
Applied DNA Sciences – FQ3'18 Earnings – CFO/CEO Script – v.1**CFO****Beth Jantzen, CPA, Chief Financial Officer****Slide 2 – Forward Looking Statements**

Thank you, Judy. Good afternoon everyone and thank you for joining us today. Let me take a few minutes to discuss the results of our third fiscal quarter and first nine months of fiscal 2018. Then Dr. James Hayward, our President and CEO will provide you with an update on the Company's progress and provide some commentary around activities and strategies for the balance of the fiscal year.

Slide 3 – Comparative Consolidated Statement of Operations

Starting with the statement of operations, total revenues for the third quarter ended June 30, 2018 were just over \$1.0 million. This represents a 43% decrease compared to \$1.8 million reported in the fiscal third quarter of 2017 and was flat compared to \$1.0 million in the second quarter of fiscal 2018. This year-over-year decrease in revenues was primarily attributable to an initial order in our cotton industry of approximately \$1.2 million for the upcoming ginning season being recorded in deferred revenue at June 30, 2018. This shipment was recorded as deferred revenue due to extended payment terms provided to a key customer. The prior fiscal year includes nearly the same amount of product, which was recognized fully within the 3rd quarter. The \$1.2m included in deferred revenue as of June 30, 2018 is expected to be recognized as the payments become due. The payments are due in three equal installments at 90, 180 and 270 days from shipment. The decrease in recognized cotton revenue was offset by an increase

in service revenues during the third quarter of fiscal 2018, reflecting our RIF development contract award, as well as an increase of approximately \$125 thousand for the cannabis development and marketing agreement, entered into during last fiscal quarter, and the recognition of approximately \$187 thousand from our pharmaceutical development contract.

For the first nine months of this fiscal year we recognized revenues of \$2.7 million, a decrease of 25% from the first nine months of the prior fiscal year. This decrease in revenue is comprised of decreased product revenue of 57%. The decrease in product revenue is from the deferral of approximately \$1.2 million for concentrate shipped with extended payment terms I noted earlier and from higher cotton textile revenue during the same period last fiscal year. These decreases were offset by an increase in biopharmaceutical sales of approximately \$455 thousand. As a consequence of the deferral of this cotton order, however, and due to the timing of any future cotton orders, we may not meet our prior base recognized-revenue guidance of \$6.5 million for fiscal 2018.

Offsetting product revenue decline, service revenues increased 106% during the nine-month period ended June 30, 2018 as compared to the same period in fiscal 2017. The increase in service revenues was due to an increase in revenue from a government contract award, which the Company only had for part of the prior fiscal year. This increase is also due to feasibility projects, specifically related to textiles, pharmaceuticals, as well as an ongoing cannabis pilot under our Theracann cooperation agreement entered into during January 2018.

Cost of revenue as a percentage of product revenue in our fiscal third quarter was 64% as compared to 16% for the year-ago period, reflecting decreased sales in the textile industry for the three months ended June 30, 2018, which are sold at higher margins.

Total operating expenses declined in the third fiscal quarter of 2018 to \$3.6 million, compared with \$4.2 million in the third fiscal quarter of 2017 and increased as compared to \$2.8 million in the second fiscal quarter of 2018. The decrease on a year-over-year basis is primarily attributable to a decrease in stock-based compensation of approximately \$328 thousand. The decrease is also due to a decrease in bad debt expense of \$343 thousand. The decrease in bad debt expense was the result of the write off of a portion of our accounts receivable balance during the three-month period ended June 30, 2017.

For the first nine months of fiscal 2018, total operating expenses decreased 22% compared to the same period in the prior fiscal year from \$12.8 million to \$9.9 million. This decrease reflects lower stock based compensation expense of approximately \$2.4 million primarily associated with stock option grants during the nine month period ended June 30, 2017, which vested immediately as well as the recognition of expense related to certain performance based stock options during the prior fiscal year period. The decrease is also due to a decrease of approximately \$343 thousand in bad debt expense. These decreases were offset by an increase in research and development expenses due to costs incurred in relation to the government development contract award.

Slide 4 – Comparative Consolidated Adjusted EBITDA

For the third fiscal quarter of 2018, adjusted EBITDA was a negative \$2.5 million compared to a negative \$1.5 million in the same period during the prior fiscal year and a negative \$2.3 million in the second quarter of fiscal 2018. The widening in adjusted EBITDA loss is attributable to the decrease in revenues for the third quarter of fiscal 2018 as compared to the same period in fiscal 2017. Adjusted EBITDA for the nine months ended June 30, 2018 and 2017 was a negative \$7.6 and \$6.6 million, respectively.

Slide 5 - COMPARATIVE CONSOLIDATED BALANCE SHEETS

Turning to the balance sheet, cash and cash equivalents totaled approximately \$2.5 million at June 30, 2018, compared with approximately \$3.0 million at September 30, 2017. The decreased cash balance is primarily the result of cash used to fund operations during the year-to-date period, offset by approximately \$4.2 million of net proceeds received from a registered direct offering which closed during Q1 of fiscal 2018.

As of June 30, 2018 we had an accounts receivable balance of approximately \$1.4 million, of which \$1.2 million relates to the recent cotton order that was shipped during June 2018.

Also, as of June 30, 2018 we had \$2.3 million in deferred revenue as compared to \$352 thousand at September 30, 2017. \$1.2 million of the \$2.0 million increase is related to the initial cotton order that was shipped under extended payment terms in June 2018 as well as milestone and/or phased payments under certain

contracts, which will be recognized as revenue in future quarters. For example, as we noted during last quarter's call, we are recognizing the first milestone payment under the agreements with Colorcon evenly over the estimated time it will take to receive regulatory approval.

As of June 30, 2018, our average monthly cash burn rate for fiscal 2018, excluding the proceeds from the financing, was \$526 thousand, a decrease of approximately 30% compared to \$751 thousand for the same period in the prior fiscal year. The improvement in the monthly burn rate for fiscal 2018 compared to fiscal 2017 is mainly due to increased cash receipts coupled with slightly lower disbursements during the first nine months of fiscal 2018. As of July 31, 2018, our cash position is approximately \$1.3 million.

As I mentioned on last quarter's call, we have implemented cost saving measures that, on an annual go forward basis, save roughly 12% of our current monthly cash burn rate. We intend to remain disciplined and continue to strategically manage costs to ensure they are in line with our current and near future market opportunities.

As of June 30, 2018, we estimate that based on our revenue forecast model, our cash and cash equivalents along with the collection of our accounts receivable, are sufficient to fund operations for the next twelve months. However, if we do not meet these forecasted revenues, we have established a plan with multiple options, which include further cost reductions as well as financings.

Thank you for joining us today and I would now like to turn it over to Jim for his comments.

CEO

1. Introduction – Perspective on Quarterly Revenue Performance

Thank you, Beth.

Good afternoon, everyone, and thank you for joining us for our fiscal third quarter results call.

SLIDE 6. BIOTECH TRIFECTA!! GREAT SCIENCE, HUGE MARKETS, STRONG IP.

For a biotech company, the Opportunity Trifecta is the combination that literally describes Applied DNA, and is the reason told to me by many investors for their interest, it is the combination of Great Science, Huge Markets and Strong IP. Those three qualifiers describe Applied DNA at its core, and provide our team with the vision that drives us.

Our strategy as a Protector of Large Commercial Ecosystems, a phrase I have used in talking with you before, is steadily coming together. Booked revenue is a truer indicator of our progress, as it combines recognized revenue with deferred revenue. Our orders booked was the strongest for this quarter in the past 10 quarters, at approximately \$2.1 million, even though most of that revenue must be recognized in future quarters. This follows our strong booked revenue from fiscal 18 Q2 of approximately 1.9 million dollars. Our strong back-to-back quarterly performance, powered by sales in disparate markets, is evidence of our platform's growing adoption.

It's not easy being disruptive. But our uptake is steadily improving, and we strongly believe that trend will continue.

SLIDE 7. OUR CENTRAL PLATFORM: PCR PRODUCTION OF DNA, UNIQUE ADVANTAGES

Our platform is centered about our unique ability to produce DNA in very large scale using the biochemistry behind Polymerase Chain Reaction, or PCR. PCR assays are the most ubiquitous

assays in the clinic, but are performed in just microliters of liquid, sometimes barely voluminous enough to see. The ability to scale this reaction, which reproduces the same reaction done naturally in the nucleus of cells, arose from the advancements made in the chemistry of DNA precursors, their increasing scale and decreasing price, and steady improvements in the design of instrumentation. Applied DNA developed the fluidics, the mechanics and the software to bring this to liter scale, or even continuous flow, more than a million-fold increase in volume, and we protected our inventions with a strong portfolio of patents. Just as important, we established the know-how to control the reaction and its products to mitigate the impurities that accompany the traditional ways of making large-scale DNA, which use bacterial fermentation.

In our biopharma business, where we are producing DNA to be used in therapeutics like vaccines and cancer therapies, we have highly beneficial methods of production in contrast to the use of plasmid or viral vectors traditionally used in the industry. That is, PCR is a purely biochemical reaction, and is well suited for the introduction of chemical modification into the gene-sized linear amplicon of these therapies, especially at one or both of its ends, via addition of peptides or other ligands which might be used to enhance cellular uptake and the transfer of the gene-sized amplicon from the cytosol to the nucleus. And in our taggant business, chemical modification can be used with PCR to ensure our tags remain bound to the material they are meant to protect.

While we have done a superb job at PCR scaleup, we have equaled that performance in the chemistries of our DNA formulations to fit every industry vertical, and in the detection modalities that are so essential to authentication. We have another new step in our approach to field authentication that makes us, smaller, more portable, internet accessible and quicker. We recently introduced at the Cannabis Industry Association conference a new PCR platform, that sits in the palm of your hand, powered by an iPhone. We will have more to tell you about this development in future calls.

Over the past few years we have steadily advanced the development and commercial rollout of our DNA taggant platform. In that time, we have worked diligently to capture the opportunities afforded us by this disruptive technology and have executed on a strategy that, we believe,

puts on a path to higher revenue growth and sustained profitability. As we will discuss today, our value proposition has never been stronger.

In our supply chain business, you will hear today how new partners are in place to deepen our value proposition, breaking some of the challenges we have had in expansion to global customers. In our diagnostics and therapeutics business, I will give a brief insight into the growing demand for our PCR products.

2. Deepening Penetration of Existing Business Verticals

Textiles

SLIDE 8. The wall, BED BATH & BEYOND

Textiles represent our most established business vertical. The story for this quarter is in our growing footprint in the synthetics addressable market, as we continue to support our cotton business and position it for growth. The fiscal third quarter historically signals the start of the demand cycle for our SigNature T DNA taggant for cotton, ahead of the upcoming ginning season. Our cotton order announced on July 17, 2018 followed this historical trend and signals that demand is present and recurring. Our PimaCott brand remains the gold standard for traceability. Our HomeGrown upland brand, supported by the politics of the day with American-made, is growing in footprint at Bed Bath & Beyond stores. Walk into America's number-one home and home accessories store today and you will see high-end PimaCott on the sheeting wall, but also in non-sheeting home goods. Acala and Delta, DNA tagged and marketed as HomeGrown, are also enjoying expansion in their stores.

In May, our ninth SigNature T tagging system was installed at an Australian cotton gin based in Moree, New South Wales, Australia. This is the first international gin to tag pure HomeGrown Australian cotton, and we are looking to our partners Himatsingka and Louis Dreyfus Commodities to be ready to match increasing consumer and retailer sentiment for sustainable cotton by demonstrating traceability along the value chain with our taggant technology.

Statement about the CertainT platform data

Our CertainT platform has gained traction across several key business verticals that offer the opportunity for near-term revenue and several adjacent markets to which our platform is directly applicable.

During the quarter we began commercial cotton testing at our laboratory in India, replicating our Stony Brook operation to provide full forensic authentication services to support customers in the Asia-Pacific region. This facility offers greater utility to our India-based, exclusive cotton partner, The Himatsingka Group, and to their many supply chain partners, but with the majority of global cotton supply chains traversing this region, it also puts us right in front of prospective customers. Our CertainT IT platform is now exchanging data with Himatsingka's ERP system for more efficiency.

The ability to test cotton samples in India also supports Himatsingka's commercial cotton traceability initiatives. In April this year, we visited Himatsingka's India-based spinning facility, now the world's largest cotton spinning plant under one roof. A major manufacturer of sheeting, Himatsingka has also begun construction of a terry towel plant that will be one of the largest in the world when completed. Last year, the company completed the expansion of its sheeting facility, more than doubling its annual capacity. From Himatsingka's expansion plans we derive only one conclusion: their increased production capacity signals growing market share, and we know that cotton authenticity and traceability is central to its goal. Their success will be our success.

The market is responding well, with trade associations inviting our team to conferences to tell the story. In June this year, our textile team presented at the Better Cotton Initiative's Annual Conference in Brussels, Belgium to over 300 brands, manufacturers and cotton leaders on how to track and trace their cotton goods with SigNature T. The presentation was very well received and exiting the conference we saw interest from supply chain stakeholders throughout the world.

Synthetic Textiles are where the bulk of our textile resources are focused for the future. The incredible attention being paid to the problems with plastic in oceans, with carbon footprint, and with a need for differentiation by suppliers has increased our paid pilot work this year.

Our partners GHCL, Loftex, Palmetto and others established the value proposition and are having discussions with high profile retailers about the CertainT platform. As the central hub among them, we see the synergy of marketing the platform from all directions to the same retail targets. In fact, we have introduced and created working collaborations among some of our customers to do just that.

To assist us in this complex global market, we are pleased to announce that we have hired a well-respected industry insider as a consultant for our synthetic textiles business who we believe will assist with additional market penetration. He is the former head of global operations and supply chains for apparel brands known the world over.

The net impact of our business development and other initiatives across our textile practice has been very positive: we have positioned our taggant platform in front of a growing number of opportunities that relate to the tagging, testing and tracking of more cotton, recycled PET fibers to finished goods, as well as other renewable and recyclable materials that can be used in home, apparel and footwear. Over the next several quarters we will look to convert these opportunities into commercial-scale opportunities orders.

Leather

Moving on to our leather practice, as you know, we successfully completed a feasibility project in conjunction with BLC Leather Technology Centre Limited and sponsored by 5 Global brands, 1 NGO and 2 large tanneries in March this year. Our technology is ready to go in this harsh environment to provide forensic traceability for leather from farm to shop. In the third quarter we started industrial-scale commercial trials with some clients that are all tracking nicely and we are negotiating additional commercial trials with others. With this consortium model in place, we are on the path to commercial-scale tagging in leather with expected revenue material to our quarterly performance perhaps as early as the second half of fiscal 2019.

Cannabis

Our cannabis business continues to be a key focus of our efforts. With a recent market projection that the cannabis industry could reach \$50B by 2025, it remains a very worthwhile

market to focus on. It is moving along well as we have shown the industry's first Cannabis Tagging System at the NCIA Show in San Jose, CA, at the end of July. The interest at the show relative to the physical tagging of cannabis for real track and trace was conceptually well received by Cultivators, Processors and Dispensary owners.

SLIDE 9. CERTAIN T

The business prospects in both US as well as international markets are strong for in-country as well as export opportunities. We will collectively continue to refine potential timing and next steps with these and other opportunities.

Our partner, TheraCann International, recently launched its modular seed-to-sale offering (branded, ETCH Biotrace), integrated with our Cannabis Tagging System and CertainT platform. This combined offering will be aimed at new international or statewide programs that have not selected a seed-to-sale system.

In addition, our CertainT solution can also be a fit for opportunities where programs are already established with existing seed to sale systems and are looking for a mechanism to add a physical tag to prove provenance within their existing track and trace system.

3. Commercial Agreements to Seed New Markets

A second component of our growth strategy is to leverage commercial agreements through which to enter markets for additional growth opportunities.

Colorcon/ACG – Pharmaceuticals

Momentum in pharma continues along 3 pathways: Product Qualification, Sales and Marketing and Regulatory approvals. We established access to this market late last year via a partnership with Colorcon, the industry's leading coatings, colorants and ink manufacturer. Following the administrative acceptance of our Type IV Drug Master File by the FDA in May, Colorcon's management, and its development, regulatory and sales teams have been highly engaged in commercialization activities. To remind you, with the administrative acceptance, our DMF is ready for technical review for when a Colorcon customer for SigNature product reaches that

stage in their product development. Colorcon continues to drive product readiness for that eventuality and we have several candidates already in the pipeline. We have also initiated steps in conjunction with partners to seek regulatory approval in Europe to open its market to us.

With regard to ACG, the second largest capsule manufacturer globally, we are on target with milestones set out in the MOU signed last year after the Colorcon MOU. Technical feasibility of capsule tagging is proven in pilot, with continuing work in required stability testing, global regulatory compliance, and marketing and sales underway. Discussions toward a definitive agreement are underway, aligned to the work in each of the tracks above.

Multiple Addressable Markets – UL

Subsequent to the close of the quarter we announced a strategic partnership with UL that established a new standard for product authentication and supply chain traceability based on science. It is called the UL Verification Program and extends their testing, inspection and compliance business to new products and commodities UL has a global footprint, a large sales team and aggressive marketing. We are already in dialog with several UL customers. Under our partnership with Videojet, we are continuing to implement marketing initiatives, which as a result are cultivating evangelists within Videojet's industry's silos that are championing our technology and platform.

Multiple Addressable Markets – Everledger

We continue to build the IT side of our platform supporting the CertainT pillars of tag, test and track.

Our recently-announced partnership with Everledger, teams us up with a leader in blockchain-enabled technology. They have demonstrated capacity for both technical and business execution with a large-scale implementation managing over 2 million diamonds.

We both see our partnership as the vital link between physical goods and digital transactions...

As Leanne Kemp, Everledger Founder & CEO states, "If an asset does not have an identity, it does not have ownership, value or existence. In the high-end products market, authenticity, provenance as well as value, cannot be separated. By incorporating a forensic layer to uniquely identifying an asset, we can provide the added confidence in the data captured and tracked on our blockchain-enabled platform."

Our teams are currently in development of a combined platform to post tagging and authentication events to a blockchain, with an initial focus on the leather industry. Other supply chain networks from both companies can be considered for implementation of the joint platform, driving revenue for both companies.

BIOTHERAPEUTICS

SLIDE 10. THERAPEUTIC MARKET OPPORTUNITY FOR PCR DNA

In each of the last three quarters, I have updated you on our progress with customers coming to us for therapeutic and diagnostic applications of the linear DNA we manufacture by PCR.

In each of the last three quarters, we have attracted new collaborators and customers for Contract Research and Contract Manufacture of the DNA they were previously sourcing for therapeutics via bacterial fermentation and the production of plasmids.

However, plasmid-based gene therapies and adoptive cell therapies do pose a number of well-defined risk for patient therapies: 1) the risk of bacterial toxin contamination and the potential for a generalized inflammatory response in patients, 2) the risk of contamination of the target DNA by sequences of plasmid non-target DNA (including the genes for antibiotic resistance), and 3) the risk of contamination of the target plasmid DNA sequences by DNA from the bacterial host genome.

We are also negotiating Cooperative Development Agreements in which we share in the Intellectual Property and the subsequent revenue for any FDA approved, or European Medicines Agency approved products. We have already begun collaboration with well-known groups developing cancer vaccines; adoptive T Cell (CAR-T) therapy; and more recently using similar PCR-produced amplicons as the template for in vitro production of RNA vaccines.

We will be presenting our Linear DNA capabilities at the Immuno Oncology Conference in Cambridge, Massachusetts at the end of this month,

In summary, we are encouraged by these signs of growth, and hope you feel the same. Our value Proposition has never been stronger

This concludes our prepared remarks. Operator, please open the call to questions. Thank You!