

APPLIED DNA SCIENCES INC

Form 424B4

November 18, 2014

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File No. 333-199121

**PROSPECTUS**

APPLIED DNA SCIENCES, INC.

\$9,100,000 OF SHARES OF COMMON STOCK AND

WARRANTS TO PURCHASE SHARES OF COMMON STOCK

We are offering \$9,100,000 of shares of common stock and warrants to purchase shares of common stock in a firm commitment underwritten public offering. One share of common stock is being sold together with a warrant, with each warrant being immediately exercisable for one share of common stock at an exercise price of \$3.50 per share (or 108% of the price for each share sold in this offering) and expiring 5 years after the issuance date.

Our common stock and the warrants offered hereby have been approved for listing on The NASDAQ Capital Market under the symbols “APDN” and “APDNW,” respectively. On November 17, 2014, the last reported sale price of our common stock on The NASDAQ Capital Market was \$2.75 per share.

On October 29, 2014, we effected a one-for-60 reverse split on our issued and outstanding shares of common stock. All warrant, option, share and per share information in this prospectus gives effect to the one-for-60 reverse split retroactively.

The purchase of the securities offered through this prospectus involves a high degree of risk. You should consider carefully the risk factors beginning on page 8 of this prospectus before purchasing any of the shares offered by this prospectus. Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

	<b>Per Share</b>	<b>Per Warrant</b>	<b>Total</b>
Public offering price	\$ 3.2400	\$ 0.0100	\$ 3.2500
Underwriting discounts and commissions (1)	\$ 0.2268	\$ 0.0007	\$ 0.2275
Proceeds, before expenses, to us (2)	\$ 3.0132	\$ 0.0093	\$ 3.0225

(1)

- We have agreed to issue warrants to the underwriter and to reimburse the underwriter for expenses incurred by it in an amount not to exceed \$100,000. We refer you to “Underwriting” beginning on page 79 of this prospectus for additional information regarding total underwriter compensation.

(2)

- We estimate the total expenses of this offering will be approximately \$520,500. We refer you to “Underwriting” for additional information.

One of our institutional investors (which is the holder of the Series B Warrant being repurchased with a portion of the proceeds of this offering) has indicated an interest in purchasing approximately \$1.1 million in shares of common stock and warrants in this offering at the public offering price and on the same terms as the other purchasers in this offering. In addition, one or more of our directors, including our Chairman, Chief Executive Officer and President, or their affiliates or related parties have indicated an interest in purchasing \$0.5 million in common stock and warrants in

this offering at the public offering price and on the same terms as the other purchasers in this offering. However, because indications of interest are not binding agreements or commitments to purchase, these investors may determine to purchase more, less or no shares in this offering, or the underwriters may determine to sell more, less or no shares in this offering to these investors. The underwriters will receive the same underwriting discounts and commissions on any shares and warrants purchased by these parties as they will on any other shares and warrants sold to the public in this offering.

The underwriter expects to deliver the securities against payment in New York, New York on November 20, 2014. We have granted the underwriter the option for a period of 45 days to sell up to an additional \$1,365,000 shares of common stock and/or warrants to purchase shares of common stock at the public offering price, less underwriting discounts and commission, to cover overallocments, if any.

Sole Book Running Manager

Maxim Group LLC

Co-Manager

Dawson James Securities, Inc.

The date of this prospectus is November 18, 2014.

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You should rely only on the information contained in this prospectus and any applicable prospectus supplement. We have not authorized anyone to provide you with different or additional information. If anyone provides you with different or inconsistent information, you should not rely on it. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of securities described in this prospectus. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus or any prospectus supplement, as well as information we have previously filed with the Securities and Exchange Commission, is accurate as of the date on the front of those documents only. Our business, financial condition, results of operations and prospects may have changed since those dates.

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### ABOUT THIS PROSPECTUS

The following summary highlights selected information contained in this prospectus. This summary is not complete and does not contain all of the information that you should consider before investing in our securities. Before making an investment decision, you should read the entire prospectus carefully, including the “risk factors” section, the financial statements and other information included in this prospectus. In this prospectus “Applied DNA,” “we,” “us” and “our” refer to Applied DNA Sciences, Inc. and its subsidiaries.

All warrant, option, share, and per share information in this prospectus gives retroactive effect to a one-for-60 reverse stock split that was effected on October 29, 2014.

#### Our Company

Using biotechnology as a forensic foundation, we create unique security solutions addressing the challenges of modern commerce. Whether working in supply chain security, brand protection or law enforcement applications, it is our goal to help establish secure and flourishing environments that foster quality, integrity and success. With secure taggants, high-resolution DNA authentication, and comprehensive reporting, our botanical DNA-based technologies are designed to deliver what we believe to be the greatest levels of security, deterrence and legal recourse strength. SigNature ® DNA. SigNature DNA is our platform ingredient, at the core of all of our security solutions. From application to application the vehicle which carries SigNature DNA is custom designed to suit the application. Exhaustive development efforts have yielded a flexible and durable marker with all the accuracy provided by nature. SigNature DNA is based on full, double stranded plant DNA, and 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 marks now exist in the public domain on items ranging from consumer product packaging to microcircuits to guitars. We believe that no marks have ever been copied.

SigNature DNA, SigNature ® T DNA, fiberTyping ®, DNANet ® and digitalDNA ®, our principal anti-counterfeiting and product authentication solutions and our Counterfeit Prevention Authentication Program can be used in numerous industries, including microcircuits and other electronics, cash-in-transit (transport and storage of banknotes), textiles and apparel, automotive, printing and packaging, homeland security, law enforcement and home asset marking, identity cards and other secure documents, industrial materials, agrochemicals, pharmaceuticals, consumer products, food and beverage, fine wine, and art and collectibles.

SigNature T DNA and fiberTyping. There is one common thread that runs through the global textile industry: success breeds counterfeiting and diversion. SigNature T botanical DNA markers are used for brand protection efforts and raw material source compliance programs. In situations where natural fibers like cotton or wool are utilized, we can isolate and type inherent DNA, making it possible to verify the presence of specified materials. This fiberTyping process provides DNA verification to help manufacturers, retailers and brand owners ensure quality, safety and compliance of their products.

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 botanical DNA marker that can be used to definitively link evidence and offenders to specific crime scenes. Whether deployed as a residential asset marker, an offender spray or fog in a retail location or a degradation dye in cash handling boxes, DNA markers facilitate conviction, and establish a heightened level of deterrence. DNANet, which includes our SmartDNA product line, is a unique security system and effective crime protection system for stores, warehouses, banks, pharmacies, ATMs and the protection of valuables. The system contains a water-based, non-toxic spray which may be triggered during a crime, marking the perpetrator and remaining on their person for weeks after the crime. Each unit is designed to be unique to

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each store, warehouse or sting operation, allowing the police and prosecutors to link criminals to the crimes. Assets acquired from RedWeb Technologies including Sentry 500 Intruder Spray Systems and Advanced Molecular Taggant Technology and our SmartDNA product line are now included in the DNANet family of products.

digitalDNA. digitalDNA is a security solution that utilizes the flexibility of mobile communications, the instant accessibility of secure, cloud-based data, and the certainty of DNA to make item tracking and authentication fast, easy and definitive, while providing the opportunity to create a new customer interface. digitalDNA begins with a DNA-secured form of the QR (“quick read”) code or other two dimensional code. A unique identification code is created for each article, and represented in an easy-to-read QR style barcode. The product uses forensic authentication of a botanical DNA marker, embedded within a secure QR code, and physically included within the ink used to digitally print the code. Should there ever be a question about the validity of a digitalDNA code; a laboratory-based analysis can be conducted to determine authenticity.

Counterfeit Prevention Authentication Program. Our turnkey program for electronics, military, commercial, and aerospace contractors called the Counterfeit Prevention Authentication Program (“CPA” Program) empowers end-users to verify the originality or provenance of parts which have been marked by their suppliers with our SigNature DNA Markers.

Summary Risks

Before you invest in our stock, you should carefully consider all the information in this prospectus, including matters set forth in the “Risk Factors” section beginning on page 8 of this prospectus. We believe that the following are some of the major risks and uncertainties that may affect us:

- 
- We have a short operating history, a relatively new business model, and have not produced significant revenues, which makes it difficult to evaluate our future prospects and increases the risk that we will not be successful;
- 
- We have a history of operating losses which may continue, and which may harm our ability to obtain financing and continue our operations;
- 
- We will require additional financing which may require the issuance of additional shares which would dilute the ownership held by our stockholders;
- 
- Our operating results could be adversely affected by a reduction in business with our customers that supply parts to the Defense Logistics Agency;
- 
- If we are unable to obtain additional financing our business operations may be harmed or discontinued, and if we do obtain additional financing our stockholders may suffer substantial dilution;
- 
- General economic conditions may adversely affect our business, operating results and financial condition;

- - If our existing products and services are not accepted by potential customers or we fail to introduce new products and services, our business, results of operations and financial condition will be harmed;
- - The expenses or losses associated with the continued lack of market acceptance of our solutions will harm our business, operating results and financial condition;
- - If we are unable to retain the services of Dr. Hayward or Dr. Liang, we may not be able to continue our operations;
- - The markets for our anti-counterfeiting and product authentication solutions are very competitive, and we may be unable to continue to compete effectively in these industries in the future;
- - We need to expand our sales, marketing and support organizations and our distribution arrangements to increase market acceptance of our products and services;

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- - If we need to replace manufacturers, our expenses could increase, resulting in smaller profit margins;
- - Our intellectual property rights are valuable, and any inability to protect them could reduce the value of our products, services and brand;
- - Intellectual property litigation could harm our business; and
- - We may be subject to claims for damages in connection with certain sales of shares of our common stock in the open market.

Corporate Information

Our principal offices are located at 50 Health Sciences Drive, Stony Brook, New York 11790, and our telephone number is (631) 240-8800. We are a Delaware corporation, which was initially formed in 1983 under the laws of the State of Florida as Datalink Systems, Inc. In 1998, we reincorporated in Nevada, and in 2002, we changed our name to our current name, Applied DNA Sciences, Inc. In December 2008, we completed our reincorporation from Nevada to the State of Delaware. We maintain a website at [www.adnas.com](http://www.adnas.com). The information contained on that website is not deemed to be a part of this prospectus.

Our corporate headquarters are located at the Long Island High Technology Incubator at Stony Brook University in Stony Brook, New York, where we established laboratories for the manufacture of DNA markers and product prototypes, and DNA authentication. To date, we have had a limited operating history, and as a result, our operations have produced limited recurring revenues from our services and products; we have incurred expenses and have sustained losses.

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SUMMARY OF THE OFFERING

Securities offered:

2,800,000 shares of our common stock, together with warrants to purchase 2,800,000 shares of our common stock at the exercise price of \$3.50 per share (or 108% of the price for each share sold in this offering). The warrants will be immediately exercisable and will expire 5 years after the issuance date.

Common stock outstanding before the offering (1):

13,935,954 shares

Common stock to be outstanding after the offering (1) (2):

16,735,954 shares (19,535,954 shares if the warrants being offered hereby are exercised in full).

Underwriter's Over-Allotment Option:

The Underwriting Agreement provides that we will grant to the underwriter an option, exercisable within 45 days after the closing of this offering, to purchase up to an additional 15% of the total number of common stock and/or warrants to be offered by us pursuant to this offering, solely for the purpose of covering over-allotments, if any.

Underwriter's Warrants:

The Underwriting Agreement provides that we will issue to the underwriter share purchase warrants covering a number of shares of common stock equal to 4% of the total number of shares being sold in the offering, including the over-allotments, if any.

Use of Proceeds:

We intend to use a portion of the net proceeds from this offering for the following purposes:

Proceeds:

Gross Proceeds	\$	9,100,000
Discounts, Fees and Expenses		(1,157,500 )
Net Proceeds	\$	7,942,500

Uses:

Working Capital	\$	2,201,500
Repurchase of Warrants		4,091,000
Business Development		1,000,000
Research and Development		650,000
Total Uses	\$	7,942,500

Proposed Sales to Existing Investor and Insiders

One of our institutional investors (which is the holder of the Series B Warrant being repurchased with a portion of the proceeds of this offering) has indicated an interest in purchasing approximately \$1.1 million in shares of common stock and warrants in this offering at the public offering price and on the same terms as the other purchasers in this offering. In addition, one or more of our directors, including our Chairman, Chief Executive Officer and President, or their affiliates or related parties have indicated an interest in



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purchasing \$0.5 million in common stock and warrants in this offering at the public offering price and on the same terms as the other purchasers in this offering. However, because indications of interest are not binding agreements or commitments to purchase, these investors may determine to purchase more, less or no shares in this offering, or the underwriters may determine to sell more, less or no shares in this offering to these investors. The underwriters will receive the same underwriting discounts and commissions on any shares and warrants purchased by these parties as they will on any other shares and warrants sold to the public in this offering.

**Listing and Symbols:**

Our common stock and the warrants offered hereby have been approved for listing on The NASDAQ Capital Market under the symbols “APDN” and “APDNW,” respectively.

**Risk Factors:**

Investing in our securities involves substantial risks. You should carefully review and consider the “Risk Factors” section of this prospectus beginning on page 8 and the other information in this prospectus for a discussion of the factors you should consider before you decide to invest in this offering.

**Reverse Split:**

On October 29, 2014, we effected a one-for-60 reverse split on our issued and outstanding shares of common stock. All warrant, option, share and per share information in this prospectus gives retroactive effect to the one-for-60 reverse split.

(1)

- The number of shares of our common stock outstanding excludes the following:
  - 
  - 3,854,150 shares of common stock issuable upon exercise of outstanding stock options and warrants, at a weighted average exercise price of \$5.98 per share; and
  - 
  - 567,308 shares of common stock and warrants to purchase 567,308 shares of common stock issuable upon exchange for cancellation of principal and accrued interest of certain promissory notes issued to our President, Chairman and Chief Executive Officer and another individual in the aggregate principal amount of \$1,800,000 plus interest (assuming exchange of the notes at the public offering price of this offering). For a description of the notes, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Recent Debt and Equity Financing Transactions — Fiscal 2014;” and
  - 
  - 128,800 shares of common stock issuable upon exercise of the underwriter warrants.

(2)

- The total number of shares of our common stock outstanding after this offering is based on 13,935,954 shares outstanding as of November 14, 2014. Except as otherwise indicated herein, all information in this prospectus assumes the underwriter does not exercise the over-allotment option.

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## SUMMARY CONSOLIDATED FINANCIAL DATA

The summary consolidated financial data presented below should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and the related notes that are included elsewhere in this prospectus. We have derived the summary consolidated financial data for the nine month periods ended June 30, 2014 and 2013, and as of June 30, 2014, from our unaudited condensed consolidated financial statements that are included elsewhere in this prospectus. We have derived the summary consolidated financial data for the years ended September 30, 2013, 2012 and 2011, and as of September 30, 2013, 2012 and 2011, from our audited consolidated financial statements that are included elsewhere in this prospectus. The summary consolidated statements of operations data for the years ended September 30, 2010 and 2009 and the summary consolidated balance sheet data as of September 30, 2010 and 2009 were derived from our audited consolidated financial statements which are not included in this prospectus. The results of operations for the nine months ended June 30, 2014 are not necessarily indicative of the results to be expected for the full year ending September 30, 2014.

## Consolidated Statements of Operations Data

	Years Ended September 30,					Nine Months Ended June	
	2013	2012	2011	2010	2009	2014	2013
Revenues:	\$2,036,222	\$1,854,694	\$968,848	\$519,844	\$295,162	\$2,075,698	\$1,307,111
Operating expenses:							
Selling, general and administrative	11,198,505	7,615,734	8,388,873	7,189,020	6,637,672	10,093,631	8,516,390
Research and development	692,480	432,669	268,876	75,961	135,405	1,085,416	509,132
Depreciation and amortization	321,074	313,940	367,556	371,914	418,128	325,448	105,105
Intangible asset amortization	12,212,059	8,362,343	9,025,305	7,636,895	7,191,205	11,504,495	9,130,620
Goodwill impairment	(10,175,837)	(6,507,649)	(8,056,457)	(7,117,051)	(6,896,043)	(9,428,797)	(7,823,511)
Operating income (expense), net	1,272	(643,063)	(2,458,667)	(792,549)	(1,182,695)	784	738
Other income (expense), net	(3,761)	—	—	—	12,023,888	130,186	—
Change in fair value of financial instruments	(7,508,146)	—	—	—	—	(1,663,316)	(6,145,222)
Provision for income taxes	(17,686,472)	(7,150,712)	(10,515,124)	(7,909,600)	3,945,150	(10,961,143)	(13,968,000)
Income tax benefit	—	—	—	—	572	—	—
Net income (loss)	\$ (17,686,472)	\$ (7,150,712)	\$ (10,515,124)	\$ (7,909,600)	\$ 3,944,578	\$ (10,961,143)	\$ (13,968,000)

	Years Ended September 30,					Nine Months Ended June	
Net (LOSS)							
Income							
(loss)							
Income per							
share:							
Basic	\$ (1.51 )	\$ (0.74 )	\$ (1.67 )	\$ (1.58 )	\$ 0.94	\$ (0.82 )	\$ (1.23 )
Diluted	\$ (1.51 )	\$ (0.74 )	\$ (1.67 )	\$ (1.58 )	\$ 0.77	\$ (0.82 )	\$ (1.23 )
Weighted							
average							
Common shares							
Outstanding:							
Basic	11,730,879	9,601,525	6,280,563	5,005,882	4,192,009	13,400,540	11,395,100
Diluted	11,730,879	9,601,525	6,280,563	5,005,882	5,148,540	13,400,540	11,395,100

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## Consolidated Balance Sheet Data

	2013	2012	As of September 30, 2011	2010	2009	As of June 30, 2014
Current assets:						
Cash and cash equivalents	\$6,360,301	\$724,782	\$2,747,294	\$17,618	\$213,307	\$2,025,716
Accounts receivable, net of allowance	672,638	296,994	208,587	63,029	47,302	518,274
Prepaid expenses	174,096	80,037	76,290	161,456	79,436	170,792
Total current assets	7,207,035	1,101,813	3,032,171	242,103	340,045	2,714,782
Noncurrent assets	1,167,931	247,121	471,385	1,171,211	1,167,025	1,056,233
Total assets	\$8,374,966	\$1,348,934	3,503,556	\$1,413,314	\$1,507,070	\$3,771,015
Current liabilities:						
Accounts payable and accrued liabilities	\$966,977	\$592,009	\$768,061	\$967,550	\$843,491	\$1,259,439
Advances from Officers	—	—	—	50,000	—	—
Convertible notes payable, net	—	—	3,730,880	1,774,080	2,410,411	—
Deferred revenue	148,503	—	—	—	—	348,624
Total current liabilities	1,115,480	592,009	4,498,941	2,791,630	3,253,902	1,608,063
Convertible note payable-related party, net	—	—	—	219,714	—	—
Warrant liability	2,643,449	—	—	—	—	1,851,723
Total liabilities	3,758,929	592,009	4,498,941	3,011,344	3,253,902	3,459,786
Preferred stock	—	—	—	—	—	—
Common stock	13,109	10,770	7,889	5,773	4,587	13,789
Additional paid in capital	191,296,539	169,753,294	160,853,153	149,737,500	141,680,284	197,952,194
Accumulated deficit	(186,693,611)	(169,007,139)	(161,856,427)	(151,341,303)	(143,431,703)	(197,654,754)
Total stockholders' equity (deficit)	4,616,037	756,925	(995,385 )	(1,598,030 )	(1,746,832 )	311,229

	<b>As of September 30,</b>					<b>As of June 30, 2014</b>
Total Liabilities and Stockholders' Equity (Deficit)	\$8,374,966	\$1,348,934	\$3,503,556	\$1,413,314	\$1,507,070	\$3,771,015

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RISK FACTORS

Investment in our common stock involves a number of risks. You should be able to bear the complete loss of your investment. In addition to the risks and investment considerations discussed elsewhere in this prospectus, the following factors should be carefully considered by anyone purchasing the securities offered by this prospectus. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations. If any of the following risks actually occur, our business could be harmed. In such case, the trading price of our common stock could decline and investors could lose all or a part of their investment.

Risks Relating to Our Business:

We have a short operating history, a relatively new business model, and have not produced significant revenues. This makes it difficult to evaluate our future prospects and increases the risk that we will not be successful.

We have a short operating history with our current business model, which involves the marketing, sale and distribution of anti-counterfeiting and product authentication solutions. Our operations since inception have produced limited revenues, and may not produce significant revenues in the near term, or at all, which may harm our ability to obtain additional financing and may require us to reduce or discontinue our operations. If we create significant revenues in the future, we expect to derive most of such revenues from the sale of anti-counterfeiting and product authentication solutions, which are immature industries. You must consider our business and prospects in light of the risks and difficulties we will encounter as an early-stage operating company in a new and rapidly evolving industry. We may not be able to successfully address these risks and difficulties, which could significantly harm our business, operating results, and financial condition.

We have a history of losses from operations which may continue, and which may harm our ability to obtain financing and continue our operations.

We incurred operating losses of \$9.4 million for the nine months ended June 30, 2014 and \$10.2 million for the year ended September 30, 2013. These operating losses have principally been the result of the various costs associated with our selling, general and administrative expenses as we expanded operations, acquired, developed and validated technologies, expanded marketing activities, incurred interest expense on notes we issued to obtain financing and issued warrants with “reset” provisions. Our operations are subject to the risks and competition inherent in a company that moved from the development stage to an operating company. We may not generate sufficient revenues from operations to achieve or sustain profitability on a quarterly, annual or any other basis in the future. Our revenues and profits, if any, will depend upon various factors, including whether our existing products and services or any new products and services we develop will achieve any level of market acceptance. If we continue to incur losses, our accumulated deficit will continue to increase which might significantly impair our ability to obtain additional financing. As a result, our business, results of operations and financial condition would be significantly harmed, and we may be required to reduce or terminate our operations.

We will require additional financing which may require the issuance of additional shares which would dilute the ownership held by our stockholders.

We will need to raise funds through either debt or the sale of our shares in order to achieve our business goals. Any shares issued would further dilute the percentage ownership held by the stockholders. Furthermore, if we raise funds in equity transactions through the issuance of convertible securities which are convertible at the time of conversion at a discount to the prevailing market price, substantial dilution is likely to occur resulting in a material decline in the price of your shares. In addition, there are currently warrants outstanding which have cashless exercise features tied to the Black-Scholes value and the then market price of our common stock which could result in the issuance of substantial additional shares of common stock upon a cashless exercise. This offering as well as future offerings could result in further dilution to investors as a result of price adjustment provisions in the warrants. We are seeking to use a portion of the proceeds of this offering to repurchase between one-half and all of such warrants pursuant to a warrant repurchase option agreement. In the event we decide to repurchase less than all of the warrants, we will require the consent of the investor at the time of such repurchase. We currently intend to repurchase all of the warrants. However, we cannot assure you that such repurchase will be effected.

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Our operating results could be adversely affected by a reduction in business with our customers that supply parts to the United States Defense Logistics Agency (“DLA”).

We derive a significant amount of revenues from a group of customers that supply FSC 5962 parts to DLA. Taken as a group, these customers were responsible for approximately 54% and 46% of our revenues for the years ended September 30, 2013 and 2012, respectively, and 48% for the nine months ended June 30, 2014. As of December 15, 2014, DLA will DNA mark all FSC 5962 microcircuits at its Electronic Test Laboratory in Columbus, Ohio and will no longer issue solicitations requiring suppliers to provide DNA marked FSC 5962 microcircuits. We are working with DLA to develop an appropriate transition plan to this new approach. Over time, this change could result in lower revenues and could adversely impact our business, financial condition or results of operations.

Our operating results could be adversely affected by a reduction in business with our significant customers.

Although no customer represented greater than 10% of our total revenues for the nine months ended June 30, 2014 or fiscal 2013, in the past we have derived a significant amount of revenues from a few customers. An aggregate of 54% of our total revenues for fiscal 2012 was attributable to two customers. An aggregate of 53% of our total revenues for fiscal 2011 were attributable to three customers. Generally our customers do not have an obligation to make purchases from us and may stop ordering our products and services or may terminate existing orders or contracts at any time with little or no financial penalty. The loss of any of our significant customers, any substantial decline in sales to these customers or any significant change in the timing or volume of purchases by our customers could result in lower revenues and could harm our business, financial condition or results of operations.

If we are unable to obtain additional financing our business operations may be harmed or discontinued.

Our continuation as a going concern is dependent upon our future revenues and our ability to commercialize more products, obtain additional capital and attain profitable operations. We will require additional funds to complete the continued development and commercialization of our products, product manufacturing, and to fund expected additional losses from operations, until revenues are sufficient to cover our operating expenses. If we are unsuccessful in obtaining the necessary additional financing, we will most likely be forced to reduce or terminate our operations. General economic conditions may adversely affect our business, operating results and financial condition.

A general weakening or decline in the global economy or a period of economic slowdown may have serious negative consequences for our business and operating results. Since our customers incorporate our products into a variety of consumer goods, the demand for our products is subject to worldwide economic conditions and their impact on levels of consumer spending. Some of the factors affecting consumer spending include general economic conditions, unemployment, consumer debt, reductions in net worth, residential real estate and mortgage markets, taxation, energy prices, interest rates, consumer confidence and other macroeconomic factors. During a period of economic weakness or uncertainty, demand for consumer goods incorporating our products may weaken, and current or potential customers may defer purchases of our products. Although global economic conditions have improved somewhat since the extreme economic contraction in fiscal years 2008 and 2009, there is still significant uncertainty in the global economy, and there is no guarantee that the global economy will remain in this improved state.

While credit and financial markets seemed to have stabilized from their period of extreme distress, there can be no assurance that our liquidity will not be affected by changes in the financial markets and the global economy.

Moreover, the recent crisis has had a significant material adverse impact on a number of financial institutions and has limited access to capital and credit for many companies. This could, among other things, make it more difficult for us to obtain, or increase our cost of obtaining, capital and financing for our operations. Our access to additional capital may not be available on terms acceptable to us or at all.

Business disruptions could seriously harm our future revenue and financial condition and increase our costs and expenses.

Our operations could be subject to earthquakes, power shortages, telecommunications failures, cyber-attacks or other vulnerabilities in our computer systems, terrorism, water shortages, tsunamis, floods,

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hurricanes, typhoons, fires, extreme weather conditions, medical epidemics, political or economic instability, and other natural or manmade disasters or business interruptions. The occurrence of any of these business disruptions could seriously harm our revenue and financial condition and increase our costs and expenses.

If our existing products and services are not accepted by potential customers or we fail to introduce new products and services, our business, results of operations and financial condition will be harmed.

There has been limited market acceptance of our botanical DNA encryption, encapsulation, embedment and authentication products and services to date. Some of the factors that will affect whether we achieve market acceptance of our solutions include:

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- availability, quality and price relative to competitive solutions;
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- customers' opinions of the solutions' utility;
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- ease of use;
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- consistency with prior practices;
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- scientists' opinions of the solutions' usefulness; and
- 
- general trends in anti-counterfeit and security solutions' research.

The expenses or losses associated with the continued lack of market acceptance of our solutions will harm our business, operating results and financial condition.

Rapid technological changes and frequent new product introductions are typical for the markets we serve. Our future success may depend in part on continuous, timely development and introduction of new products that address evolving market requirements. We believe successful new product introductions may provide a significant competitive advantage because customers invest their time in selecting and learning to use new products, and are often reluctant to switch products. To the extent we fail to introduce new and innovative products, we may lose any market share we then have to our competitors, which will be difficult or impossible to regain. Any inability, for technological or other reasons, to successfully develop and introduce new products could reduce our growth rate or damage our business. We may experience delays in the development and introduction of products. We may not keep pace with the rapid rate of change in anti-counterfeiting and security products' research, and any new products acquired or developed by us may not meet the requirements of the marketplace or achieve market acceptance.

If we are unable to retain the services of Dr. Hayward or Dr. Liang, we may not be able to continue our operations. Our success depends to a significant extent upon the continued service of Dr. James A. Hayward, our Chairman, Chief Executive Officer and President, and Dr. Benjamin Liang, our Secretary and Strategic Technology Development Officer. We entered into an employment agreement with Dr. Hayward dated July 11, 2011. We do not have an employment agreement with Dr. Liang. Loss of the services of Drs. Hayward or Liang could significantly harm our business, results of operations and financial condition. We do not maintain key-man insurance on the lives of Drs.



Hayward or Liang.

The markets for our anti-counterfeiting and product authentication solutions are very competitive, and we may be unable to continue to compete effectively in these industries in the future.

The principal markets for our anti-counterfeiting and product authentication solutions are intensely competitive. Many of our competitors, both in the United States and elsewhere, are major pharmaceutical, chemical and biotechnology companies, or have strategic alliances with such companies, and many of them have substantially greater capital resources, marketing experience, research and development staff, and facilities than we do. Any of these companies could succeed in developing products that are more effective than the products that we have or may develop and may be more successful than us in producing and marketing their existing products. Some of our competitors that operate in the anti-counterfeiting and fraud prevention markets include: American Bank Note Holographics, Inc., Applied Optical Technologies, Authentix, Collectors Universe Inc., Brandwatch, Collotype, Data Dot Technology, De La Rue Plc.,

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Digimarc Corp., DNA Technologies, Inc., ID Global, Informium AG, Inksure Technologies, Kodak, L-1 Identity Solutions, Media Sec Technologies, opSec Security Group plc., SelectaDNA, SmartWater Technology, Inc., Sun Chemical Corp, Tracetag, Prooftag SAS and Yottamark.

We expect this competition to continue and intensify in the future. Competition in our markets is primarily driven by:

- - product performance, features and liability;
- - price;
- - timing of product introductions;
- - ability to develop, maintain and protect proprietary products and technologies;
- - sales and distribution capabilities;
- - technical support and service;
- - brand loyalty;
- - applications support; and