assets	1,398,547	1,101,813
Property, plant and equipment-net of accumulated depreciation of \$272,953 and \$251,958 respectively	189,850	210,845
Other assets:		
Deposits	36,276	36,276
Total Assets	\$1,624,673	\$1,348,934
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$808,803	\$592,009
Total current liabilities	808,803	592,009
Warrant liability	7,513,922	—
Stockholders' Equity (Deficit)		
Preferred stock, par value \$0.001 per share; 10,000,000 shares authorized; -0- shares issued and outstanding as of December 31, 2012 and September 30, 2012	—	—
Common stock, par value \$0.001 per share; 1,350,000,000 shares authorized; 656,935,238 and 646,182,550 shares issued and outstanding as of December 31, 2012 and September 30, 2012, respectively	656,935	646,183
Additional paid in capital	170,356,909	169,117,881
Accumulated deficit	(177,711,896)	(169,007,139)
Total stockholders' equity (deficit)	(6,698,052 )	756,925
Total Liabilities and Stockholders' Equity (Deficit)	\$1,624,673	\$1,348,934

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,	
	2012	2011
Revenues	\$317,670	\$516,904
Operating expenses:		
Selling, general and administrative	2,521,167	2,152,428
Research and development	147,666	78,473
Depreciation and amortization	20,995	98,373
Total operating expenses	2,689,828	2,329,274
LOSS FROM OPERATIONS	(2,372,158 )	(1,812,370 )
Other income (expense):		
Interest expense, net	—	(597,535 )
Loss from change in fair value of warrant liability	(6,332,599 )	—
Net loss before provision for income taxes	(8,704,757 )	(2,409,905 )
Income taxes (benefit)	—	—
NET LOSS	\$(8,704,757 )	\$(2,409,905 )
Net loss per share-basic and diluted	\$(0.01 )	\$(0.00 )
Weighted average shares outstanding- Basic and diluted	649,922,615	490,282,252

See the accompanying notes to the unaudited condensed consolidated financial statements

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

	Three months ended December 31,	
	2012	2011
Cash flows from operating activities:		
Net loss	\$(8,704,757)	\$(2,409,905)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	20,995	98,374
Fair value of vested options issued to officers, directors and employees	417,866	785,719
Loss from change in fair value of warrant liability	6,332,599	—
Amortization of capitalized financing costs	—	82,084
Amortization of debt discount attributable to convertible debentures	—	507,478
Equity based compensation	13,238	1,363
Common stock issued in settlement of interest	—	114,411
Change in operating assets and liabilities:		
Increase in accounts receivable	(64,788 )	(24,024 )
Decrease in prepaid expenses and deposits	27,682	13,868
Increase in accounts payable and accrued liabilities	216,793	19,117
Net cash used in operating activities	(1,740,372)	(811,515 )
Cash flows from investing activities:	—	—
Cash flows from financing activities:		
Net proceeds from sale of common stock	2,000,000	—
Net cash provided by financing activities	2,000,000	—
Net increase (decrease) in cash and cash equivalents	259,628	(811,515 )
Cash and cash equivalents at beginning of period	724,782	2,747,294
Cash and cash equivalents at end of period	\$984,410	\$1,935,779
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:		
Common stock issued in exchange for previously incurred debt	\$—	\$1,150,000

See the accompanying notes to the unaudited condensed consolidated financial statements

APPLIED DNA SCIENCES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2012  
(unaudited)

NOTE A — SUMMARY OF ACCOUNTING POLICIES

General

The accompanying unaudited condensed consolidated financial statements as of December 31, 2012 and for the three months ended December 31, 2012 and 2011 are unaudited. These unaudited condensed consolidated financial statements have been prepared in accordance with Rule 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, 2012 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2013. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated September 30, 2012 financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K filed with the SEC.

Business and Basis of Presentation

On September 16, 2002, Applied DNA Sciences, Inc. (the “Company”) was incorporated under the laws of the State of Nevada. Effective December 17, 2008, the Company reincorporated from the State of Nevada to the State of Delaware. The Company is principally devoted to developing DNA embedded biotechnology security solutions in the United States and Europe. To date, the Company has generated limited sales revenues from its services and products; it has incurred expenses and has sustained losses. Consequently, its operations are subject to all the risks inherent in the establishment of an early stage operating company. For the period from inception through December 31, 2012, the Company has accumulated losses of \$177,711,896.

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

Estimates

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

Revenue Recognition

Revenues are derived from research, development, qualification and production testing for certain commercial products. Revenue from fixed price testing contracts is generally recorded upon completion of the contracts, which are generally short-term, or upon completion of identifiable contractual tasks. At the time the Company enters into a contract that includes multiple tasks, the Company estimates the amount of actual labor and other costs that will be required to complete each task based on historical experience. Revenues are recognized which provide for a profit



margin relative to the testing performed. Revenue relative to each task and from contracts which are time and materials based is recorded as effort is expended. Billings in excess of amounts earned are deferred. Any anticipated losses on contracts are charged to income when identified. To the extent management does not accurately forecast the level of effort required to complete a contract, or individual tasks within a contract, and the Company is unable to negotiate additional billings with a customer for cost over-runs, the Company may incur losses on individual contracts. All selling, general and administrative costs are treated as period costs and expensed as incurred.

APPLIED DNA SCIENCES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2012  
(unaudited)

NOTE A — SUMMARY OF ACCOUNTING POLICIES (continued)

For revenue from product sales, the Company recognizes revenue in accordance with Accounting Standards Codification subtopic 605-10, Revenue Recognition (“ASC 605-10”). ASC 605-10 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the selling price is fixed and determinable; and (4) collectability is reasonably assured. Determination of criteria (3) and (4) are based on management’s judgments regarding the fixed nature of the selling prices of the products delivered and the collectability of those amounts. Provisions for allowances and other adjustments are provided for in the same period the related sales are recorded. The Company defers any revenue for which the product has not been delivered or is subject to refund until such time that the Company and the customer jointly determine that the product has been delivered or no refund will be required. At December 31, 2012 and September 30, 2012, the Company did not record any deferred revenue for the respective periods.

Cash Equivalents

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

Accounts Receivable

The Company provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. The Company’s estimate is based on historical collection experience and a review of the current status of trade accounts receivable. It is reasonably possible that the Company’s estimate of the allowance for doubtful accounts will change. At December 31, 2012 and September 30, 2012, the Company has deemed that no allowance for doubtful accounts was necessary. The Company writes-off receivables that are deemed uncollectible.

Income Taxes

The Company has adopted Accounting Standards Codification subtopic 740-10, Income Taxes (“ASC 740-10”) which requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statement or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Temporary differences between taxable income reported for financial reporting purposes and income tax purposes include, but are not limited to, accounting for intangibles, debt discounts associated with convertible debt, equity based compensation and depreciation and amortization. The adoption of ASC 740-10 did not have a material impact on the Company’s consolidated results of operations or financial condition.

Property and Equipment

Property and equipment are stated at cost and depreciated over their estimated useful lives of 3 to 5 years using the straight line method. At December 31, 2012 and September 30, 2012, property and equipment consist of:

Edgar Filing: APPLIED DNA SCIENCES INC - Form 10-Q

	December 31, 2012	September 30, 2012
	(unaudited)	
Computer equipment	\$ 33,464	\$ 33,464
Lab equipment	296,904	296,904
Furniture	132,435	132,435
Total	462,803	462,803
Accumulated depreciation	272,953	251,958
Property and equipment, net	\$ 189,850	\$ 210,845

APPLIED DNA SCIENCES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2012  
(unaudited)

NOTE A — SUMMARY OF ACCOUNTING POLICIES (continued)

Impairment of Long-Lived Assets

The Company has adopted Accounting Standards Codification subtopic 360-10, Property, Plant and Equipment (“ASC 360-10”). ASC 360-10 requires that long-lived assets and certain identifiable intangibles held and used by the Company be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company evaluates its long lived assets for impairment annually or more often if events and circumstances warrant. Events relating to recoverability may include significant unfavorable changes in business conditions, recurring losses, or a forecasted inability to achieve break-even operating results over an extended period. The Company evaluates the recoverability of long-lived assets based upon forecasted undiscounted cash flows. Should impairment in value be indicated, the carrying value of intangible assets will be adjusted, based on estimates of future discounted cash flows resulting from the use and ultimate disposition of the asset. ASC 360-10 also requires assets to be disposed of be reported at the lower of the carrying amount or the fair value less costs to sell.

Comprehensive Income

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

Segment Information

The Company adopted Accounting Standards Codification subtopic Segment Reporting 280-10 (“ASC 280-10”). ASC 280-10 establishes standards for reporting information regarding operating segments in annual financial statements and requires selected information for those segments to be presented in interim financial reports issued to stockholders. ASC 280-10 also establishes standards for related disclosures about products and services and geographic areas. Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker, or decision-making group, in making decisions how to allocate resources and assess performance. The information disclosed herein, materially represents all of the financial information related to the Company’s single principal operating segment.

Net Loss Per Share

The Company has adopted Accounting Standards Codification subtopic 260-10, Earnings Per Share (“ASC 260-10”) which specifies the computation, presentation and disclosure requirements of earnings per share information. Basic earnings per share have been calculated based upon the weighted average number of common shares outstanding. Dilutive common stock equivalents consist of shares issuable upon the exercise of the Company’s stock options and warrants. For the three months ended December 31, 2012, common stock equivalent shares are excluded from the computation of the diluted loss per share as their effect would be anti-dilutive.

Fully diluted shares outstanding were 783,834,587 and 645,163,955 for the three months ended December 31, 2012 and 2011, respectively.

Stock Based Compensation

The Company has adopted Accounting Standards Codification subtopic 718-10, Compensation (“ASC 718-10”) which requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Stock-based compensation expense recognized under ASC 718-10 for the three months ended December 31, 2012 and 2011 was \$417,866 and \$785,719, respectively.

APPLIED DNA SCIENCES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2012  
(unaudited)

NOTE A — SUMMARY OF ACCOUNTING POLICIES (continued)

As of December 31, 2012, 127,308,192 employee stock options were outstanding with 97,571,325 shares vested and exercisable.

Concentrations

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

The Company's revenues earned from sale of products and services for the three months ended December 31, 2012 and 2011 included an aggregate of 65% and 75% from two and four customers of the Company's total revenues, respectively. Two customers accounted for 64% and 54% of the Company's total accounts receivable at December 31, 2012 and September 30, 2012, respectively.

Research and Development

The Company accounts for research and development costs in accordance with the Accounting Standards Codification subtopic 730-10, Research and Development ("ASC 730-10"). Under ASC 730-10, all research and development costs must be charged to expense as incurred. Accordingly, internal research and development costs are expensed as incurred. Third-party research and development costs are expensed when the contracted work has been performed or as milestone results have been achieved. Company-sponsored research and development costs related to both present and future products are expensed in the period incurred. The Company incurred research and development expenses of \$147,666 and \$78,473 for the three month periods ended December 31, 2012 and 2011, respectively.

Advertising

The Company follows the policy of charging the costs of advertising to expense as incurred. The Company charged to operations \$37,459 and \$19,608 as advertising costs for the three month periods ended December 31, 2012 and 2011, respectively.

Intangible Assets

The Company amortizes its intangible assets using the straight-line method over their estimated period of benefit. The estimated useful life for patents is five years while other intellectual property uses a seven year useful life. The Company periodically evaluates the recoverability of intangible assets and takes into account events or circumstances that warrant revised estimates of useful lives or that indicate that impairment exists. All of the Company's intangible assets are subject to amortization. As of December 31, 2012 and September 30, 2012, all intangible assets have been amortized to -0- carrying value.

Fair Value of Financial Instruments

In the first quarter of fiscal year 2008, the Company adopted Accounting Standards Codification subtopic 820-10, Fair Value Measurements and Disclosures (“ASC 820-10”). ASC 820-10 defines fair value, establishes a framework for measuring fair value, and enhances fair value measurement disclosure. ASC 820-10 delayed, until the first quarter of fiscal year 2009, the effective date for ASC 820-10 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The adoption of ASC 820-10 did not have a material impact on the Company’s financial position or operations.

APPLIED DNA SCIENCES, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012

(unaudited)

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

Effective October 1, 2008, the Company adopted Accounting Standards Codification subtopic 820-10, Fair Value Measurements and Disclosures (“ASC 820-10”) and Accounting Standards Codification subtopic 825-10, Financial Instruments (“ASC 825-10”), which permits entities to choose to measure many financial instruments and certain other items at fair value. Neither of these statements had an impact on the Company’s consolidated financial position, results of operations or cash flows. The carrying value of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses, as reflected in the balance sheets, approximate fair value because of the short-term maturity of these instruments.

## Recent Accounting Pronouncements

There were various updates recently issued, most of which represented technical corrections to the accounting literature or application to specific industries and are not expected to have a material impact on the Company’s unaudited condensed consolidated financial position, results of operations or cash flows.

## NOTE B – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at December 31, 2012 and September 30, 2012 are as follows:

	December 31, 2012 (unaudited)	September 30, 2012
Accounts payable	\$ 602,671	\$ 473,060
Accrued consulting fees	102,500	102,500
Accrued salaries payable	103,632	16,449