

APPLIED DNA SCIENCES INC
Form 10-Q
August 11, 2016

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
X ACT OF 1934**

For the quarterly period ended June 30, 2016

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

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(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.

☒ 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

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 ☐

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☒

(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

At August 5, 2016, the registrant had 24,078,636 shares of common stock outstanding.

Applied DNA Sciences, Inc.

Form 10-Q for the Quarter Ended June 30, 2016

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Part I - Financial Information**Item 1 - Financial Statements.****APPLIED DNA SCIENCES, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

	June 30, 2016 (unaudited)	September 30, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$7,086,773	\$7,312,184
Accounts receivable, net of allowance of \$22,387 and \$7,140 at June 30, 2016 and September 30, 2015, respectively	4,792,308	3,929,517
Inventories	126,870	—
Prepaid expenses and other current assets	136,783	293,351
Total current assets	12,142,734	11,535,052
Property, plant and equipment, net of accumulated depreciation of \$1,161,120 at June 30, 2016 and \$852,867 at September 30, 2015	805,761	572,107
Other assets:		
Long term accounts receivables	360,000	1,500,000
Deposits	61,126	62,988
Goodwill	285,386	285,386
Intangible assets, net of accumulated amortization of \$491,933 and \$238,368 at June 30, 2016 and September 30, 2015, respectively	1,563,766	1,598,779
Total Assets	\$15,218,773	\$15,554,312
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$2,184,169	\$2,385,006
Deferred revenue	848,782	282,050
Total current liabilities	3,032,951	2,667,056

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Long term accounts payable	—	320,400
Total liabilities	3,032,951	2,987,456
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 June 30, 2016 and September 30, 2015	—	—
Series A Preferred stock, par value \$0.001 per share, 10,000,000 shares authorized; -0- issued and outstanding as of June 30, 2016 and September 30, 2015	—	—
Series B Preferred stock, par value \$0.001 per share, 10,000,000 shares authorized; -0- issued and outstanding as of June 30, 2016 and September 30, 2015	—	—
Common stock, par value \$0.001 per share; 500,000,000 shares authorized at June 30, 2016 and September 30, 2015; 24,078,636 and 21,504,578 shares issued and outstanding as of June 30, 2016 and September 30, 2015, respectively	24,079	21,505
Additional paid in capital	233,564,055	224,186,760
Accumulated deficit	(221,402,312)	(211,641,409)
Total stockholders' equity	12,185,822	12,566,856
Total Liabilities and Stockholders' Equity	\$15,218,773	\$15,554,312

See the accompanying notes to the unaudited condensed consolidated financial statements

APPLIED DNA SCIENCES, INC.**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)**

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2016	2015	2016	2015
Revenues	\$652,896	\$2,267,671	\$2,550,332	\$5,028,234
Cost of revenues	121,260	129,015	304,611	129,015
Operating expenses:				
Selling, general and administrative	2,707,420	3,222,692	8,616,246	10,323,809
Research and development	1,077,916	466,841	2,861,583	1,587,326
Depreciation and amortization	168,641	121,339	557,968	354,144
Total operating expenses	3,953,977	3,810,872	12,035,797	12,265,279
LOSS FROM OPERATIONS	(3,422,341)	(1,672,216)	(9,790,076)	(7,366,060)
Other income (expense):				
Interest income (expense), net	2,660	5,052	9,567	(26,807)
Other income (expense), net	52,670	(3,718)	19,606	(16,853)
Loss on conversion of promissory notes	—	—	—	(980,842)
Loss on change in fair value of warrant liability	—	—	—	(2,994,540)
Net loss before provision for income taxes	(3,367,011)	(1,670,882)	(9,760,903)	(11,385,102)
Provision for income taxes	—	—	—	—
NET LOSS	\$(3,367,011)	\$(1,670,882)	\$(9,760,903)	\$(11,385,102)
Net loss per share-basic and diluted	\$(0.14)	\$(0.08)	\$(0.41)	\$(0.63)
Weighted average shares outstanding- Basic and diluted	24,075,225	21,444,335	23,563,164	18,075,506

See the accompanying notes to the unaudited condensed consolidated financial statements

APPLIED DNA SCIENCES, INC.**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

	Nine Months Ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net loss	\$(9,760,903)	\$(11,385,102)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	557,968	354,144
Stock-based compensation expense	1,444,170	3,531,205
Change in fair value of warrant liability	—	2,994,540
Loss on sale of property, plant and equipment	5,520	—
Loss on conversion of promissory notes	—	980,842
Common stock issued for consulting services	78,134	64,426
Provision for bad debts	106,247	21,750
Change in operating assets and liabilities:		
Accounts receivable	170,962	(1,275,189)
Inventories	(136,783)	—
Prepaid expenses and other current assets and deposits	107,343	(59,315)
Accounts payable and accrued liabilities	(589,705)	(75,515)
Deferred revenue	566,732	(378,499)
Net cash used in operating activities	(7,450,315)	(5,226,713)
Cash flows used in investing activities:		
Proceeds from sale of property, plant and equipment	5,500	—
Purchase of property, plant and equipment	(594,808)	(221,659)
Purchase of intangible assets	(43,353)	(238,082)
Net cash used in investing activities	(632,661)	(459,741)
Cash flows from financing activities:		
Net proceeds from sale of common stock and warrants	7,853,155	19,114,418
Proceeds from the exercise of warrants	4,410	—
Purchase and cancelation of previously issued warrants	—	(4,090,952)
Net cash provided by financing activities	7,857,565	15,023,466
Net (decrease) increase in cash and cash equivalents	(225,411)	9,337,012
Cash and cash equivalents at beginning of period	7,312,184	1,393,132

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Cash and cash equivalents at end of period	\$7,086,773	\$10,730,144
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 upon conversion of promissory notes payable	\$—	\$1,843,750
Offering costs incurred, and included in accounts payable and accrued liabilities	\$—	\$68,489
Property, plant and equipment acquired, and included in accounts payable	\$—	\$13,825
Intangible assets acquired, and included in accounts payable	\$60,468	\$29,296
Reclassification of deferred offering costs to additional paid in capital	\$—	\$181,104

See the accompanying notes to the unaudited condensed consolidated financial statements

APPLIED DNA SCIENCES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016

(unaudited)

NOTE A — SUMMARY OF ACCOUNTING POLICIES

General

The accompanying condensed consolidated financial statements as of June 30, 2016 and for the three and nine month periods ended June 30, 2016 and 2015 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 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 condensed consolidated 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 and nine month periods ended June 30, 2016 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2016. 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, 2015 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 14, 2015.

The condensed consolidated balance sheet as of September 30, 2015 contained herein has been derived from the audited consolidated financial statements as of September 30, 2015, but does not include all disclosures required by GAAP.

Business and Basis of Presentation

The Company is a Delaware corporation, which was initially organized in 1983 under the laws of the State of Florida as Datalink Systems, Inc. In 1998, the Company reincorporated in the State of Nevada, and in 2002, the Company changed its name to its current name, Applied DNA Sciences, Inc. In December 2008, the Company reincorporated from Nevada to the State of Delaware. The Company is principally devoted to developing and marketing DNA-embedded biotechnology security solutions in the United States and Europe. To date, the Company has produced limited recurring 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 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. and Applied DNA Sciences Europe Limited, which currently have no operations or activity. Significant inter-company transactions and balances have been eliminated in consolidation. To facilitate comparison of information across periods, certain reclassifications have been made to prior year amounts to conform to the current year's presentation.

Inventories

Inventories, which consist primarily of raw materials, and finished goods, is stated at the lower of cost or market, 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 June 30, 2016 and September 30, 2015, the Company recorded deferred revenue of \$848,782 and \$282,050, respectively.

APPLIED DNA SCIENCES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016

(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 milestones are achieved as per each contract. The Company recognized revenue of \$210,219 and \$993,266 from these contract awards during the three and nine month periods ended June 30, 2016, respectively and \$657,708 and \$1,919,031 for the three and nine month periods ended June 30, 2015, respectively.

The Company recognizes the revenue under its cotton customer contracts when the product has been shipped, as there is no right of return under these arrangements. The Company has evaluated the other indicators of gross and net revenue recognition, including whether or not the Company is the primary obligor and if it has general inventory risk. The Company does not have any general inventory risk and is not the primary obligor as it relates to the marketing portion of the cotton tagging fee. With respect to the Company's mutual license agreement with Himatsingka America Inc. (formerly known as Divatex Home Fashion, Inc.) ("Himatsingka"), the Company has carefully evaluated all of the key gross and net revenue recognition indicators and has concluded that the circumstances as they relate to Himatsingka's portion of the tagging fee are more consistent with those key indicators that support net revenue reporting. On June 29, 2016, Himatsingka waived its portion of the tagging fee for up to \$250,000. In addition, the nature of some of the Company's cotton contracts includes extended payment terms that will result in a longer collection period and slower cash inflows. Under the Company's memorandum of understanding with Louis Dreyfus Commodities, as of June 30, 2016 and September 30, 2015 there was \$4,263,400 and \$2,893,400 included in short term accounts receivable, respectively. As of June 30, 2016 and September 30, 2015 there was \$360,000 and

\$1,500,000 included in long-term accounts receivable, respectively. Also, as of June 30, 2016 there was \$400,000 included in deferred revenue for a shipment during the third fiscal quarter of 2016. The cotton ginning season in the United States takes place between September and December each year, therefore, revenues from these customer contracts may be seasonal.

Use of Estimates

In preparing financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenue and expenses during the reporting period. Actual results could differ from those estimates.

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 and nine month periods ended June 30, 2016 and 2015, common stock equivalent shares are excluded from the computation of the diluted loss per share as their effect would be anti-dilutive.

APPLIED DNA SCIENCES, INC.**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****June 30, 2016****(unaudited)****NOTE A — SUMMARY OF ACCOUNTING POLICIES (continued)**Net Loss Per Share, continued

Securities that could potentially dilute basic net income per share in the future that were not included in the computation of diluted net loss per share because including those securities would have been anti-dilutive for the nine month periods ended June 30, 2016 and 2015 are as follows:

	2016	2015
Warrants	7,323,060	6,062,487
Employee options	4,414,865	3,456,989
	11,737,925	9,519,476

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, excess tax benefits realized from the exercise of stock-based awards are classified as cash flows from financing activities. The future realization of the reserved deferred tax assets related to these tax benefits associated with the exercise of stock options will result in a credit to additional paid in capital if the related tax deduction reduces taxes payable. The Company has elected the “with and without approach” regarding ordering of windfall tax benefits to determine whether

the windfall tax benefit did reduce taxes payable in the current year. Under this approach, the windfall tax benefit would be recognized in additional paid-in-capital only if an incremental tax benefit is realized after considering all other benefits presently available.

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 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 and nine month periods ended June 30, 2016 included an aggregate of 77% and 63% from two customers, respectively. One customer accounted for 90% and 85% of the Company's total accounts receivable at June 30, 2016 and September 30, 2015, respectively.

The Company's revenues earned from sale of products and services for the three and nine month periods ended June 30, 2015 included an aggregate of 87% and 73%, respectively, from two customers of the Company's total revenues.

APPLIED DNA SCIENCES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016

(unaudited)

NOTE A — SUMMARY OF ACCOUNTING POLICIES (continued)

Recent Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 is currently evaluating the new guidance to determine the impact it may have on its 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 November 2015, the FASB issued ASU 2015-17, "Balance Sheet Classification of Deferred Taxes" ("ASU 2015-17"). This update requires an entity to classify deferred tax liabilities and assets as noncurrent within a classified statement of financial position. ASU 2015-17 is effective for annual and interim reporting periods beginning after December 15, 2016. This update may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. Early application is permitted as of the beginning of the interim or annual reporting period. The Company expects the impact of the adoption of this pronouncement on its condensed consolidated balance sheet to be a reclassification only, and does not expect the pronouncement to have a significant impact.

In September 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments ("ASU 2015-16"). The FASB issued ASU 2015-16 to simplify US GAAP to require that the acquirer record, in the same period's financial statements, the effect of changes to provisional, measurement period amounts calculated as if the accounting had been completed at the acquisition date and disclose the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. This guidance was effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The Company does not believe that this pronouncement will have a material impact on its condensed consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory (Topic 330) ("ASU 2015-11"). ASU 2015-11 simplifies the accounting for the valuation of all inventory not accounted for using the last-in, first-out ("LIFO") method by prescribing that inventory be valued at the lower of cost and net realizable value. ASU 2015-11 is effective for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016 on a prospective basis. The Company does not expect the adoption of ASU 2015-11 to have a material effect on its condensed consolidated financial statements.

In August 2014, FASB issued ASU 2014-15, "Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern" ("ASU 2014-15"). ASU 2014-15 provides guidance on management's responsibility in evaluating whether there is substantial doubt about a company's ability to continue as a going concern and about related footnote disclosures. For each reporting period, management will be required to evaluate whether there are conditions or events that raise substantial doubt about a company's ability to continue as a going concern within one year from the date the financial statements are issued. The amendments in ASU 2014-15 are effective for annual reporting periods ending after December 15, 2016, and for annual and interim periods thereafter. Early adoption is permitted. The Company will adopt the methodologies prescribed by ASU 2014-15 by the date required, and does not anticipate that the adoption of ASU 2014-15 will have a material effect on its condensed consolidated financial position or results of operations.

In June 2014, the FASB issued ASU 2014-12, "Accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period" ("ASU 2014-12") which requires performance-based awards with a performance target that affects vesting and that could be achieved after an employee completes the requisite service period to be accounted for as a performance condition. If performance targets are clearly defined and it is probable that the performance condition will be achieved, stock-based expense should be recognized over the remaining requisite service period. This guidance is effective for fiscal years (and interim reporting periods within those years) beginning after December 15, 2015. Early adoption is permitted. The Company is in the process of evaluating the provisions of ASU 2014-12 and assessing the potential effect on the Company's condensed consolidated financial position or results of operations.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09") which provides updated, comprehensive revenue recognition guidance for contracts with customers, including a new principles-based five step framework that eliminates much of the industry-specific guidance in current accounting literature. Under ASU 2014-09, revenue recognition is based on a core principle that companies recognize revenue in an amount consistent with the consideration they expect to be entitled to in exchange for the transfer of goods or

services. The standards update also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of recognized revenue. This guidance will be effective for fiscal years (and interim reporting periods within those years) beginning after December 15, 2017. The Company is in the process of evaluating the provisions of ASU 2014-09 and assessing the potential effect on the Company's condensed consolidated financial position or results of operations.

APPLIED DNA SCIENCES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016

(unaudited)

NOTE B — LIQUIDITY AND MANAGEMENT'S PLAN

The Company has recurring net losses, which have resulted in an accumulated deficit of \$221,402,312 as of June 30, 2016. The Company incurred a net loss of \$9,760,903 and generated negative operating cash flow of \$7,450,315 for the nine month period ended June 30, 2016. The Company also had working capital of \$9,109,783 and cash and cash equivalents of \$7,086,773 as of June 30, 2016. The Company's current capital resources include cash and cash equivalents, accounts receivable, inventories and prepaid expenses and other current assets. Historically, the Company has financed its operations principally from the sale of equity securities.

The Company expects to finance operations and capital expenditures primarily through cash received from the November 2015 public offering and concurrent private placement as well as collection of its current accounts receivables. The Company estimates that its cash and cash equivalents and the collection of its current accounts receivables are sufficient to fund operations for the next twelve months.

The Company may require additional funds to 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.

As a result of the Company's having filed with the SEC on July 22, 2016, certain audited historical financial statements relating to the assets of Vandalia Research, Inc. acquired in September 2015, which was past the date on which they were required to be filed, the Company is currently ineligible to use Form S-3, a streamlined registration form, to offer or sell securities until December 1, 2016.

NOTE C — INVENTORIES

Inventories consist of the following:

	June 30, 2016
Raw materials	\$45,156
Finished goods	81,714
Total	\$126,870

NOTE D — ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are as follows:

	June 30, 2016	September 30, 2015
Accounts payable	\$1,478,830	\$ 1,237,973
Accrued salaries payable	591,839	1,002,743
Other accrued expenses	113,500	144,290
Total	\$2,184,169	\$ 2,385,006

APPLIED DNA SCIENCES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016

(unaudited)

NOTE E — CAPITAL STOCK

On November 23, 2015, the Company entered into a securities purchase agreement with certain institutional investors providing for the purchase and sale of 2,500,000 shares of common stock at a price of \$3.49 per share in a registered direct public offering. In a concurrent private placement, the Company sold warrants to purchase 1,250,000 shares of its common stock at a price of \$0.01 per warrant, with an exercise price of \$4.30 per share. The warrants will be exercisable beginning nine months following the closing date of the private placement, November 25, 2015, and will expire five years from the date on which they become exercisable. The warrants provide each warrant holder the right, at the warrant holder's election, to exercise by means of a cashless exercise feature. The gross proceeds to the Company from this registered direct offering and concurrent private placement were \$8.75 million and net proceeds after deducting the placement agent fees and offering expenses were approximately \$7.9 million.

In connection with the closing of the registered direct public offering and the concurrent private placement, as partial compensation, on November 25, 2015, the Company granted warrants to purchase 50,000 shares of common stock to its placement agent. These warrants have an exercise price of \$4.01 (115% of the public offering price), subject to adjustment as set forth therein, will be exercisable beginning nine months following the closing date of the private placement and expire at 5:00 PM (Eastern Standard Time) on November 25, 2020. These warrants provide the placement agent the right, at the placement agent's election, to exercise by means of a cashless exercise feature.

NOTE F — STOCK OPTIONS AND WARRANTS

Warrants

The following table summarizes the changes in warrants outstanding and the related prices for the shares of common stock issued to non-employees of the Company. These warrants were granted in lieu of cash for services performed or financing expenses in connection with the sale of common stock.

Transactions involving warrants are summarized as follows:

	Number of Shares	Weighted Average Exercise Price Per Share
Balance at October 1, 2015	6,027,654	\$ 3.54
Granted	1,300,000	4.29
Exercised	(1,260)	(3.50)
Cancelled or expired	(3,334)	(11.79)
Balance at June 30, 2016	7,323,060	\$ 3.67

APPLIED DNA SCIENCES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016

(unaudited)

NOTE F — STOCK OPTIONS AND WARRANTS (continued)

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”). In 2007, 2008, 2012 and 2015, the Board of Directors and holders of a majority of the outstanding shares of common stock approved various increases in the number of shares of common stock that can be issued as stock awards and stock options thereunder to an aggregate of 8,833,333 shares and the number of shares of common stock that can be covered by awards made to any participant in any calendar year to 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. As of June 30, 2016, a total of 275,572 shares have been issued and options to purchase 5,211,407 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
Outstanding at October 1, 2015	3,458,905	\$ 4.74	
Granted	1,090,273	2.93	
Exercised	(79,000)	(2.86)	
Cancelled or expired	(55,313)	(3.96)	
Outstanding at June 30, 2016	4,414,865	\$ 4.12	

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Vested at June 30, 2016	2,810,749	\$ 4.23	\$ 691,227
Non-vested at June 30, 2016	1,604,116		\$ 747,204

During the three and nine month periods ended June 30, 2016, the Company issued an aggregate of 550,000 and 1,090,273 options to employees, non-employee board of director members and members of the strategic advisory board, respectively. Included in these grants were 160,000 options granted to executives during the nine month period ended June 30, 2016 and 500,000 performance based options granted to an employee during May 2016. These options vest in tranches as certain performance conditions are met by the employee.

The fair value of options granted to employees and consultants during the three and nine month periods ended June 30, 2016 was determined using the Black Scholes Option Pricing Model with the following weighted average assumptions:

	Three Months Ended June 30, 2016	Nine Months Ended June 30, 2016		
Stock price	\$ 3.06	\$ 3.05		
Exercise price	\$ 2.82	\$ 2.93		
Expected term, years	9.66	7.93		
Dividend yield	—	%	—	%
Volatility	140	%	135	%
Risk free rate	1.75	%	2.00	%

The Company recorded \$515,496 and \$1,444,170 as stock compensation expense for the three and nine month periods ended June 30, 2016, respectively, and \$1,015,361 (including \$544,113 for stock option modifications) and \$3,531,205 (including \$673,176 for stock option modifications) for the three and nine month periods ended June 30, 2015, respectively. As of June 30, 2016, unrecorded compensation cost related to non-vested awards was \$4,090,924, which is expected to be recognized over a weighted average period of approximately 4.95 years. The weighted average grant date fair value per share for options granted during the three and nine month periods ended June 30, 2016 was \$2.97 and \$2.84, respectively.

APPLIED DNA SCIENCES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016

(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 up to 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. Total rent expense for the three and nine month periods ended June 30, 2016 was \$126,126 and \$406,235, respectively. Total rent expense for the three and nine month periods ended June 30, 2015 was \$124,504 and \$373,772, respectively.

Employment Agreement

The Company has an employment agreement with the Chief Executive Officer. Effective June 21, 2014, the Chief Executive Officer's annual salary was voluntarily deferred by \$50,000. This salary deferral will be accrued and repaid when the Company reaches \$3,000,000 in sales for two consecutive quarters or the Company has net income at the end of any fiscal year. Effective January 1, 2015, the Chief Executive Officer's annual salary was voluntarily reduced by an additional \$50,000. As of January 1, 2016, the Chief Executive Officer's salary was increased to \$400,000 pursuant to approval by the Compensation Committee of the Board of Directors. Effective May 7, 2016, the Chief Executive Officer's annual salary was voluntarily reduced by \$100,000. On July 28, 2016, a new employment agreement was entered into with the Chief Executive Officer effective July 1, 2016. The initial term is from July 1, 2016 through June 30, 2017, with automatic one-year renewal periods. The terms of the agreement are substantially the same as his original employment agreement, except the cash incentive bonus was modified. Under the new 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.

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 — ASSET PURCHASE AGREEMENT

As disclosed in the Company's audited consolidated financial statements as of and for the fiscal year ended September 30, 2015 and footnotes thereto included in the Annual Report on Form 10-K, filed with the SEC, on September 11, 2015, the Company entered into an Asset Purchase Agreement, with Vandalia Research, Inc. a West Virginia corporation ("Vandalia"), and Derek A. Gregg, Vandalia's Chief Executive Officer and a director of Vandalia, providing for the purchase of substantially all the assets ("Assets") of Vandalia. The Company completed the acquisition of such Assets on the same date. The purchase price for the Assets was \$1,500,000, which amount was determined through arms-length negotiation. Of this amount, \$500,000 was placed in an escrow account for a period of nine months following the closing to satisfy Vandalia's indemnification obligations, of which \$350,000 was released to Vandalia after sixty days. On June 30, 2016, the Company received \$50,000 of the remaining funds in escrow to satisfy indemnification obligations and the balance of \$100,000 was released to Vandalia.

The following unaudited supplemental pro forma information presents the Company's financial results as if the acquisition of Vandalia had occurred October 1, 2014:

	Three month period ended June 30, 2015	Nine month period ended June 30, 2015
Revenue	\$ 2,293,235	\$ 5,232,161
Net loss	(1,739,124)	(11,446,565)
Basic and diluted loss per share	\$ (0.08)	\$ (0.63)

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

Forward-Looking Statements

This Quarterly Report (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”), which are subject to the “safe harbor” created by those sections. 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”, “designated to”, “will”, “expect”, “plan”, “anticipate”, “estimate”, “potential”, “position”, “predicts”, “strategy”, “goal”, “budget”, “seek”, “project” or “continue”, or the negative thereof or other comparable terminology regarding beliefs, plans, expectations or intentions regarding the future.

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, 2015, and the following factors and risks:

- our short operating history, relatively new business model and lack of significant previous 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 for 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, including due to constraints on our ability to raise and/or increased cost of raising capital, as a result of our inability to timely file the audited historical financial statements of Vandalia Research, Inc.;

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- 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;
- 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 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, or Dr. Liang, our Chief Scientific 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, based on information available to us as of the date hereof, and we assume no obligations to update any forward-looking statement or risk factor, unless we are required to do so by law. 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 and we caution you against relying on any of the forward-looking statements contained herein.

Note

Our trademarks in the United States include SigNature® DNA, fiberTyping®, DNAnet®, digitalDNA® and Sentry. All trademarks, service marks and trade names included or incorporated by reference in this Quarterly Report are the property of their respective owners, including, without limitation, SmokeCloak®, a mark owned by MSS Professional A/S and/or its affiliates, and PimaCott™, a mark owned by Himatsingka America (formerly known as Divatex Home Fashion, Inc.) and/or its affiliates.

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 plant-based DNA technologies are designed to deliver what we believe to be the greatest levels of security, deterrence and legal recourse strength. Through our acquisition of substantially all of the assets of Vandalia Research, Inc. (“Vandalia”), we are also engaged in the large-scale production of specific DNA sequences using the polymerase chain reaction (“PCR”).

Our principal anti-counterfeiting and product authentication solutions can be used in numerous industries, including, but not limited to microcircuits and other electronics, cash-in-transit (transport and storage of banknotes), textiles and apparel, home asset marking, automotive, printing and packaging, homeland security, law enforcement, industrial materials, agrochemicals, pharmaceuticals, consumer products, and food and beverage. The large-scale production of

specific DNA sequences is used in the diagnostics and reagent industries and also helps to ensure our capacity to manufacture enough DNA markers for all our current and future customers.

SigNature DNA. SigNature DNA is our platform ingredient, at the core of all our security solutions. The vehicle which carries SigNature DNA is custom designed to suit the particular application for which it is being used. Exhaustive development efforts have yielded a flexible and durable marker. SigNature DNA provides forensic power and protection for a wide array of applications. Highly secure, robust, and durable, SigNature DNA markers are an ingredient that can be used to fortify brand protection efforts, mark, track and convict criminals, and strengthen supply chain security. Custom DNA sequences can be embedded into a wide range of host carriers including ink, varnish, thread, laminates and metal coatings. These items can then be tested for the presence of SigNature DNA markers through optical screening or a forensic level authentication. Hundreds of millions of SigNature DNA markers now exist in the public domain on items ranging from cotton to consumer product packaging to microcircuits. We believe that no markers have ever been copied.

SigNature T DNA and fiberTyping. There is one common thread that runs through the global textile industry: success breeds counterfeiting and diversion. SigNature T DNA markers are used for brand protection efforts and raw material source compliance programs. For example, cotton fibers can be tagged at source, verified as “American grown” and then traced through every step of the supply chain. Its information is stored in our database, operating much like a bar code. In addition, our patented genotyping platform, known as “fiberTyping”, is complementary to tagging with SigNature T botanical DNA. fiberTyping indicates the cotton species while SigNature T DNA is used as an identifier for traceability. fiberTyping cannot be used to track a specific cotton batch through the supply chain, a function which can only be accomplished by our SigNature T DNA system. For example, entities in the cotton industry use fiberTyping to differentiate purity or blends of higher-end Pima Extra Long Staple cotton and lower-end upland cotton, in conjunction with SigNature T DNA marking applied at the gin, for traceability to the source.

DNAnet. Recognizing that DNA-based evidence is the cornerstone of the modern era of law enforcement, we have created what we believe to be an effective crime fighting tool: DNAnet, a DNA marker that can be used to definitively link evidence and offenders to specific crime scenes and help return stolen or lost property to its rightful owner. As the crime is investigated, the fluorescing DNA marker can assist police in linking the offender and stolen items to a specific crime scene, creating a greater ability to identify and convict.

Sentry. Sentry intruder tagging spray systems help to expand and strengthen any security effort by providing the police and prosecutors a means of directly linking criminals to crimes. Each spray canister is designed to be unique to each store, warehouse, or sting operation. In the event of a crime, the fleeing offender is sprayed with an indelible, fluorescing DNA taggant. As the crime is investigated, the fluorescing DNA marker can assist police in linking the offender and stolen items to a specific crime scene, creating a greater ability to identify and convict. Whether deployed as an offender spray, fog in a retail location or a degradation dye in cash handling boxes, DNA markers facilitate conviction, and establish a heightened level of deterrence. While any commercial/retail establishment could benefit from the addition of a Sentry system, ideal areas of use include: banks, ATMs, pharmacies, jewelry stores, convenience stores, pawn brokers and gun shops.

SmokeCloak DNA. When deployed in pharmacies, banks, commercial or retail locations, SmokeCloak DNA helps protect staff, customers and assets. A thick and disorienting fog wards off offenders and deposits a unique, location-specific DNA marker on skin, clothing and stolen items to serve as a strong crime fighting and loss prevention tool.

digitalDNA. digitalDNA is a software platform that enables customers to manage the security of DNA-marked goods from point of marking to point of authentication or validation to end of life. The system offers DNA custody management, location-based tracking, forensic sample submission, certificate of DNA authentication issuance, customer account administration, and online training. The cloud-based platform can be customized for each customer's business processes and conforms to strict security standards for the International Organization for Standardization, PCI, and Federal Information Processing Standards. The digitalDNA platform is the data management and reporting hub for DNA on-site authentication and optical mark in-field validation with our Multi-Mode Reader, third-party bar code readers and other data input devices.. Embedding our proprietary DNA into bar code ink serves as the forensic backstop for tags which can be easily copied. The system is designed to share data with third-party applications.. Market-specific configurations are used in government and textiles supply chain applications for over two years, accumulating over 150,000 marked items..

Large-scale production of specific DNA sequences using PCR. Our 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.

Plan of Operations

General

To date, the substantial portion of our revenues have been generated from sales of our SigNature DNA and SigNature T DNA, our principal anti-counterfeiting and product authentication solutions. We expect to continue to grow revenues from sales of our SigNature DNA platform ingredient, including our Signature T DNA, DNAnet, Sentry, digitalDNA, and SmokeCloak DNA offerings as well as from large scale production of specific DNA sequences using PCR. Our revenues in recent periods have been driven in part by developments in the textile and apparel authentication, electronics authentication, cash-in-transit, and asset protection markets. We intend to pursue both domestic and international sales opportunities in each of these vertical markets, and select other vertical markets. The cotton ginning season in the United States takes place between September and December each year, therefore, revenues from our cotton customer contracts may be seasonal. 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 June 30, 2016 and 2015

Revenues

For the three month periods ended June 30, 2016 and 2015, we generated \$652,896 and \$2,267,671, respectively, in revenues. The decrease in revenues in the three month period ended June 30, 2016 of \$1,614,775 or 71% was primarily due to a decrease in revenue related to sales to the textile industry for protecting cotton supply chains of \$1,200,000 and a decrease in revenues from government contract awards of approximately \$447,000, which one expired on July 14, 2016 and the other expires the end of August 2016.

Costs and Expenses

Cost of Revenues

Cost of revenues expense for the three month period ended June 30, 2016 decreased by \$7,755 or 6% from \$129,015 for the three month period ended June 30, 2015 to \$121,260 for the three month period ended June 30, 2016. This decrease is due to lower sales to the textile industry for protecting cotton supply chains as well as the three month period ended June 30, 2015 having more development revenue as compared to the same period in the current fiscal year.

Selling, General and Administrative

Selling, general and administrative expenses for the three month period ended June 30, 2016 decreased by \$515,272 or 16% from \$3,222,692 for the three month period ended June 30, 2015 to \$2,707,420 for the three month period ended June 30, 2016. The decrease is attributable to a decrease in stock based compensation expense of \$500,000, primarily associated with stock option modifications during the three months ended June 30, 2015, resulting from the extension of certain stock options, as well as \$160,000 in reduced legal costs primarily associated with the Company's proxy filing and fees related to patents.

Research and Development

Research and development expenses increased to \$1,077,916 for the three month period ended June 30, 2016 from \$466,841 for the three month period ended June 30, 2015, an increase of \$611,075 or 131%. This increase is primarily due to development costs incurred in relation to the two government development contract awards as well as costs related to the cooperative research and development agreement with the United States Department of Agriculture (“USDA”) for enhanced cotton genotyping.

Depreciation and Amortization

In the three month period ended June 30, 2016, depreciation and amortization increased by \$47,302 or 39% from \$121,339 for the three month period ended June 30, 2015 to \$168,641 for the three month period ended June 30, 2016. This increase is attributable to quarterly amortization expense relating to customer relationships and technology purchased from Vandalia during September 2015 as well as fixed assets purchased during fiscal 2016.

Other income (expense)

In the three month period ended June 30, 2016, other income (expense) increased by \$56,388 from expense of \$3,718 for the three month period ended June 30, 2015 to income of \$52,670 for the three month period ended June 30, 2016. This increase is attributable to the return of escrow funds of \$50,000 associated with the asset purchase agreement with Vandalia.

Net Loss

Net loss increased by \$1,696,129 or 102% from a loss of \$1,670,882 to a loss of \$3,367,011, for the three months ended June 30, 2016, compared to the prior year period due to the factors noted above.

Comparison of Results of Operations for the Nine Month Periods Ended June 30, 2016 and 2015

Revenues

For the nine month periods ended June 30, 2016 and 2015, we generated \$2,550,332 and \$5,028,234, respectively, in revenues. The decrease in revenues in the nine month period ended June 30, 2016 of \$2,477,902 or 49% was primarily

due to a decrease in revenue related to two government contract awards of \$925,000, which one expired on July 14, 2016 and the other is set to expire in August of 2016, as well as revenues related to the set up and marking of cotton of \$1,200,000. In addition, we experienced a decrease in revenue from suppliers of the DLA due to the consolidation of our contracts with multiple individual suppliers of the DLA to one contract directly with the DLA, as well as other decreases in revenue from another military customer for a total decrease of approximately \$571,000. These decreases were offset by an increase in revenue in DNA manufacturing for the diagnostic market of \$242,000.

Costs and Expenses

Cost of Revenues

Cost of revenues expense for the nine month period ended June 30, 2016 increased by \$175,596 or 136% from \$129,015 for the nine month period ended June 30, 2015 to \$304,611 for the nine month period ended June 30, 2016. This increase is attributable to purchases relating to the production of our products within the textile and home asset marking markets as well as the nine months ended June 30, 2015 having a higher portion of its revenue from development contracts.

Selling, General and Administrative

Selling, general and administrative expenses for the nine month period ended June 30, 2016 decreased by \$1,707,563 or 17% from \$10,323,809 for the nine month period ended June 30, 2015 to \$8,616,246 for the nine month period ended June 30, 2016. The decrease is primarily attributable to a decrease in stock-based compensation expense of approximately \$2.1 million, primarily associated with grants to employees during the nine month period ended June 30, 2016 having a four year vesting period whereas the grants to employees during the nine month period ended June 30, 2015 vested immediately as well as with stock option modifications during the nine months ended June 30, 2015. During the nine months ended June 30, 2016, there were also decreases in legal and professional fees of \$113,000 and consulting fees of \$100,000. These decreases were primarily offset by increases in accounting fees of approximately \$182,000 and an increase in payroll of \$450,000. The increase in payroll relates to an increase in headcount of 6 fulltime employees as well as an accrual for estimated year-end employee bonuses. The headcount increases are related to employees in production as well as scientists to assist with the conversion of our pilot studies to commercialization.

Research and Development

Research and development expenses increased to \$2,861,583 for the nine month period ended June 30, 2016 from \$1,587,326 for the nine month period ended June 30, 2015, an increase of \$1,274,257 or 80%. This increase is primarily due to development costs incurred in relation to two government development contract awards as well as costs related to the cooperative research and development agreement with the USDA for enhanced cotton genotyping.

Depreciation and Amortization

In the nine month period ended June 30, 2016, depreciation and amortization increased by \$203,824 or 58% from \$354,144 for the nine month period ended June 30, 2015 to \$557,968 for the nine month period ended June 30, 2016. This increase is attributable to \$69,000 of amortized customer purchase orders acquired from Vandalia and fulfilled by the Company during the three month period ended December 31, 2015, as well as approximately \$69,000 relating to amortization expense for customer relationships and technology purchased from Vandalia during September 2015. Additionally, depreciation expense increased year over year due to assets purchased.

Other income (expense)

In the nine month period ended June 30, 2016, other income (expense) increased by \$36,459 or 216% from expense of \$16,853 for the nine month period ended June 30, 2015 to income of \$19,606 for the nine month period ended June 30, 2016. This increase is attributable to the return of escrow funds of \$50,000 associated with the asset purchase agreement with Vandalia.

Loss on Change in Fair Value of Warrant Liability

Loss from change in fair value of warrant liability during the nine month period ended June 30, 2015 was \$2,994,540. This change in fair value related to warrants containing certain reset provisions which required us to classify them as liabilities, mark the warrants to market and record the change in fair value at each reporting period, and upon exercise as a non-cash adjustment to our current period operations.

Net Loss

Net loss decreased \$1,624,199 or 14% from a loss of \$11,385,102 to a loss of \$9,760,903, for the nine months ended June 30, 2016, compared to the prior year period 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 June 30, 2016, we had working capital of \$9,109,783. For the nine month period ended June 30, 2016, we generated a net cash flow deficit from operating activities of \$7,450,315 consisting primarily of our loss of \$9,760,903 net with non-cash adjustments of \$557,968 in depreciation and amortization charges, \$1,444,170 for stock-based compensation, \$5,520 loss related to property, plant and equipment disposal, \$78,134 in common stock issued for consulting services, and \$106,247 in provision for bad debt expense. Additionally, we had a net decrease in operating assets of \$141,522 and a net decrease in operating liabilities of \$22,973. Cash used in investing activities was \$594,808 for the purchase of property, plant and equipment and \$43,353 for the purchase of intangible assets. Cash provided by financing activities was \$7,857,565 consisting primarily of net proceeds from the sale of common stock in the public offering in November 2015 and the concurrent private placement of warrants, which permit warrant holders to exercise by means of a cashless exercise feature in the event we do not have an effective registration statement or current prospectus providing for the resale thereof.

We have recurring net losses, which have resulted in an accumulated deficit of \$221,402,312 as of June 30, 2016. We have incurred a net loss of \$9,760,903, for the nine month period ended June 30, 2016. At June 30, 2016 we had cash and cash equivalents of \$7,086,773. Our current capital resources include cash and cash equivalents, accounts receivable, inventories and prepaid expenses and other current assets. Historically, we have financed our operations principally from the sale of equity securities.

We expect to finance operations and capital expenditures primarily through the cash received from the November 2015 public offering and concurrent private placement as well as collection of our current accounts receivables. We estimate that our cash and cash equivalents and the collection of our current accounts receivables are sufficient to fund operations and capital expenditures for the next twelve months.

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.

As a result of our having filed with the SEC on July 22, 2016 certain audited historical financial statements relating to the assets of Vandalia acquired in September 2015, which was past the date on which they were required to be filed, we are currently ineligible to use Form S-3, a streamlined registration form, to offer or sell securities until December 1, 2016.

We expect capital expenditures to be less than \$1,500,000 in fiscal 2016. Our primary investments are expected to be in laboratory equipment to support prototyping, manufacturing, our authentication services, and outside services for our detector and reader development.

All of the real property used in our business is leased under operating lease agreements.

On December 3, 2015, we exercised our option to extend the lease for our corporate headquarters in Stony Brook, New York for one additional three-year period. The additional three year term commenced June 1, 2016 and will end May 31, 2019.

Subsequent Events

As disclosed in Note G to the accompanying condensed consolidated financial statements, on July 28, 2016, effective July 1, 2016, we entered into a new employment agreement with our Chief Executive Officer.

Product Research and Development

We anticipate spending approximately \$2,750,000 for product research and development activities during the next twelve months.

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, 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 June 30, 2016, 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 June 30, 2016, 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 year ended September 30, 2015, 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 June 30, 2016, 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, 2015 other than as described below:

Revenues from our customer contracts with respect to cotton will be seasonal and may also be subject to weather conditions and other factors beyond our control, which may cause our operating results to fluctuate significantly quarterly and annually.

A significant and growing proportion of our revenues is expected to derive from customer contracts for tagging, authentications and other services related to cotton. The cotton ginning season in the United States takes place between September and December each year. Therefore, revenues from our customer contracts relating to cotton will be seasonal, which may cause our operating results to fluctuate significantly quarterly and annually. Additionally,

weather and climatic conditions, natural disasters and other factors beyond our control also affect the production and sale of cotton and other agricultural commodities to which our customer contracts may relate, as well as our customers' or prospective customers' decisions regarding purchases of our products and services, and may cause our operating results to fluctuate significantly quarterly and annually. The seasonal fluctuations in operating results described above may cause a decline in the price of our common stock and/or warrants.

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

On June 30, 2016, we issued 3,000 shares of our common stock to a consultant for services provided, pursuant to our Incentive Plan.

The foregoing issuance of common stock was exempt from registration under the Securities Act, pursuant to the exemptions from registration provided by Section 4(a)(2) of the Securities Act and/or by Rule 506 of Regulation D promulgated under the Securities Act as a transaction not involving a public offering.

Item 3. — Defaults Upon Senior Securities.

None.

Item 4. — Mine Safety Disclosures.

None.

Item 5. — Other Information.

None.

Item 6. — Exhibits.

10.1+	Employment Agreement between Applied DNA Sciences, Inc. and James A. Hayward, entered into July 28, 2016, effective July 1, 2016 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed August 2, 2016).
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 LAB*	XBRL Extension Label Linkbase Document
101 PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

+ Management contract or compensatory plan or arrangement.

* 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: August 11, 2016 /s/ JAMES A. HAYWARD

James A. Hayward, Ph. D.

Chief Executive Officer

(Duly authorized officer and principal executive officer)

/s/ BETH JANTZEN

Dated: August 11, 2016 Beth Jantzen, CPA

Chief Financial Officer

*(Duly authorized officer and
principal financial and accounting officer)*