DYADIC INTERNATIONAL, INC.
A Delaware Corporation

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SIC Code: 2860

Federal EIN: 45-0486747

Issuer's Quarterly Report

For the six months ended June 30, 2015

ISSUER'S EQUITY SECURITIES

COMMON STOCK

$0.001 Par Value Per Share
100,000,000 Shares Authorized
34,142,505 Shares Issued and Outstanding as of June 30, 2015
OTCQX: DYAI

Dyadic International, Inc. is responsible for the content of this Quarterly Report. The securities described in this document are not registered with, and the information contained in this Quarterly Report has not been filed with, or approved by, the U.S. Securities and Exchange Commission.

All references to "the Company," "the Issuer," "Dyadic," "we," "us" or "our" refers to Dyadic International, Inc. and its consolidated subsidiaries, unless the context otherwise indicates.

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Special Cautionary Note Regarding Forward-Looking Statements

Information (other than historical facts) set forth in this Quarterly Report contains forward-looking statements within the meaning of the Federal Securities Laws, which involve a number of risks and uncertainties that could cause our actual results to differ materially from those reflected in the forward-looking statements. Forward-looking statements generally can be identified by use of the words "expect," "should," "intend," "anticipate," "will," "project," "may," "might," potential" or "continue" and other similar terms or variations of them or similar terminology. Such forward-looking statements are included under Item 4 – "Management's Discussion and Analysis". Dyadic cautions readers that any forward-looking information is not a guarantee of future performance and that actual results could differ materially from those contained in the forward-looking information. Such statements reflect the current views of our management with respect to our operations, results of operations and future financial performance. Forward-looking statements involve a number of risks, uncertainties or other factors within and/or beyond Dyadic's control. These factors include, but are not limited to, our ability to implement our strategic initiatives, our ability to have access to cash through our product sales, and collections of our accounts receivables, our turnover of our inventory in a timely manner, our ability to generate up front license fees, and to earn and collect milestones and royalties , and our ability to raise capital through sales of securities such as stock or bonds under acceptable terms to the Company, our ability to execute and achieve our product sales and associated profit margins, our ability to maintain and obtain customers, our ability to execute and achieve our research and development objectives, our ability to develop new products and the registration of those products, our ability to obtain new license agreements, our dependence on our licensees for research and development funding, milestones and royalties for the products and/or processes that utilize licensed rights, our ability to protect our proprietary information, trade secrets and file, maintain and defend our intellectual property, our ability to maintain uninterrupted access to toll manufacturing at the quantities needed and at a competitive cost structure, our ability to obtain raw materials used in the manufacturing of our products as well as to attain these raw materials at costs that allow for the necessary gross margins we need to operate our business, our ability to hire and maintain, as well as our reliance on qualified employees and professionals, including scientific, accounting and business personnel, economic, political and market conditions and price fluctuations, government and industry regulation, U.S. and global competition, upgrade financial staffing, implement and monitor internal controls, and comply with financial reporting requirements, and other factors. We caution you that the foregoing list of important factors is not exclusive. The forward-looking statements are based on our beliefs, assumptions and expectations of future performance, taking into account the information currently available to us. These statements are only predictions based upon our current expectations and projections about future events. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward-looking statements. Moreover, we operate in a highly regulated, competitive and rapidly changing environment. Our competitors have far greater resources, infrastructure and market presence than we do which makes it difficult for us to enter certain markets, and/or to gain or maintain customers. New risks emerge from time to time and it is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. Before investing in our common stock, investors should carefully read the information set forth under the caption "Risk Factors" in our December 31, 2014 Annual Report filed with OTC Markets on March 27, 2015.

You should not rely upon forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that the future results, levels of activity, performance and events and circumstances reflected in the forward-looking statements will be achieved or occur. Except as required by law, we undertake no obligation to publicly update any forward-looking statements for any reason after the date of this Quarterly Report to conform these statements to actual results or to changes in our expectations.

We qualify all of our forward-looking statements by these cautionary statements. In addition, with respect to all of our forward-looking statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

Item 1 The exact name of the issuer and the address and telephone number of the issuer's principal executive offices.

The name of the issuer is Dyadic International, Inc. The address and telephone number of the issuer's principal executive offices are as follow:

The address of the issuer is:	140 Intracoastal Pointe Drive, Suite 404 Jupiter, Florida 33477
The telephone and facsimile is:	Telephone: (561) 743-8333 Facsimile: (561) 743-8343
The issuer's website:	Dyadic's corporate website, www.dyadic.com, contains general information about us and our products and services. We also maintain www.dyadic.nl. The information contained on such websites shall not be deemed incorporated by reference herein.
Investor relations contact:	Thomas L. Dubinski Chief Financial Officer 140 Intracoastal Pointe Drive, Suite 404 Jupiter, Florida 33477 Telephone: (561) 743-8333 Facsimile: (561) 743-8343 Email: tdubinski@dyadic.com

Item 2 Shares outstanding

As of June 30, 2015, Dyadic had two classes of capital stock authorized, common stock and preferred stock. Our common stock is traded on the OTCQX U.S. Premier, a segment of the OTC marketplace. There were no shares of preferred stock outstanding as of the reported period. The trading symbol for Dyadic's common stock assigned by the Financial Industry Regulatory Authority, Inc. is "DYAI."

The CUSIP number for our common stock is 26745T-10-1.

None of Dyadic's common stock has been registered under the Securities Act of 1933, as amended (the "Securities Act") or qualified under any state securities laws, although we are continuing to explore when, if, and under what circumstances to register or qualify one, or both classes of our securities. Certain shares of our common stock are currently eligible for resale in the public market pursuant to the exemption from registration offered by Rule 144 under the Securities Act ("Rule 144"). The remaining outstanding shares of our common stock are "restricted securities" within the meaning of Rule 144, and may be eligible for resale in the future.

<u>Common Stock</u>

Dyadic's common stock has a par value of $0.001 per share. The following table shows our common stock share ownership as of June 30, 2015:

(i)	Number of shares authorized	100,000,000
(ii)	Number of shares outstanding	34,142,505
(iii)	Number of shares freely tradable	21,741,435
(iv)	Total number of holders of record	54

There are greater than 2,200 beneficial shareholders owning at least 100 shares of the Company's Common Stock.

Preferred Stock

Dyadic's preferred stock has a par value of $0.0001 per share. The following table shows our Preferred Stock share ownership as of June 30, 2015:

(i)	Number of shares authorized	5,000,000
(ii)	Number of shares outstanding	-
(iii)	Number of shares freely tradable	-
(iv)	Total number of holders of record	-

Item 3 Unaudited interim consolidated financial statements

Financial Statements

DYADIC INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2015	December 31, 2014
ASSETS	(Unaudited)	
Current Assets:		
Cash and Cash Equivalents	$ 4,989,991	$ 2,495,455
Accounts Receivable, Net	1,654,741	1,044,990
Inventory, Net	3,361,519	3,607,062
Prepaid Expenses and Other Current Assets	177,433	271,292
Total Current Assets	10,183,684	7,418,799
Fixed Assets, Net	482,178	539,902
Intangible Assets, Net	388,413	418,973
Other Assets	146,787	157,679
	$ 11,201,062	$ 8,535,353
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities:		
Accounts Payable	$ 1,529,835	$ 1,504,313
Accrued Expenses	708,372	559,433
Accrued Interest Payable	218,090	169,838
Deferred Research and Development Obligation	1,363,584	430,803
Note Payable to Stockholder	1,424,941	-
Convertible Subordinated Debt	8,660,787	-
Total Current Liabilities	13,905,609	2,664,387
Note Payable to Stockholder	-	1,424,941
Convertible Subordinated Debt	-	6,710,787
Total Liabilities	13,905,609	10,800,115
Stockholders' Deficit:		
Preferred Stock, $.0001 Par Value: Authorized Shares – 5,000,000; None Issued and	-	-
Common Stock, $.001 par value: Authorized Shares – 100,000,000; Issued and Outstanding – 34,142,505	34,143	34,143
Additional Paid-in Capital	82,482,313	82,262,225
Stock Subscriptions Receivable	(40,625)	(131,375)
Stock to be Issued	123,900	70,659
Accumulated Deficit	(85,304,278)	(84,500,414)
Total Stockholders' Deficit	(2,704,547)	(2,264,762)
	$ 11,201,062	$ 8,535,353

The Accompanying Notes are an Integral Part of these Unaudited Condensed Consolidated Financial Statements

DYADIC INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	**2014**	**2015**	**2014**
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue:				
Product Related Revenue, Net	$ 2,756,393	$ 2,457,564	$ 6,234,709	$ 4,916,724
License Fee Revenue	600,000	-	800,000	-
Research and Development Revenue	475,417	604,119	831,146	1,129,991
Total Revenue	3,831,810	3,061,683	7,865,855	6,046,715
Cost of Goods Sold:	2,289,879	2,023,248	4,649,216	3,895,284
Gross Profit	1,541,931	1,038,435	3,216,639	2,151,431
Expenses:				
General and Administrative	1,151,330	1,542,304	2,113,000	3,253,974
Sales and Marketing	299,934	341,550	542,458	582,971
Research and Development	323,151	647,654	808,576	1,271,803
Gain on Sale of Fixed Assets	-	(8,155)	-	(19,755)
Foreign Currency Exchange Loss (Gain), Net	(25,098)	30,852	163,415	(12,000)
Total Expenses	1,749,317	2,554,205	3,627,449	5,076,993
Loss from Operations	(207,386)	(1,515,770)	(410,810)	(2,925,562)
Other Income (Expense)				
Interest Income	2,688	6,882	6,087	16,533
Interest Expense	(218,510)	(169,979)	(399,141)	(338,822)
Total Other Income (Expense)	(215,822)	(163,097)	(393,054)	(322,289)
Net Loss	$ (423,208)	$ (1,678,867)	$ (803,864)	$ (3,247,851)
Net Loss per Common Share				
Basic and Diluted	$ (0.01)	$ (0.05)	$ (0.02)	$ (0.10)
Weighted Average Common Shares Used in Calculating Net Loss Per Share:				
Basic and Diluted	34,207,808	34,043,745	34,202,488	34,036,295

The Accompanying Notes are an Integral Part of these Unaudited Condensed Consolidated Financial Statements

DYADIC INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT AND COMPREHENSIVE LOSS
(Unaudited)

	Common Stock		Additional	Stock	Stock to Be	Accumulated Other Comprehensive	Accumulated	
	Shares	Amount	Paid-In Capital	Subscriptions	Issued	Loss	Deficit	Total
Balance at December 31, 2014	34,142,505	$ 34,143	$ 82,262,225	$ (131,375)	$ 70,659	$ -	$ (84,500,414)	$ (2,264,762)
Amortization of Deferred Compensation of Employee and Nonemployee Stock Options	-	-	220,088	-	-	-	-	220,088
Stock to Be Issued for Stock Options Exercised	-	-	-	-	3,050	-	-	3,050
Stock to Be Issued for Restricted Stock Units	-	-	-	-	50,191	-	-	50,191
Proceeds from Stock Subscriptions	-	-	-	90,750	-	-	-	90,750
Net Loss and Comprehensive Loss	-	-	-	-	-	-	(803,864)	(803,864)
Balance at June 30, 2015	34,142,505	$ 34,143	$ 82,482,313	$ (40,625)	$ 123,900	$ -	$ (85,304,278)	$ (2,704,547)

The Accompanying Notes are an Integral Part of these Unaudited Condensed Consolidated Financial Statements

DYADIC INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,			
	2015		**2014**	
	(Unaudited)		(Unaudited)	
Operating Activities				
Net Loss	$	(803,864)	$	(3,247,851)
Adjustments to Reconcile Net Loss to Net Cash Provided By (Used in) Operating Activities				
Depreciation and Amortization of Fixed Assets		111,760		114,988
Amortization of Intangible and Other Assets		24,955		30,344
Decrease in Inventory Reserve		(158,803)		(52,000)
Write-off of Abandoned Patents		8,154		-
Write-off of Accounts Payable		(80,461)		
Gain on Sale of Fixed Assets		-		(19,755)
Increase in Doubtful Accounts Reserve		-		30,072
Share-Based Compensation Expense on Stock Options Granted and Restricted Stock		270,279		395,122
Changes in Operating Assets and Liabilities:				
Accounts Receivable		(609,751)		252,615
License Fee Receivable		-		110,693
Inventory		404,346		(978,717)
Prepaid Expenses and Other Current Assets		93,859		(125,380)
Other Assets		-		(19,049)
Accounts Payable		145,674		(521,753)
Accrued Expenses		149,379		(29,760)
Accrued Interest Payable		48,252		(1,865)
Deferred Research and Development Obligation		932,781		(405,821)
Net Cash Provided By (Used In) Operating Activities		536,560		(4,468,117)
Investing Activities				
Purchases of Fixed Assets		(54,036)		(167,216)
Proceeds from Sale of Fixed Assets		-		19,755
Patent Cost		(42,682)		(45,373)
Restricted Cash		10,894		29,049
Net Cash (Used In) Investing Activities		(85,824)		(163,785)
Financing Activities				
Proceeds from Issuance of Convertible Debt		2,000,000		-
Repayment of Convertible Debt		(50,000)		-
Proceeds from Stock Option Exercises		3,050		-
Proceeds from Repayment of Stock Subscriptions		90,750		40,000
Net Cash Provided by Financing Activities		2,043,800		40,000
Net Increase (Decrease) in Cash and Cash Equivalents		2,494,536		(4,591,902)
Cash and Cash Equivalents at Beginning of Period		2,495,455		8,892,396
Cash and Cash Equivalents at End of Period	$	4,989,991	$	4,300,494
Supplemental Cash Flow Information:				
Cash Paid for Interest	$	352,730	$	340,687
Non-Cash Item:				
Non-Cash Advances to Employees for Stock Warrant and Stock Option Exercises	$	-	$	3,125
Write-off Patent Liability	$	40,150	$	54,376

The Accompanying Notes are an Integral Part of these Unaudited Condensed Consolidated Financial Statements

Note 1: Organization and Summary of Significant Accounting Policies

Description of Business

Dyadic is a global biotechnology company headquartered in Jupiter, Florida with operations in the United States and The Netherlands. Dyadic uses its patented and proprietary technologies to conduct research, development and commercial activities for the discovery, development, manufacture and sale of enzymes and other proteins for the bioenergy, bio-based chemicals, biopharmaceuticals and industrial enzymes industries. Dyadic recognizes substantially all of its revenues from (1) licensing its patented and proprietary technologies; (2) selling its proprietary enzymes; and (3) conducting research and development activities for third parties.

Dyadic's activities relating to selling proprietary enzymes focuses on utilizing its patented and proprietary fungal strains and associated technologies. In particular, Dyadic uses its *Trichoderma* and C1 (*Myceliopthora thermophila*) fungal strains in the production of its industrial enzymes. Dyadic manufactures, purchases, and sells liquid and dry enzyme products to global customers for use within the animal feed, pulp and paper, starch and alcohol, food and brewing, textiles, biogas, and biofuels industries.

For new product development and third party research, Dyadic utilizes an integrated technology platform based on its patented and proprietary C1 Platform Technology, which enables the development and large-scale manufacture of low cost enzymes and other proteins for diverse market opportunities. The C1 Platform Technology can also be used to screen for the discovery of novel genes and proteins. Through the efforts of our Dutch research & development subsidiary (Dyadic Nederland BV) we have been able to leverage government and industry funding to create a library of more than 100 enzymes encoded by genes from the C1 genus, as well as from other organisms, which in some cases are being tested for use in a variety of applications such as animal feed, baking, brewery, biogas and biofuels among others. Dyadic actively pursues licensing arrangements and other commercial opportunities to leverage the value of these technologies by providing its partners and collaborators with the benefits of developing, manufacturing and/or utilizing the enzymes and other proteins, using the C1 Platform Technology.

Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intra-entity transactions and balances have been eliminated in consolidation. The Company has reclassified certain 2014 cost amounts previously reported to conform to the 2015 consolidated financial statement presentation.

The accompanying unaudited interim consolidated financial statements for Dyadic International, Inc. and Subsidiaries (collectively, "Dyadic" or the "Company") have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial reporting. Accordingly, certain information and footnote disclosures normally included in annual consolidated financial statements have been condensed or omitted. In the opinion of management, the accompanying unaudited interim consolidated financial statements reflect all adjustments (consisting of only normal recurring adjustments and the elimination of intra-entity accounts) considered necessary for a fair presentation of all periods presented. The results of Dyadic's operations for any interim periods are not necessarily indicative of the results of operations for any other interim period or for a full fiscal year. These unaudited interim consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes for the year ended December 31, 2014 which were posted to the OTC Markets website on March 11, 2015.

Liquidity and Capital Resources

Historically, the Company has financed operations primarily with proceeds from the sales of the products from its industrial enzyme business, upfront fees from licensing of technology, external borrowings, borrowings from its stockholders, sales of common equity securities, and to a lesser extent, the receipt of settlement proceeds from its ongoing lawsuit against the Company's former outside legal counsel.

As of June 30, 2015, the Company has liabilities that exceed its assets, negative working capital and cash flow deficiencies. In order to address these issues, the Company's management is exploring several transactions, including, but not limited to, licensing its C1 technologies to new collaborators, expanding or modifying the rights of existing licensees, other strategic alternatives of monetizing its assets including potentially selling certain parts of the business and technology, raising additional debt or equity financing, and extending the maturity dates of its subordinated convertible debt and note payable to stockholder, as has been done in the past. As discussed in Note 4, the maturity date of approximately $6.7 million of the Company's convertible subordinated debt was extended to January 1, 2016 with certain adjustments to the 2010 and 2011 Notes. In addition, on December 29, 2014, the maturity date of the $1.4 million note payable to stockholder was extended to January 1, 2016. All other provisions of the note remain unchanged. On March 9, 2015, the Company also completed a private placement of a $2,000,000 convertible subordinated promissory note with a maturity date of January 1, 2016. In addition, the Company is planning a further reduction in inventory levels from the June 30, 2015 levels and has implemented cost reductions in its administrative, sales and marketing and research and development functions.

On July 31, 2015, the Company reached a settlement with one of the three remaining defendant law firms in its ongoing professional liability litigation. On August 12, 2015 the Company received full payment of this low seven figure settlement, which is net of fees and expenses. The settlement amount will be reported in the Company's consolidated statement of operations, in other income, for the quarter ending September 30, 2015. In the event the Company is able to reach a favorable settlement with one or both of the two remaining defendants in its ongoing Professional Liability litigation (See ***Item 5. Legal Proceedings below for additional information***), this would provide the Company with additional capital. We expect to incur additional costs in what may be a long and protracted trial, the outcome of which is uncertain. If we do not prevail at trial, the court may determine that the Company is responsible for some or all of the defendants' costs incurred in this litigation. Additionally, even if we prevail at trial, we expect the defendants to appeal the decision.

The Company may incur additional losses over the next few years as it continues to develop its products and technologies. There can be no assurance that the Company's efforts with regard to such development will be successful. In addition, there is no assurance that the Company will be able to secure licensing transactions or other collaborations, or that the timing of those transactions will alleviate our liquidity issues going forward. Further, there is no assurance that the Company will be successful in obtaining the necessary funding to meet its business objectives or reduce its operating costs to a level sufficient to provide positive cash flow. Lastly, the Company's ability to extend the maturity dates of its subordinated convertible debt and note payable to stockholder cannot be assured.

At June 30, 2015, cash and cash equivalents were approximately $4,990,000 compared to $2,495,000 at December 31, 2014. The actual amount of cash that we will need to operate is subject to many factors, including, but not limited to, the timing of all of the actions described above. As a result of these factors, we may need to seek additional financings to provide the cash necessary to execute our current operations. The financial statements do not include any adjustments to reflect future effects on the recoverability or classification of assets or amounts and classification of liabilities that may result if the Company's plans are unsuccessful.

Cash and Cash Equivalents

We treat liquid investments with original maturities of three months or less when purchased as cash and cash equivalents.

Inventories

Inventory consists of finished goods, including industrial enzymes used in the industrial, chemical, and agricultural markets, and are stated at the lower of cost or market using the weighted average cost method. The value of finished goods is comprised of raw materials and manufacturing costs, substantially all of which are incurred pursuant to oral agreements with our independent enzyme manufacturer. Provisions have been made to reduce excess or obsolete inventory to net realizable value.

Fixed Assets

Fixed assets are stated at historical cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets:

	Estimated Useful Life (Years)		June 30, 2015		December 31, 2014
Lab and manufacturing equipment	3 - 10	$	2,891,247	$	2,845,997
Furniture and fixtures	3 - 7		208,000		202,600
Leasehold improvements	5		90,480		87,094
			3,189,727		3,135,691
Less: accumulated depreciation					
and amortization			(2,707,549)		(2,595,789)
		$	482,178	$	539,902

Depreciation and amortization expense related to fixed assets for the six months ended June 30, 2015 and 2014 was approximately $112,000 and $115,000, respectively, of which approximately $104,000 and $111,000, respectively, was included in cost of goods sold and approximately $8,000 and $4,000, respectively, was included in general and administrative costs in the accompanying consolidated statements of operations.

Depreciation and amortization expense related to fixed assets for the three months ended June 30, 2015 and 2014 was approximately $38,000 and $60,000, respectively, of which approximately $34,000 and $57,000, respectively, was included in cost of goods sold and approximately $4,000 and $3,000, respectively, was included in general and administrative costs in the accompanying consolidated statements of operations.

Leasehold improvements are amortized over the shorter of their useful life or the remaining term of the lease, exclusive of renewal options.

Patent Costs

We expense patent maintenance costs as incurred. We have classified our patent expenses in general and administrative expense

Other Assets

Restricted cash is included in other assets in the Condensed Consolidated Balance Sheets and consists of security for the build-out of the Company's laboratory in The Netherlands. Twenty percent of the outstanding restricted cash balance is refunded to the Company each year on the lease anniversary date through its expiration. The five year lease term expires on December 31, 2019.

Use of Estimates

The preparation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and judgments that affect the reported amount of assets and liabilities and related disclosure of contingent assets and liabilities at the date of our consolidated financial statements and the reported amounts of revenues and expenses during the applicable period. Actual results may differ from these estimates under different assumptions or conditions. Such differences could be material to the financial statements.

Revenue Recognition

Revenue is recognized when (1) persuasive evidence of an arrangement exists; (2) services have been rendered or product has been delivered; (3) price to the customer is fixed and determinable; and (4) collection of the underlying receivable is reasonably assured. The Company recognizes revenue on product sales when title passes to the customer based upon the specified freight terms of the respective sale. Revenues are comprised of gross sales less provisions for expected customer returns, if any. Reserves for estimated returns and inventory credits are established by the Company, if necessary, concurrently with the recognition of revenue. The amount of reserves are established based upon consideration of a variety of factors including estimates based on historical return experience. Amounts billed to customers in sales transactions related to shipping and handling represent revenue earned for the goods provided and are included in net product revenue in the accompanying consolidated statements of operations. Costs of shipping and handling are included in cost of goods sold.

Revenues derived from license agreements typically consist of multiple deliverables including upfront fees, milestone payments, research and development revenues and/or royalties. The Company recognizes revenue based on the terms of each respective license agreement. The Company evaluates multiple deliverable arrangements contained in its collaboration and license agreements to determine whether the delivered milestone payments received are recognized as revenue when products are delivered, services rendered over the requisite service period and/or performance criteria are met.

The Company recognizes research milestone payments when earned, as evidenced by written acknowledgement from the collaborator, provided that (i) the milestone event is substantive and its achievability was not reasonably assured at the inception of the agreement, (ii) the milestone represents the culmination of an earnings process, (iii) the milestone payment is non-refundable and (iv) the Company's past research and development services, as well as its ongoing commitment to provide research and development services under the collaboration, are charged at fees that are comparable to the fees that the Company customarily charges for similar research and development services.

The Company recognized license fee revenue during the three and six month period ended June 30, 2015 for the achievement of two research and development milestones in the amount of $600,000 and $800,000, respectively. The Company did not recognize any license fee revenue during the three or six month period ended June 30, 2014.

The Company recognizes revenue from research funding under collaboration agreements when earned on a "proportional performance" basis as research hours are incurred. The Company typically performs services as specified in each respective agreement on a best efforts basis, and is reimbursed based on labor hours incurred on each contract. The Company initially defers revenue for any amounts billed and payments received in advance for services performed. The Company then recognizes revenue pursuant to the related pattern of performance, based on total labor hours incurred relative to total labor hours estimated under the contract. As of June 30, 2015 and December 31, 2014, the deferred research and development obligation totaled approximately $1,364,000 and $431,000, respectively.

The Company recognized research and development revenue during the three month period ended June 30, 2015 and 2014 in the amount of approximately $475,000 and $604,000, respectively. During the six month period ended June 30, 2015 and 2014 the Company recognized research and development revenue in the amount of approximately $831,000 and $1,130,000 respectively.

Income Taxes

As of June 30, 2015, the Company had significant net operating loss carryforwards remaining that will begin to expire in 2022. We have established a 100% valuation allowance against our net deferred tax assets due to our history of pre-tax losses and the likelihood that the deferred tax assets will not be realizable.

The Company is subject to income taxes in the U.S. federal jurisdiction, various state jurisdictions and certain other international jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply.

The Company follows the guidance for uncertain tax positions as addressed in FASB Accounting Standards Codification 740-10-65-1. The Company has no tax position at June 30, 2015 for which the ultimate deductibility is highly uncertain or for which there is uncertainty about the timing of such deductibility. The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses.

Comprehensive Loss

Comprehensive loss is the same as net loss for all periods presented.

Basic and Diluted Net Loss per Common Share

Basic loss per share excludes any dilution. It is based upon the weighted average number of common shares outstanding during the period. Diluted loss per share includes the potential dilution that would occur if stock options, restricted stock units, convertible debt securities or other contracts to issue common stock were exercised or converted into common stock.

As of June 30, 2015, 9,150,402 common stock equivalents related to stock options and convertible debt were not included in computing diluted loss per share because their effects were anti-dilutive.

Stock-Based Compensation

We recognize all share-based payments to employees and to non-employee directors for service on our board of directors as compensation expense in the consolidated financial statements based on the grant date fair values of such payments. Stock-based compensation expense recognized each period is based on the value of the portion of share-based payment awards that is ultimately expected to vest during the period. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Recent Accounting Pronouncements

In May 2014, FASB issued ASU number 2014-09 (Revenue from Contracts with Customers (Topic 606)). This amended guidance was issued to clarify the principles used to recognize revenue for all entities. The guidance is based on the principle that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard also requires more detailed disclosures and provides additional guidance for transactions that were not comprehensively addressed in the prior accounting guidance. This guidance must be applied using one of two retrospective application methods and will be effective for the Company's interim and annual reporting periods beginning in the first quarter, 2018. Early adoption is not permitted. The Company is currently evaluating the impact of the adoption of this newly issued guidance on its consolidated financial statements.

In August 2014, FASB issued ASU number 2014-15 (Presentation of Financial Statements-Going Concern (Topic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern). This guidance was issued requiring management to evaluate, at each annual and interim reporting period, whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date the financial statements are issued and provide related disclosures. This guidance will be effective for the Company's annual reporting period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early adoption is permitted. The Company is currently evaluating the impact of the adoption of this newly issued guidance on its consolidated financial statements.

In January 2015, the FASB issued ASU 2015-01, Income Statement – Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items, which changed the requirements for reporting extraordinary and unusual items in the income statement. The update eliminates the concept of extraordinary items. The presentation and disclosure guidance for items that are unusual in nature or occur infrequently will be retained and will be expanded to include items that are both unusual in nature and infrequently occurring. A reporting entity may apply the amendments prospectively or retrospectively to all periods presented in the financial statements. The guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The adoption of this newly issued guidance is not expected to have an impact to the Company's consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, Consolidations (Topic 225-20): Amendments to the Consolidation Analysis, which affects current consolidation guidance. The guidance changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. This guidance must be applied using one of two retrospective application methods and will be effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in any interim period. The Company is currently evaluating the impact, if any, of the adoption of this newly issued guidance to its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Interest – Imputation of Interest (Topic 225-20): Simplifying the Presentation of Debt Issue Costs, that simplifies the presentation of debt issuance costs. The guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by these amendments. This guidance should be applied on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. The guidance will be effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted for financial statements that have not been previously issued. The Company is currently evaluating the impact, if any, of the adoption of this newly issued guidance to its consolidated financial statements.

In July 2015, the FASB issued ASU 2015-011, "Inventory (Topic 330): Simplifying the Measurement of Inventory." Under this standard, an entity should measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using LIFO or the retail inventory method. The amendments in this guidance are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The amendments are to be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The Company is currently evaluating the impact, if any, of the adoption of this newly issued guidance on its consolidated financial statements.

Note 2: Accounts Receivable

Accounts receivable are recorded at their net realizable value on the date revenue is recognized or the Company has a contractual right to receive money, either on demand or at fixed or determinable dates. The Company provides allowances for doubtful accounts for estimated losses resulting from the inability of its customers to repay their obligations. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to pay, additional allowances may be required.

The Company provides for potential uncollectible accounts receivable based on specific customer identification and historical collection experience, adjusted for existing market conditions. If market conditions decline or the Company's customers experience economic difficulties, actual collections may not meet expectations and may result in decreased cash flows and increased bad debt expense.

The policy for determining past due status is based on the contractual payment terms of each customer, which are generally net 30 or net 60 days. Once collection efforts by the Company are exhausted, the determination for charging off uncollectible receivables is made. The Company does not accrue finance or interest charges on past due accounts receivable. During the six month period ended June 30, 2015, the Company wrote off uncollectable receivables of approximately $64,000. There were no write-offs of uncollectable receivables during the six month period ended June 30, 2014.

Accounts receivable consisted of the following at:

		June 30, 2015 (Unaudited)		December 31, 2014
Accounts receivable	$	1,654,741	$	1,109,372
Less: allowance for doubtful accounts		-		(64,382)
	$	1,654,741	$	1,044,990

Note 3: Inventory

Inventory consists of the following:

		June 30, 2015		December 31, 2014
		(Unaudited)		
Finished goods	$	3,422,585	$	3,844,844
Less: reserve for obsolescence		(61,066)		(237,782)
	$	3,361,519	$	3,607,062

Note 4: Notes Payable

Note Payable to Stockholder

The Amended and Restated Note dated November 14, 2008 (the "Note") originally payable to the MAE Trust under agreement dated October 1, 1987, as amended, matured on January 1, 2009. On January 12, 2009, the Company repaid $1.0 million of principal of the Note leaving an outstanding principal amount of approximately $1.4 million. As of January 1, 2010, the MAE Trust and the Company agreed to reduce the interest rate on the outstanding principal balance of the Note from 14% to 9.5% per annum. The Note is collateralized by the assets of the Company. On March 18, 2014, the Note was transferred to Lisa K. Emalfarb. On December 29, 2014, the maturity date of the Note was extended to January 1, 2016. All other provisions of the Note remain unchanged. The Note is classified as a short-term liability in the accompanying June 30, 2015 consolidated balance sheet.

Convertible Subordinated Debt

On August 23, 2010, the Company completed a private placement of $4,000,000 aggregate principal of convertible subordinated secured promissory notes (the "2010 Notes") with ten investors. The 2010 Notes pay interest quarterly at 8% per annum and were convertible at the holder's option after January 1, 2011, into unregistered shares of the Company's common stock at a price of $1.82 per share, which was equal to 120% of the average closing price of the Company's common stock for the 30-day period preceding August 23, 2010. On October 14, 2014, the Company extended the maturity date of the 2010 Notes to January 1, 2016. In conjunction with the extension of the 2010 Convertible Debt, the share conversion price has been reduced from $1.82 to $1.48. The extended Convertible Debt also includes a warrant provision in the event Dyadic elects to call the Convertible Debt early, in whole or in part, after March 31, 2015 and prior to the January 1, 2016 maturity date. Should the Convertible Debt holder(s), upon such call notice, elect not to convert their notes into common shares, Dyadic will pay the Convertible Debt holders' their current outstanding Convertible Debt balance, and issue warrants to purchase common stock equal to 25% of the redeemed Convertible Debt balance at $1.48 per common share. If such warrants are issued, the warrants will have a three year term. The debt extension and the change in the conversion price resulted in extinguishment accounting in accordance with ASC 470-50 as the change in fair market value was in excess of 10% of the original value of the note. The extinguishment accounting had no impact on the financial statements as no discount was recorded on the original issuance. All other terms and conditions of the 2010 Convertible Debt remain unchanged. The Company will not affect any conversion of the 2010 Notes, to the extent that after giving effect to such conversion, any holder would beneficially own in excess of 4.9% of the Company's outstanding common stock (the "Beneficial Ownership Limitation"). The Beneficial Ownership Limitation may be waived by the holder upon not less than 61 days prior notice. The 2010 Notes are subordinated to the Note, and are collateralized by substantially all of the assets of the Company.

The outstanding principal balance of the 2010 Notes was $3,818,000 at both June 30, 2015 and December 31, 2014.

In October 2011, the Company completed the private placement of $3,000,000 aggregate principal of convertible subordinated secured promissory notes (the "2011 Notes") with five investors.

The 2011 Notes pay interest quarterly at 8% per annum and are convertible at the holder's option into unregistered shares of the Company's common stock at a price equal to $1.28 per share. The 2011 Notes are subordinated to the Note, and are collateralized by substantially all of the assets of the Company. The Company will not affect any conversion of the 2011 Notes, to the extent that after giving effect to such conversion, any holder would beneficially own in excess of 4.9% of the Company's outstanding common stock. The Beneficial Ownership Limitation may be waived by the holder upon not less than 61 days prior notice.

On April 13, 2015, $50,000 of the 2011 Notes was repaid. During the year ended December 31, 2014, $107,213 of the 2011 Notes were converted into 83,760 shares of common stock. As a result of the repayment and conversions, the outstanding principal balance of the 2011 Notes was $2,842,787 and $2,892,787 at June 30, 2015 and December 31, 2014, respectively.

On October 14, 2014, the Company extended the maturity date of the 2011 Notes to January 1, 2016. The extended convertible debt also includes a warrant provision in the event Dyadic elects to call the convertible debt early, in whole or in part, after March 31, 2015 and prior to January 1, 2016 maturity date. Should the Convertible Debt holder(s), upon such call notice, elect not to convert their notes into common shares, Dyadic will pay the Convertible Debt holders' their current outstanding Convertible Debt balance, and issue warrants to purchase common stock equal to 25% of the redeemed Convertible Debt balance at $1.48 per common share. The $1.48 was the market closing price of Dyadic's stock on the date of the transaction. If such warrants are issued, the warrants will have a three year term. The debt extension resulted in extinguishment accounting in accordance with ASC 470-50 as the change in fair market value was in excess of 10% of the original value of the note. The extinguishment accounting had no impact on the financial statements as no discount was recorded on the original issuance.

The 2010 Notes and the 2011 Notes have been classified as short-term liabilities in the accompanying June 30, 2015 consolidated balance sheets.

On March 9, 2015, the Company completed a private placement of a $2,000,000 convertible subordinated secured promissory note (the "2015 Note") with a related party. The 2015 Note will pay interest quarterly at a rate of 10% per annum and is convertible at the holder's option into shares of Dyadic common stock at $1.28 per share. This conversion price was at a premium of 21% to the stock price on that day. Unless converted, the 2015 Note will mature on January 1, 2016. The 2015 Note is not callable early, and as to this note holder's 2010 and 2011 notes, the early call provision (after March 31, 2015 and before January 1, 2016) was amended to state that the early call provision can no longer be exercised solely by the Company. The 2015 Note has been classified as a short-term liability in the accompanying June 30, 2015 consolidated balance sheets.

Approximately $7,461,000 of the 2010 Notes, the 2011 Notes and the 2015 Notes are held by five related parties, which include members of management and the Board, as well as three other related parties.

Interest expense related to the foregoing debt for the three month period ended June 30, 2015 and 2014 was approximately $217,000 and $170,000, respectively. Interest expense related to the foregoing debt for the six month period ended June 30, 2015 and 2014 was approximately $396,000 and $339,000, respectively

Note 5: Commitments and Contingencies

Leases

Jupiter, Florida Headquarters

The Company's corporate headquarters are located in Jupiter, Florida. The Company occupies approximately 4,900 square feet with a monthly rental rate and common area maintenance charges of approximately $8,400. The lease expires on December 31, 2015.

Jupiter, Florida Laboratory

The Company leases a laboratory facility in Jupiter, Florida which consists of approximately 3,500 square feet with a monthly rental rate of approximately $4,000. The lease is currently on a month-to-month basis.

The Netherlands Office and Laboratory

Dyadic NL leases office and laboratory space in Wageningen, The Netherlands, which consists of approximately 15,000 square feet with a monthly rental rate of approximately $28,000**.** The Company began a facility expansion in 2014 and completed the second phase in February 2015. The lease expires on December 31, 2019. The future lease commitments table includes the costs for the laboratory expansions in The Netherlands. The lease is secured by Restricted Cash of approximately $112,000 and $122,000 at June 30, 2015 and December 31, 2014, respectively.

Future minimum lease commitments due for facilities and equipment leases under non-cancellable operating leases at June 30, 2015 are approximately as follows:

2016	$	345,000
2017		347,000
2018		335,000
2019		335,000
	$	1,362,000

Manufacturing Commitment

The Company manufactures all of its enzymes with a third party manufacturer which the Company believes is sufficient to meet its current and projected future needs. In order to further grow its business, the Company will require additional manufacturing capacity. There is no assurance that the Company will be able to maintain its current manufacturing capacity or be able to secure additional capacity on acceptable terms and conditions as and when needed by the Company. Any interruption in or failure to secure such manufacturing capacity could have a material adverse effect on the Company's results of operations.

Other

The Company may be subjected to various product liability claims. Although there have been no claims to date against the Company, it is possible that future liability claims could have a material adverse effect on its consolidated financial position, consolidated results of operations and liquidity.

Professional Liability Lawsuit

On March 26, 2009, the Company filed a complaint in the Circuit Court of the 15th Judicial Circuit in and for Palm Beach County, Florida against Ernst & Young LLP and Ernst & Young-Hong Kong, L.P., alleging professional negligence/malpractice, breach of fiduciary duty and constructive fraud in connection with the accounting, advisory, auditing, consulting, financial and transactional services they provided to the Company.

On April 14, 2009, the Company amended the complaint (the "Amended Complaint") by naming as additional defendants the Company's former outside legal counsel consisting of the law firms of Greenberg Traurig, LLP, Greenberg Traurig, P.A. (collectively, "Greenberg Traurig"), Jenkens & Gilchrist, P.C. ("Jenkens & Gilchrist") and Bilzin Sumberg Baena Price & Axelrod LLP ("Bilzin Sumberg") as well as attorney Robert I. Schwimmer who previously represented the Company while an attorney at Jenkens & Gilchrist and later at Greenberg Traurig. Jenkens & Gilchrist went out of business in 2007 and is in the process of winding up its business and affairs. The Company also named as defendants the law firm of Moscowitz & Moscowitz, P.A. and its attorneys Norman A. Moscowitz and Jane W. Moscowitz (collectively, the "Moscowitz Defendants") who conducted the investigation and authored the investigative report requested by the Company's Audit Committee following the discovery of alleged improprieties at the Company's Asian subsidiaries. The claims against the Company's former outside legal counsel are for breach of fiduciary duty and professional negligence. In addition to these claims, the Amended Complaint contains a claim of civil conspiracy against Ernst & Young LLP, Greenberg Traurig and Mr. Schwimmer. The claims against Ernst & Young LLP and Ernst & Young-Hong Kong, L.P. were subsequently stayed in the Circuit Court action and submitted to binding arbitration. A final hearing before the arbitration tribunal was completed on May 27, 2011. On February 29, 2012, the arbitration tribunal issued a Final Award which found no auditor negligence, denied the Company any recovery against Ernst & Young LLP and Ernst & Young Hong Kong L.P., and further provided that each party shall bear its own attorneys' fees and costs.

On July 11, 2011, defendants Jenkens & Gilchrist, Bilzin Sumberg and the Moscowitz Defendants filed a counterclaim in the Circuit Court against the Company and a Third Party Complaint against its President and Chief Executive Officer, Mark Emalfarb, individually, for abuse of process.

The counter claim and Third Party Complaint filed by Jenkens & Gilchrist and Bilzin Sumberg also included claims for common law indemnity against the Company and Mr. Emalfarb. In addition, Jenkens & Gilchrist made a claim against the Company for breach of the implied covenant of good faith and fair dealing. On July 18, 2011, the Moscowitz Defendants filed a motion for summary judgment which the Circuit Court denied in its entirety. On September 9, 2011, Jenkens & Gilchrist and Bilzin Sumberg amended their counterclaim and Third Party Complaint which dropped their claims for abuse of process but retained their claims for common law indemnity against the Company and Mr. Emalfarb.

Bilzin Sumberg also added claims against the Company and Mr. Emalfarb for breach of its retainer agreements and for declaratory relief. Also on September 9, 2011, the Moscowitz Defendants dropped their claims for abuse of process against the Company and Mr. Emalfarb. On December 8, 2011, the Circuit Court dismissed without prejudice all counterclaims against the Company and all third party claims against Mr. Emalfarb.

On July 18, 2012, the Company filed a Second Amended Complaint which expanded and amplified the Company's prior allegations of negligent acts and omissions by the defendants in the Circuit Court proceedings. All of the defendants have filed and served their answers and affirmative defenses.

On August 8, 2012, the Company, Jenkens & Gilchrist and Mr. Schwimmer entered into a Settlement Agreement and General Releases (the "J&G Settlement Agreement") whereby Jenkens & Gilchrist paid the Company $525,000 for the mutual release and discharge of (1) all causes of action between the Company and Jenkens & Gilchrist, and (2) causes of action between the Company and Mr. Schwimmer including, but not limited to, those in the professional liability lawsuit, but only those which occurred while Mr. Schwimmer served as an attorney at Jenkens & Gilchrist and not while he served as an attorney at Greenberg Traurig or any other time. Such amount was included in other income in the consolidated statement of operations for the year ended December 31, 2012. Pursuant to the J&G Settlement Agreement, the Company, Jenkens & Gilchrist and Mr. Schwimmer have filed a Stipulation of Settlement with the Court to enforce the terms of the J&G Settlement Agreement including, but not limited to, the dismissal of Counts I and II of the Second Amended Complaint against Jenkens & Gilchrist and Mr. Schwimmer with prejudice.

On January 24, 2013, each of the remaining defendants served their amended affirmative defenses to the Second Amended Complaint. On February 11, 2013, the Company served its reply to such amended affirmative defenses.

The Company and the defendants in the Circuit Court proceedings are continuing to engage in written discovery, oral depositions and motion practice.

On November 26, 2013, the Court entered a Case Management Order. Pursuant to the Order, all pretrial motions and other litigation activities were to have been concluded by the end of 2014. The Court ordered mediation was held on November 10th and 11th, 2014.

On July 31, 2015, the Company reached a settlement with one of the three remaining defendant law firms in its ongoing professional liability litigation. On August 12, 2015 the Company received full payment of this low seven figure settlement, which is net of fees and expenses. The settlement amount will be reported in the Company's consolidated statement of operations, in other income, for the quarter ending September 30, 2015.

The Company continues to vigorously prosecute this litigation which is in the final phases of pretrial motion practice. Fact discovery is complete. Expert depositions are complete. All summary judgment motions have been ruled on by the Court. The rulings on summary judgment motions have been favorable to the Company. The litigation is on an eight week trial docket commencing October 26, 2015 and ending December 18, 2015. The Company will know on October 16, 2015 if the trial will occur during the eight week period or will be specially set for trial in early 2016.

In addition to the matters noted above, from time to time, the Company is subject to legal proceedings, asserted claims and investigations in the ordinary course of business, including commercial claims, employment and other matters, which management considers immaterial, individually and in the aggregate. The Company makes a provision for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed at least quarterly and adjusted to reflect the impact of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular case. Litigation is inherently unpredictable and costly. While the Company believes that it has valid defenses with respect to the legal matters pending against it, protracted litigation and/or an unfavorable resolution of one or more of such proceedings, claims or investigations against the Company could have a material adverse effect on the Company's consolidated financial position, cash flows or results of operations.

Note 6: Common Stock

Issuances of Common Stock

For the six month period ended June 30, 2014, stock options to purchase 15,500 shares of common stock were exercised at exercise prices ranging from $0.15 to $0.23 per share. Employees exercised 15,500 options under the Company's 2013 Employee Loan Program (the Loan Program).

As of June 30, 2015, there were no outstanding warrants to purchase any shares of common stock. At June 30, 2015, 2,500 shares of common stock from warrant exercises had not yet been issued.

During the six month period ended June 30, 2014, the Company advanced certain employees $3,125 under the Loan Program, in connection with their exercise of stock options to purchase 15,500 shares of common stock. For the six month period ended June 30, 2015 and 2014, $90,750 and $40,000, respectively was repaid under the Loan Program. Amounts borrowed under the Loan Program bear interest at 3% per annum and are payable within 24 months from the date of the loan agreement. The loans are collateralized by the shares of common stock issued in connection with the exercise of the stock options and warrants. As of June 30, 2015 and December 31, 2014, advances to employees under the Loan Program were approximately $41,000 and $131,000, respectively, and are included in stockholders' equity in the accompanying condensed consolidated balance sheets.

Conversion of Convertible Subordinated Debt

For the year ended December 31, 2014, a third party debt holder converted a portion of their 2011 Notes in an aggregate of 83,760 shares of common stock at a conversion price of $1.28.

Note 7: Share-Based Compensation

Description of Equity Plans

The Company has two stock compensation plans, the Dyadic International, Inc. 2006 Stock Option Plan, as amended (the "2006 Stock Option Plan") and the Dyadic International, Inc. 2011 Equity Incentive Award Plan (the "2011 Equity Incentive Plan") (the 2006 Stock Option Plan and the 2011 Equity Incentive Plan are hereinafter collectively referred to as the "Equity Compensation Plans"). All options granted under the Equity Compensation Plans are service-based and typically vest over a four year period.

On January 8, 2015, the Company granted its non-employee directors stock options to purchase 125,000 shares of the Company's common stock at an exercise price of $0.97 per share. The stock options vest over four years and expire on January 7, 2025. The fair market value of such stock options was $0.77 per stock option based on the Black-Scholes valuation model. Assumptions used in the Black-Scholes valuation model for options granted were as follows:

Average Risk-Free Interest Rate	2.03%
Dividend Yield	0.00%
Average Volatility Factor	76.49%
Average Option Life	10 year

On April 1, 2015, the Company granted a non-employee directors stock options to purchase 30,000 shares of the Company's common stock at an exercise price of $1.33 per share. The stock options vest over four years and expire on March 29, 2025. The fair market value of such stock options was $1.05 per stock option based on the Black-Scholes valuation model. Assumptions used in the Black-Scholes valuation model for options granted were as follows:

Average Risk-Free Interest Rate	1.92%
Dividend Yield	0.00%
Average Volatility Factor	75.878%
Average Option Life	10 year

During the six month period ended June 30, 2015 and 2014, there were 434,750 and 0, respectively, stock options that expired or were canceled. As of June 30, 2015, there were stock options outstanding under the Company's equity plans to purchase 3,807,375 shares of common stock.

Information with respect to the Company's two Equity Compensation Plans is as follows:

	Shares	**Weighted Average Exercise Price**
Outstanding at December 31, 2013	3,309,125	$ 1.67
Granted	825,000	1.65
Exercised	(20,500)	0.21
Expired	-	-
Cancelled	(11,500)	1.20
Outstanding at December 31, 2014	4,102,125	1.68
Granted	155,000	1.04
Exercised	(15,000)	0.21
Expired	(300,000)	2.28
Cancelled	(134,750)	1.29
Outstanding at June 30, 2015	3,807,375	1.62
Exercisable at June 30, 2015	2,652,540	$ 1.65

On May 6, 2013, the Company granted 69,000 Restricted Stock Units ("RSU's") to an officer pursuant to the Company's 2011 Equity Incentive Award Plan. The value of the award per share was $1.93. The RSU's vest in equal monthly amounts over a three year period. During the six month period ended June 30, 2015 and 2014, the Company recognized approximately $22,000 in non-cash share-based compensation expense related to these RSU's. The Company will recognize approximately $41,000 in additional non-cash share-based compensation expense related to the RSU's over the remaining vesting period.

Effective January 1, 2015, the Company revised its Director Compensation Policy. The new policy compensates directors by providing 80% of their annual retainer in cash paid in equal monthly installments and 20% of their annual retainer in RSU's. During the six month period ended June 30, 2015, the Company granted 47,160 RSU's to the Board. Each RSU Award shall vest 25% of the units on the date of the grant, with the remaining portion vesting in equal installments of 18.75% on the last day of each calendar quarter during the year. During the six month period ended June 30, 2015, the Company recognized approximately $28,000 in non-cash share-based compensation expense related to these RSU's.

On June 24, 2015, the Company modified its Board of Directors compensation policy to provide the directors an annual election to receive their annual retainer 100% in restricted stock or 80% cash and 20% restricted stock. This election will be made annually at the third quarter board meeting.

The Company recognized non-cash share-based compensation expense for its share-based awards of approximately $208,000 and $223,000 respectively, for the three months ended June 30, 2015 and 2014, and $270,000 and $395,000 for the six month period ended June 30, 2015 and 2014, respectively.

Total non-cash share-based compensation expense is allocated among the following expense categories:

	Three Months Ended June 30,	
	2015	**2014**
General and administrative	$ 183,428	$ 169,765
Research and development	2,493	8,653
Cost of goods sold	8,490	15,546
Sales and Marketing	13,848	28,891
	$ 208,259	$ 222,855

	Six Months Ended June 30,	
	2015	**2014**
General and administrative	$ 236,203	$ 301,417
Research and development	(1,664)	17,704
Cost of goods sold	16,981	30,442
Sales and Marketing	18,759	45,559
	$ 270,279	$ 395,122

Note 8: Segment Data Information

	Three Months Ended June 30, 2015			
	U.S. Operating Segment	Netherlands Operating Segment	Eliminations	Total
Net Revenue	$ 3,356,393	676,876	(201,459)	$ 3,831,810
Income (Loss) from Operations	18,802	(226,188)	-	(207,386)
Interest Income	2,541	147	-	2,688
Interest Expense	(218,510)	-	-	(218,510)
Share-Based Compensation	(170,519)	(37,740)	-	(208,259)
Depreciation and Amortization	(15,170)	(37,782)	-	(52,952)
Capital Expenditures	(11,732)	(54,775)	-	(66,507)

	Three Months Ended June 30, 2014			
	U.S. Operating Segment	Netherlands Operating Segment	Eliminations	Total
Net Revenue	$ 2,457,564	1,304,652	(700,533)	$ 3,061,683
Income (Loss) from Operations	(1,836,044)	320,274	-	(1,515,770)
Interest Income	6,461	421	-	6,882
Interest Expense	(169,979)	-	-	(169,979)
Share-Based Compensation	(197,611)	(25,244)	-	(222,855)
Depreciation and Amortization	(21,612)	(53,463)	-	(75,075)
Capital Expenditures	(34,155)	(74,162)	-	(108,317)

	Six Months Ended June 30, 2015			
	U.S. Operating Segment	Netherlands Operating Segment	Eliminations	Total
Net Revenue	$ 7,034,709	$ 1,707,651	$ (876,505)	$ 7,865,855
Income (Loss) from Operations	(331,320)	(79,490)	-	(410,810)
Interest Income	5,725	362	-	6,087
Interest Expense	(399,141)	-	-	(399,141)
Share-Based Compensation	(268,433)	(1,846)	-	(270,279)
Depreciation and Amortization	(23,947)	(112,768)	-	(136,715)
Capital Expenditures	(26,475)	(70,243)	-	(96,718)
Total Assets	6,404,697	(3,762,163)	8,558,528	11,201,062

	Six Months Ended June 30, 2014			
	U.S. Operating Segment	Netherlands Operating Segment	Eliminations	Total
Net Revenue	$ 4,916,724	$ 2,505,792	$ (1,375,801)	$ 6,046,715
Income (Loss) from Operations	(3,605,460)	679,898	-	(2,925,562)
Interest Income	15,561	972	-	16,533
Interest Expense	(338,822)	-	-	(338,822)
Share-Based Compensation	(355,096)	(40,026)	-	(395,122)
Depreciation and Amortization	(43,365)	(101,967)	-	(145,332)
Capital Expenditures	(54,511)	(158,078)	-	(212,589)
Total Assets	7,325,155	(5,051,779)	8,895,013	11,168,389

Concentrations

The Company's credit risks consist primarily of cash and cash equivalents and uncollateralized accounts receivables. The Company performs periodic credit evaluations of its customers' financial condition and provides allowances for doubtful accounts as required.

At times, the Company has cash and cash equivalents at financial institutions exceeding the Federal Depository Insurance Company ("FDIC") insured limit on domestic currency and the Netherlands FDIC counterpart on foreign currency. The Company only deals with reputable financial institutions and has not experienced any losses on these accounts. At June 30, 2015 and December 31, 2014 amounts on deposit at financial institutions that exceeded these limits are approximately $4,628,000 and $2,122,000, respectively.

For the six month period ended June 30, 2015, there were two customers that accounted for approximately 17% and 12% of net product sales. For the six period ended June 30, 2015, there were two customers that accounted for approximately 30% and 13%, respectively, of research and development revenue.

For the six month period ended June 30, 2014, there was one customers that accounted for approximately 18% of net product sales. For the six period ended June 30, 2014, there were two customers that accounted for approximately 62% and 11%, respectively, of research and development revenue.

As of June 30, 2015, there were two customers that accounted for approximately 15% and 10% of total accounts receivable. As of December 31, 2014, there were four customers that accounted for approximately 18%, 13%, 11% and 10% of total accounts receivable.

The Company conducts operations in The Netherlands through its foreign subsidiary (*Note 1*) and has foreign product related revenue. For the six month period ended June 30, 2015 and 2014, the Company incurred foreign currency exchange losses (gains) of approximately $163,000 and ($12,000) respectively.

The Company generates a large portion of its product sales to customers that are located outside the U.S. Sales to external customers whose corporate offices are located outside the U.S., totaled approximately $5,994,000, or 76% and $4,517,000, or 75% for the six month period ended June 30, 2015 and 2014, respectively.

The Company does not own enzyme manufacturing facilities and relies on third party contract manufacturers to produce all of its enzymes. The Company has and will continue to utilize third party manufacturers to fulfill its current and future production needs. In order to address future growth, the Company will require additional manufacturing capacity. There is no assurance that the Company will be able to maintain its current manufacturing capacity or be able to secure additional capacity on acceptable terms and conditions as and when needed by the Company. Any interruption in or failure to secure such manufacturing capacity could have a material adverse effect on the Company's results of operations.

For the period ended June 30, 2015 and 2014, there was one vendor that accounted for 10% or greater of purchases, which represented approximately 44% and 41%, respectively, of total purchases, respectively. This vendor accounted for approximately 77% and 50% of total accounts payable balance as of June 30, 2015 and December 31, 2014, respectively.

Note 9: Subsequent Events

On July 31, 2015, the Company reached a settlement with one of the three remaining defendant law firms in its ongoing professional liability litigation. On August 12, 2015, the Company received full payment of this low seven figure settlement, which is net of fees and expenses. The settlement amount will be reported in the Company's consolidated statement of operations, in other income, for the quarter ending September 30, 2015.

The Company has evaluated these unaudited consolidated financial statements for subsequent events through August 14, 2015, the date these unaudited consolidated financial statements were available to be issued. Except as discussed above, management is not aware of any material events that have occurred subsequent to the balance sheet date that would require adjustment to, or disclosure in the unaudited consolidated financial statements.

Item 4. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis contains forward-looking statements about our plans and expectations of what may happen in the future. Forward-looking statements are based on a number of assumptions and estimates that are inherently subject to significant risks and uncertainties, and our results could differ materially from the results anticipated by our forward-looking statements as a result of many known or unknown factors, including, but not limited to, those factors discussed in "Risk Factors" which is incorporated herein by reference to our Annual Report for the year ended December 31,2014 which was filed with the OTC Markets on March 27, 2015. See also the "Special Cautionary Notice Regarding Forward-Looking Statements" set forth at the beginning of this report.

You should read the following discussion and analysis in conjunction with the unaudited consolidated financial statements, and the related footnotes thereto, appearing elsewhere in this report, and in conjunction with management's discussion and analysis and the audited consolidated financial statements included in our Annual Report for the year ended December 31, 2014.

OVERVIEW

Description of Business

Dyadic is a global biotechnology company headquartered in Jupiter, Florida with operations in the United States and The Netherlands. Dyadic uses its patented and proprietary technologies to conduct research, development and commercial activities for the discovery, development, manufacture and sale of enzymes and other proteins for the bioenergy, bio-based chemicals, biopharmaceuticals and industrial enzymes industries. Dyadic recognizes substantially all of its revenues from (1) licensing its patented and proprietary technologies; (2) selling its proprietary enzymes; and (3) conducting research and development activities for third parties.

Dyadic's activities relating to selling proprietary enzymes focuses on utilizing its patented and proprietary fungal strains and associated technologies. In particular, Dyadic uses its *Trichoderma* and C1 (*Myceliopthora thermophila*) fungal strains in the production of its industrial enzymes. Dyadic manufactures, purchases, and sells liquid and dry enzyme products to global customers for use within the animal feed, pulp and paper, starch and alcohol, food and brewing, textiles and biofuels industries.

For new product development and third party research, Dyadic utilizes an integrated technology platform based on its patented and proprietary C1 Platform Technology, which enables the development and large-scale manufacture of low cost enzymes and other proteins for diverse market opportunities. The C1 Platform Technology can also be used to screen for the discovery of novel genes and proteins. Dyadic actively pursues licensing arrangements and other commercial opportunities to leverage the value of these technologies by providing its partners and collaborators with the benefits of developing, manufacturing and/or utilizing the enzymes and other proteins, using the C1 Platform Technology.

S***trategy***

We expect to generate revenues by leveraging our C1 Expression System and other technologies by: (i) conducting R&D projects to develop C1-based products for ourselves and for third parties; (ii) entering into collaborations, license agreements, joint ventures or other business arrangements to collect technology access fees, milestone payments, royalties, profit sharing and other fees; (iii) selling enzyme products, produced using Trichoderma and our C1 Expression System, and buying and reselling enzymes we purchase from third parties to both current markets and future markets to customers, through distributors or for customer-collaborators; and/or (iv) obtaining grants from the United States government, foreign governments or other agencies. Our technologies have the potential for commercial applications in multi-billion dollar opportunities across diverse end markets, and we currently are focused on:

Biofuels and bio-based chemicals (including bioethanol, biodiesel, renewable plastics and polymers as replacements for petroleum-based products, and a variety of bio-based chemicals such as acrylic acid, succinic acid, butanediol, phthalate, solvents, and nutritious oils such as Omega 3). Our C1 enzyme technology is being developed for use in the conversion of natural fibers (biomass) into fermentable sugars, which are subsequently fermented into ethanol our other bio-based products. Our current product offering, the CMAX product line, along with the C1-based enzymes developed by our licensee Abengoa, are recognized for their excellent performance characteristics at converting natural fibers (biomass) such as corn stover, and wheat straw into fermentable sugars and through our continued research efforts we expect to continue developing even better performing CMAX enzymes at lower manufacturing costs. As we are generally focused on a licensing and collaboration model in this nascent industry, with the first commercial scale facility using our C1 technology expected to come online this year. We do not currently have significant direct sales of our CMAX products, however, we have established our market position with our licensee Abengoa and our more recent collaborator CIMV:

- Abengoa**,** our licensee, began operations at its 25 million gallon advanced biofuels plant in Hugoton, Kansas in the fourth quarter of 2014 which generated a $500,000 milestone payment. Although the opening of this facility generated the $500,000 milestone payment the operation of this facility has been delayed. We anticipate receiving royalties from the operation of the Hugoton facility, however we don't expect these royalties to be material to the Company for the remainder of 2015.

- CIMV, a recent collaborator of ours, is recognized as potentially having innovative technologies to process biomass, to create a fully integrated system to produce environmentally low impact biofuels and bio-based chemicals. Dyadic anticipates supplying enzymes to CIMV's planned demonstration plant through the EU funded 2G BIOPIC program, and if such program demonstrates the potential for commercial success, we anticipate the licensing of the Company's C1 technology for on-site production of enzymes at CIMV's future commercial scale plants.

Biopharmaceuticals (including therapeutic proteins, vaccines, monoclonal antibodies, biogenerics and other biologics used in the treatment of many diseases) – We believe that the biopharmaceutical industry is in need of novel expression systems like our C1 Expression System to address certain challenges in the market today in developing and producing biologics. Using novel expression systems such as C1, drug developers have another alternative organism that may be able to sufficiently express therapeutic proteins, vaccines, monoclonal antibodies and other biologics which may be stuck in their development programs because of the lack of expression levels with the more common expression systems. We believe that pharmaceutical companies might find C1, among the novel, cutting-edge expression systems available, and to potentially become one of the more attractive because of its long track record in industrial enzyme development and manufacturing, its robust growth and fermentation characteristics, and its ability to be readily programmed and easily scaled. However, using the C1 Expression System for biopharmaceutical applications should be considered an early-stage endeavor. We have been working with Sanofi Pasteur since 2011. In the collaboration, we are attempting to develop a method to produce a certain vaccine using the C1 expression system that is in the R&D phase. In addition to prior funded R&D, we have the potential for additional R&D funding, milestone payments and other opportunities should the research project be continued and the subsequent technology transfer be successful.

- Sanofi**,** a collaborator, has worked with us to try and develop a method to produce a certain vaccine using the C1 expression system that is in the R&D phase. In addition to prior funded R&D, we have the potential for additional R&D funding, milestone payments and other opportunities should the research project be continued and the subsequent technology transfer be successful.

Industrial (enzymes for the animal feed, pulp and paper, textiles, food and beverage and other end markets) – Enzymes for industrial applications represent our oldest and largest business segment. Already a $5 billion global market in 2013, we believe enzymes will continue to replace existing technologies due to the precision that biocatalysts potentially demonstrate relative to existing chemical approaches. We currently operate a small enzyme business selling proprietary products to approximately 100 customers in 35 different countries. While the majority of our existing enzyme sales are from our historical non-GMO Trichoderma technology, we are currently focused on developing cutting-edge new products based on our C1 Expression System. While we may release next generation products for industrial applications such as textiles and pulp and paper sooner, we expect our major new product introductions to happen no earlier than 2017 due to development cycles and registration requirements for the animal feed and food and beverage industries. Our primary licensees, BASF and our confidential animal health company, represent two critical components to our strategy in the Industrial market.

- BASF, one of our non-exclusive C1 licensees, is expected to continue developing commercial products using the C1 Expression System. Through BASF, the Company indirectly has access to one of the world's foremost sales, marketing and distribution organizations to commercialize these products in a number of end markets. For example, BASF is already a market leader in animal feed and detergent enzymes.

- Our Animal Health Licensee began work with Dyadic in 2011 to develop, manufacture and commercialize certain animal feed enzyme products. As part of this agreement, Dyadic has granted its partner a worldwide license to use the developed C1 fungal strains to manufacture and sell certain animal feed enzyme products. Dyadic may receive additional research and development revenues, and will be eligible to receive commercial milestone payments as well as royalties based on its partners commercial launch, and worldwide sales of products, which utilize the C1 Platform Technology. Under the agreement, Dyadic's partner has previously funded research at Dyadic's R&D arm, Dyadic NL, which utilizes Dyadic's patented and proprietary C1 Platform Technology, to develop fungal strains that may at some point in the future meet the end point goals for expression and cost performance for animal health and nutrition applications. To date, despite achieving higher expression levels, the target performance objectives of our partner have not yet been achieved. Additional experiments are ongoing to determine if these objectives can be met with the current enzyme developer in this research project and we are awaiting these results. We expect that further research will be needed to be performed before our partner will make a decision regarding whether to proceed with registering and commercializing a product that meets their performance and cost parameters, continue animal feed trials or possibly even abandon the initiative. If the current experiments don't meet the licensee's expectations, our partner has not informed the Company yet whether or not they will continue funding the necessary additional research and development to achieve their criteria based on new potential strategies. It is still unclear as to the timing of their potential filing to register a product for animal nutrition; however, there is always a risk that they decide to abandon the project or when they do file their registrations that there may be delays of approval and/or non-registration due to unforeseen circumstances.

We believe in the saying that *"The expression system is not everything, but everything is nothing without a good expression system."* Based on our academic and commercial collaborations, we believe experts in academia and industry regard Dyadic's C1 Expression System to be among the foremost expression systems in the world. We have licensed, on a non-exclusive basis, our C1 Expression System to some of the world's largest and most renowned companies in their respective fields of applications. We believe that utilizing our C1 Expression System may be the critical differentiator in allowing Dyadic, our collaborators and licensees to compete against much larger rivals in these technology-driven markets.

Recent Developments

On June 24, 2015, the Company modified its Board of Directors compensation policy to provide the directors an annual election to receive their annual retainer 100% in restricted stock or 80% cash and 20% restricted stock. This election will be made annually at the third quarter board meeting.

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS

The preparation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and judgments that affect the reported amount of assets and liabilities and related disclosure of contingent assets and liabilities at the date of our consolidated financial statements and the reported amounts of revenues and expenses during the applicable period. Actual results may differ from these estimates under different assumptions or conditions. Such differences could be material to the financial statements.

We define critical accounting policies as those that are reflective of significant judgments and uncertainties and which may potentially result in materially different results under different assumptions and conditions. In applying these critical accounting policies, our management uses its judgment to determine the appropriate assumptions to be used in making certain estimates. These estimates are subject to an inherent degree of uncertainty. Our critical accounting policies include the following:

Revenue Recognition

Revenue is recognized when (1) persuasive evidence of an arrangement exists; (2) services have been rendered or product has been delivered; (3) price to the customer is fixed and determinable; and (4) collection of the underlying receivable is reasonably assured. The Company recognizes revenue on product sales when title passes to the customer based upon the specified freight terms of the respective sale. Revenues are comprised of gross sales less provisions for expected customer returns, if any. Reserves for estimated returns and inventory credits are established by the Company, if necessary, concurrently with the recognition of revenue. The amount of reserves are established based upon consideration of a variety of factors including estimates based on historical return experience. Amounts billed to customers in sales transactions related to shipping and handling represent revenue earned for the goods provided and are included in net product revenue in the accompanying consolidated statements of operations. Costs of shipping and handling are included in cost of goods sold.

Revenues derived from license agreements typically consist of multiple deliverables including upfront fees, milestone payments, research and development revenues and/or royalties. The Company recognizes revenue based on the terms of each respective license agreement. The Company evaluates multiple deliverable arrangements contained in its collaboration and license agreements to determine whether the delivered milestone payments received are recognized as revenue when products are delivered, services rendered over the requisite service period and/or performance criteria are met.

The Company recognizes research milestone payments when earned, as evidenced by written acknowledgement from the collaborator, provided that (i) the milestone event is substantive and its achievability was not reasonably assured at the inception of the agreement, (ii) the milestone represents the culmination of an earnings process, (iii) the milestone payment is non-refundable and (iv) the Company's past research and development services, as well as its ongoing commitment to provide research and development services under the collaboration, are charged at fees that are comparable to the fees that the Company customarily charges for similar research and development services.

The Company recognized license fee revenue during the three month and six month period ended June 30, 2015 for the achievement of two research and development milestones in the amount of $600,000 and $800,000, respectively. The Company did not recognize any license fee revenue during the six month period ended June 30, 2014.

The Company recognizes revenue from research funding under collaboration agreements when earned on a "proportional performance" basis as research hours are incurred. The Company typically performs services as specified in each respective agreement on a best efforts basis, and is reimbursed based on labor hours incurred on each contract. The Company initially defers revenue for any amounts billed and payments received in advance for services performed. The Company then recognizes revenue pursuant to the related pattern of performance, based on total labor hours incurred relative to total labor hours estimated under the contract. As of June 30, 2015 and December 31, 2014, the deferred research and development obligation totaled approximately $1,364,000 and $431,000, respectively.

The Company recognized research and development revenue during the three month and six month period ended June 30, 2015 and 2014 in the amount of approximately $475,000 and $604,000 and $831,000 and $1,130,000, respectively.

Stock Compensation

We have granted stock options and restricted stock to employees, directors and consultants. For employee and director grants, the value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model. The Black-Scholes model takes into account volatility in the price of our stock, the risk-free interest rate, the estimated life of the option, the closing market price of our stock and the exercise price. We base our estimates of our stock price volatility on the historical volatility of our common and our assessment of future volatility; however, these estimates are neither predictive nor indicative of the future performance of our stock. For purposes of the calculation, we assumed that no dividends would be paid during the life of the options and warrants. The estimates utilized in the Black-Scholes calculation involve inherent uncertainties and the application of management judgment. In addition, we are required to estimate the expected forfeiture rate and only recognize expense for those equity awards expected to vest. As a result, if other assumptions had been used, our recorded stock-based compensation expense could have been materially different from that reported. In addition, because some of the options and warrants issued to employees, consultants and other third-parties vest upon the achievement of certain milestones, the total expense is uncertain.

Total compensation expense for options and restricted stock issued to consultants is determined at the "measurement date." The expense is recognized over the vesting period for the options and restricted stock. Until the measurement date is reached, the total amount of compensation expense remains uncertain. We record stock-based compensation expense based on the fair value of the equity awards at the reporting date. These equity awards are then revalued, or the total compensation is recalculated based on the then current fair value, at each subsequent reporting date. This results in a change to the amount previously recorded in respect of the equity award grant, and additional expense or a reversal of expense may be recorded in subsequent periods based on changes in the assumptions used to calculate fair value, such as changes in market price, until the measurement date is reached and the compensation expense is finalized.

Inventory

Inventory consists of finished goods, including industrial enzymes used in the industrial, chemical, and agricultural markets, and are stated at the lower of cost or market using the weighted average cost method. The value of finished goods is comprised of raw materials and manufacturing costs, substantially all of which are incurred pursuant to oral agreements with our independent enzyme manufacturer. Provisions are made to reduce excess or obsolete inventory to net realizable value. Inventories are shown in the balance sheet net of such provisions.

Accounts Receivable and Allowances for Doubtful Accounts

We extend credit to our customers for product sales resulting in accounts receivable. Accounts receivable are recorded at their net realizable value on the date revenue is recognized or the Company has a contractual right to receive money, either on demand or at fixed or determinable dates. The Company provides allowances for doubtful accounts for estimated losses resulting from the inability of its customers to repay their obligations. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to pay, additional allowances may be required.

The Company provides for potential uncollectible accounts receivable based on specific customer identification and historical collection experience, adjusted for existing market conditions. If market conditions decline or the Company’s customers experience economic difficulties, actual collections may not meet expectations and may result in decreased cash flows and increased bad debt expense.

The policy for determining past due status is based on the contractual payment terms of each customer, which are generally net 30 or net 60 days. Once collection efforts by the Company are exhausted, the determination for charging off uncollectible receivables is made. The Company does not accrue finance or interest charges on past due accounts receivable. During the six month period ended June 30, 2015, the Company wrote off uncollectable receivables of approximately $64,000. There were no write-offs of uncollectable receivables during the six month period ended June 30, 2014.

Accounting for Income Taxes

In preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves management estimation of our actual current tax exposure and assessment of temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and, to the extent we believe that recovery is not likely, we must establish a valuation allowance. To the extent we establish a valuation allowance or increase this allowance in a period, we must include an expense within the tax provision in the consolidated statement of operations. Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. We have fully offset our deferred tax assets with a valuation allowance. Our lack of earnings history and the uncertainty surrounding our ability to generate taxable income prior to the reversal or expiration of such deferred tax assets were the primary factors considered by management in maintaining the valuation allowance.

As of June 30, 2015, the Company had significant net operating loss carryforwards remaining that will begin to expire in 2022. We have established a 100% valuation allowance against our net deferred tax assets due to our history of pre-tax losses and the likelihood that the deferred tax assets will not be realizable.

The Company is subject to income taxes in the U.S. federal jurisdiction, various state jurisdictions and certain other international jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. The Company is not subject to U.S. federal, state and local tax examinations by tax authorities for the years before 2011.

The Company follows the guidance for uncertain tax positions as addressed in FASB Accounting Standards Codification 740-10-65-1. The Company has no tax position at June 30, 2015 for which the ultimate deductibility is highly uncertain or for which there is uncertainty about the timing of such deductibility. The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses.

Recent Accounting Pronouncements

In May 2014, FASB issued ASU number 2014-09 (Revenue from Contracts with Customers (Topic 606)). This amended guidance was issued to clarify the principles used to recognize revenue for all entities. The guidance is based on the principle that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard also requires more detailed disclosures and provides additional guidance for transactions that were not comprehensively addressed in the prior accounting guidance. This guidance must be applied using one of two retrospective application methods and will be effective for the Company's interim and annual reporting periods beginning in the first quarter, 2018. Early adoption is not permitted. The Company is currently evaluating the impact of the adoption of this newly issued guidance on its consolidated financial statements.

In August 2014, FASB issued ASU number 2014-15 (Presentation of Financial Statements-Going Concern (Topic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern). This guidance was issued requiring management to evaluate, at each annual and interim reporting period, whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date the financial statements are issued and provide related disclosures. This guidance will be effective for the Company's annual reporting period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early adoption is permitted. The Company is currently evaluating the impact of the adoption of this newly issued guidance on its consolidated financial statements.

In January 2015, the FASB issued ASU 2015-01, Income Statement – Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items, which changed the requirements for reporting extraordinary and unusual items in the income statement. The update eliminates the concept of extraordinary items. The presentation and disclosure guidance for items that are unusual in nature or occur infrequently will be retained and will be expanded to include items that are both unusual in nature and infrequently occurring. A reporting entity may apply the amendments prospectively or retrospectively to all periods presented in the financial statements. The guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The adoption of this newly issued guidance is not expected to have an impact to the Company's consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, Consolidations (Topic 225-20): Amendments to the Consolidation Analysis, which affects current consolidation guidance. The guidance changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. This guidance must be applied using one of two retrospective application methods and will be effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in any interim period. The Company is currently evaluating the impact, if any, of the adoption of this newly issued guidance to its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Interest – Imputation of Interest (Topic 225-20): Simplifying the Presentation of Debt Issue Costs, that simplifies the presentation of debt issuance costs. The guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by these amendments. This guidance should be applied on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. The guidance will be effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted for financial statements that have not been previously issued. The Company is currently evaluating the impact, if any, of the adoption of this newly issued guidance to its consolidated financial statements.

In July 2015, the FASB issued ASU 2015-011, "Inventory (Topic 330): Simplifying the Measurement of Inventory." Under this standard, an entity should measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using LIFO or the retail inventory method. The amendments in this guidance are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The amendments are to be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The

Company is currently evaluating the impact, if any, of the adoption of this newly issued guidance on its consolidated financial statements.

Results of Operations

Three and Six Month Periods Ended June 30, 2015 Compared to the Same Periods in 2014

Revenue

Net product related revenue for the three month period ended June 30, 2015 increased 12% to approximately $2,756,000 compared to $2,458,000 for the same period a year ago. The increase in revenue for the period was driven by growth in the animal nutrition, biogas and food markets.

Net product related revenue for the six month period ended June 30, 2015 increased 27% to approximately $6,235,000 compared to $4,917,000 for the same period a year ago. The increase in revenue for the period was driven by growth in the animal nutrition, biogas and food markets.

License fee revenue for the three and six month periods ended June 30, 2015 increased to $600,000 and $800,000, respectively reflecting the Company achieving two license milestones with BASF. There was no license fee revenue in the three and six month periods of 2014.

Research and development revenue for the three month period ended June 30, 2015 decreased 21% to approximately $475,000 compared to $604,000 for the same period a year ago. The decrease in revenue for the period was due to mix and timing of project activity in commercial and government programs.

Research and development revenue for the six month period ended June 30, 2015 decreased 26% to approximately $831,000 compared to $1,130,000 for the same period a year ago. The decrease in revenue for the period was due to mix and timing of project activity in commercial and government programs.

Revenue by Geography

		June 30, 2015		June 30, 2014
		(Unaudited)		
Americas	$	1,871,501	$	1,529,690
Asia Pacific		835,961		622,842
Europe		5,158,393		3,894,183
Total Revenue	$	7,865,855	$	6,046,715

The increase in Americas revenue of approximately $342,000, or 22% reflects growth in the animal health and nutrition offset by a decrease in the food processing market.

The increase in Asia Pacific revenue of approximately $213,000 or 34%, is primarily due to growth in the animal health and nutrition offset by decreases in the BioFuel and Starch and Alcohol markets.

The increase in European revenue of approximately $1,264,000, or 32%, reflects growth in animal health and nutrition and pulp and paper markets, and $800,000 in licensing revenue in 2015 for achieving two milestones with BASF as compared to $0 in license related revenue in 2014.

For the six month period ended June 30, 2015, there were two customers that accounted for approximately 17% and 12% of net product sales. For the six month period ended June 30, 2015, there were two customers that accounted for approximately 30% and 13%, respectively, of research and development revenue.

For the six month period ended June 30, 2014, there was one customers that accounted for approximately 18% of net product sales. For the six month period ended June 30, 2014, there were two customers that accounted for approximately 62% and 11%, respectively, of research and development revenue.

The Company generates a large portion of its product sales to customers that are located outside the U.S. Sales to external customers whose corporate offices are located outside the U.S., totaled approximately $5,994,000, or 76% and $4,517,000, or 75% for the six month period ended June 30, 2015 and 2014, respectively.

Gross Profit

Gross profit for the three month period ended June 30, 2015 increased 48% to approximately $1,542,000 compared to $1,038,000 million for the same period a year ago. Gross margin for the three month period ended June 30, 2015 increased to 40% from 34% compared to the same period a year ago. The increase is attributable to product related margin growth of approximately $100,000, cost savings in manufacturing, fermentation and down-stream processing of $200,000 and BASF licensing revenue of $600,000 partially offset by lower research & development margins due to mix and timing of commercial and government programs of $400,000.

Gross profit for the six month period ended June 30, 2015 increased 49% to approximately $3,217,000 compared to $2,151,000 million for the same period a year ago. Gross margin for the six month period ended June 30, 2015 increased to 41% from 36% compared to the same period a year ago. The increase is attributable to product related margin growth of approximately $500,000, cost savings in manufacturing, fermentation and down-stream processing of $400,000 and BASF licensing revenue of $800,000 partially offset by lower research & development margins due to mix and timing of commercial and government programs of $700,000.

Operating Expenses

General and Administrative Expenses

General and administrative expenses for the three month period ended June 30, 2015 declined 25% to approximately $1,151,000 compared to $1,542,000 for the same period a year ago. The decrease primarily reflects lower litigation costs of approximately $348,000 and lower professional service costs, compensation and project related spending of $43,000.

General and administrative expenses for the six month period ended June 30, 2015 declined 35% to approximately $2,113,000 compared to $3,254,000 for the same period a year ago. The decrease primarily reflects lower litigation costs of approximately $977,000 and lower professional service costs, compensation and project related spending of $164,000.

Sales and Marketing

Sales and Marketing expenses for the three month period ended June 30, 2015 declined 12% to $300,000 versus $342,000 for the same period a year ago. The decrease is primarily reflects cost savings associated with sales force realignment.

Sales and Marketing expenses for the six month period ended June 30, 2015 declined 7% to $542,000 versus $583,000 for the same period a year ago. The decrease is primarily reflects cost savings associated with sales force realignment.

Research and Development

Research and Development expenses for the three month period ended June 30, 2015 decreased 50% to $323,000 versus $648,000 for the same period a year ago. The decrease primarily reflects reduce R&D projects, lower contract research fees and cost saving from the closure of our North Carolina lab in April 2014.

Research and Development expenses for the six month period ended June 30, 2015 decreased 36% to $809,000 versus $1,272,000 for the same period a year ago. The decrease primarily reflects reduce R&D projects, lower contract research fees and cost saving from the closure of our North Carolina lab in April 2014.

Foreign Currency Exchange (Gain) Loss

Foreign currency exchange, net for the six month period ended June 30, 2015 was a loss of approximately $163,000 compared to a gain of $12,000 in the same period a year ago reflecting the strengthening US dollar versus the EURO.

LIQUIDITY AND CAPITAL RESOURCES

Historically, the Company has financed operations primarily with proceeds from the sales of the products from its industrial enzyme business, upfront fees from licensing of technology, external borrowings, borrowings from its stockholders, sales of common equity securities, and to a lesser extent, the receipt of settlement proceeds from its ongoing lawsuit against the Company's former outside legal counsel.

As of June 30, 2015, the Company has liabilities that exceed its assets, negative working capital and cash flow deficiencies. In order to address these issues, the Company's management is exploring several transactions, including, but not limited to, licensing its C1 technologies to new collaborators, expanding or modifying the rights of existing licensees, other strategic alternatives of monetizing its assets including potentially selling certain parts of the business and technology, raising additional debt or equity financing, and extending the maturity dates of its subordinated convertible debt and note payable to stockholder, as has been done in the past. As discussed in Note 4, the maturity date of approximately $6.7 million of the Company's convertible subordinated debt was extended to January 1, 2016 with certain adjustments to the 2010 and 2011 Notes. In addition, on December 29, 2014, the maturity date of the $1.4 million note payable to stockholder was extended to January 1, 2016. All other provisions of the note remain unchanged. On March 9, 2015, the Company also completed a private placement of a $2,000,000 convertible subordinated promissory note with a maturity date of January 1, 2016. In addition, the Company is planning a further reduction in inventory levels from the June 30, 2015 levels and has implemented cost reductions in its administrative, sales and marketing and research and development functions.

On July 31, 2015, the Company reached a settlement with one of the three remaining defendant law firms in its ongoing professional liability litigation. On August 12, 2015 the Company received full payment of this low seven figure settlement, which is net of fees and expenses. The settlement amount will be reported in the Company's consolidated statement of operations, in other income, for the quarter ending September 30, 2015. In the event the Company is able to reach a favorable settlement with one or both of the two remaining defendants in its ongoing Professional Liability litigation (See ***Item 5. Legal Proceedings below for additional information***), this would provide the Company with additional capital. We expect to incur additional costs in what may be a long and protracted trial, the outcome of which is uncertain. If we do not prevail at trial, the court may determine that the Company is responsible for some or all of the defendants' costs incurred in this litigation. Additionally, even if we prevail at trial, we expect the defendants to appeal the decision.

The Company may incur additional losses over the next few years as it continues to develop its products and technologies. There can be no assurance that the Company's efforts with regard to such development will be successful. In addition, there is no assurance that the Company will be able to secure licensing transactions or other collaborations, or that the timing of those transactions will alleviate our liquidity issues going forward. Further, there is no assurance that the Company will be successful in obtaining the necessary funding to meet its business objectives or reduce its operating costs to a level sufficient to provide positive cash flow. Lastly, the Company's ability to extend the maturity dates of its subordinated convertible debt and note payable to stockholder cannot be assured.

At June 30, 2015, cash and cash equivalents were approximately $4,990,000 compared to $2,495,000 at December 31, 2014. The actual amount of cash that we will need to operate is subject to many factors, including, but not limited to, the timing of all of the actions described above. As a result of these factors, we may need to seek additional financings to provide the cash necessary to execute our current operations. The financial statements do not include any adjustments to reflect future effects on the recoverability or classification of assets or amounts and classification of liabilities that may result if the Company's plans are unsuccessful.

Net cash provided in operating activities for the six month period ended June 13, 2015 was approximately $537,000 as compared to cash used in operating activities of ($4,468,000) for the six months ended June 30, 2014. The net cash provided in operating activities was principally attributable to changes in operating assets and liabilities of $1,340,000 due to an increase in deferred research obligations, a decrease in inventory offset by increased accounts receivable, and a net loss of ($804,000).

Net cash used in operating activities for the six month period ended June 30, 2014 was approximately ($4,468,000). The net cash used in operating activities was principally attributable to a net loss of ($3,248,000) and changes in operating assets and liabilities of ($1,719,000) due to a decrease in deferred research obligations and accounts payable, an increase in inventory offset by a decrease accounts receivable, and non-cash adjustments to net loss, principally an increase in share-based compensation of $499,000.

Net cash used in investing activities for the six months ended June 30, 2015 was approximately ($86,000) as compared to approximately ($164,000) for the six months ended June 30, 2014. The decrease in net cash used in investing activities was principally attributable to reduced spending for fixed assets and patents.

Net cash provided by financing activities for the six months ended June 30, 2015 was approximately $2,044,000 which principally includes the cash proceeds from the private placement of a $2,000,000 convertible subordinated secured promissory note on March 9, 2015 offset by the repayment of $50,000 convertible subordinated secured promissory note on April 13, 2015 and the proceeds from the repayment of stock subscriptions of $91,000.

Item 5. Legal Proceedings

Professional Liability Lawsuit

On March 26, 2009, the Company filed a complaint in the Circuit Court of the 15th Judicial Circuit in and for Palm Beach County, Florida against Ernst & Young LLP and Ernst & Young-Hong Kong, L.P., alleging professional negligence/malpractice, breach of fiduciary duty and constructive fraud in connection with the accounting, advisory, auditing, consulting, financial and transactional services they provided to the Company.

On April 14, 2009, the Company amended the complaint (the “Amended Complaint”) by naming as additional defendants the Company’s former outside legal counsel consisting of the law firms of Greenberg Traurig, LLP, Greenberg Traurig, P.A. (collectively, “Greenberg Traurig”), Jenkens & Gilchrist, P.C. (“Jenkens & Gilchrist”) and Bilzin Sumberg Baena Price & Axelrod LLP (“Bilzin Sumberg”) as well as attorney Robert I. Schwimmer who previously represented the Company while an attorney at Jenkens & Gilchrist and later at Greenberg Traurig. Jenkens & Gilchrist went out of business in 2007 and is in the process of winding up its business and affairs. The Company also named as defendants the law firm of Moscowitz & Moscowitz, P.A. and its attorneys Norman A. Moscowitz and Jane W. Moscowitz (collectively, the “Moscowitz Defendants”) who conducted the investigation and authored the investigative report requested by the Company’s Audit Committee following the discovery of alleged improprieties at the Company’s Asian subsidiaries. The claims against the Company's former outside legal counsel are for breach of fiduciary duty and professional negligence. In addition to these claims, the Amended Complaint contains a claim of civil conspiracy against Ernst & Young LLP, Greenberg Traurig and Mr. Schwimmer.

The claims against Ernst & Young LLP and Ernst & Young-Hong Kong, L.P. were subsequently stayed in the Circuit Court action and submitted to binding arbitration. A final hearing before the arbitration tribunal was completed on May 27, 2011. On February 29, 2012, the arbitration tribunal issued a Final Award which found no auditor negligence, denied the Company any recovery against Ernst & Young LLP and Ernst & Young Hong Kong L.P., and further provided that each party shall bear its own attorneys’ fees and costs.

On July 11, 2011, defendants Jenkens & Gilchrist, Bilzin Sumberg and the Moscowitz Defendants filed a counterclaim in the Circuit Court against the Company and a Third Party Complaint against its President and Chief Executive Officer, Mark Emalfarb, individually, for abuse of process. The counterclaim and Third Party Complaint filed by Jenkens & Gilchrist and Bilzin Sumberg also included claims for common law indemnity against the Company and Mr. Emalfarb. In addition, Jenkens & Gilchrist made a claim against the Company for breach of the implied covenant of good faith and fair dealing. On July 18, 2011, the Moscowitz Defendants filed a motion for summary judgment which the Circuit Court denied in its entirety. On September 9, 2011, Jenkens & Gilchrist and Bilzin Sumberg amended their counterclaim and Third Party Complaint which dropped their claims for abuse of process but retained their claims for common law indemnity against the Company and Mr. Emalfarb. Bilzin Sumberg also added claims against the Company and Mr. Emalfarb for breach of its retainer agreements and for declaratory relief. Also on September 9, 2011, the Moscowitz Defendants dropped their claims for abuse of process against the Company and Mr. Emalfarb.

On December 8, 2011, the Circuit Court dismissed without prejudice all counterclaims against the Company and all third party claims against Mr. Emalfarb.

On July 18, 2012, the Company filed a Second Amended Complaint which expanded and amplified the Company's prior allegations of negligent acts and omissions by the defendants in the Circuit Court proceedings. All of the defendants have filed and served their answers and affirmative defenses.

On August 8, 2012, the Company, Jenkens & Gilchrist and Mr. Schwimmer entered into a Settlement Agreement and General Releases (the "J&G Settlement Agreement") whereby Jenkens & Gilchrist paid the Company $525,000 for the mutual release and discharge of (1) all causes of action between the Company and Jenkens & Gilchrist, and (2) causes of action between the Company and Mr. Schwimmer including, but not limited to, those in the professional liability lawsuit, but only those which occurred while Mr. Schwimmer served as an attorney at Jenkens & Gilchrist and not while he served as an attorney at Greenberg Traurig or any other time. Pursuant to the J&G Settlement Agreement, the Company, Jenkens & Gilchrist and Mr. Schwimmer have filed a Stipulation of Settlement with the Court to enforce the terms of the J&G Settlement Agreement including, but not limited to, the dismissal of Counts I and II of the Second Amended Complaint against Jenkens & Gilchrist and Mr. Schwimmer with prejudice.

On January 24, 2013, each of the remaining defendants served their amended affirmative defenses to the Second Amended Complaint. On February 11, 2013, the Company served its reply to such amended affirmative defenses.

On November 26, 2013, the Court entered a Case Management Order. Pursuant to the Order, all pretrial motions and other litigation activities are to be concluded by the end of 2014. The Court ordered mediation is to occur no later than March 31, 2015. The Court has not yet set a trial date for 2015.

On July 31, 2015, the Company reached a settlement with one of the three remaining defendant law firms in its ongoing professional liability litigation. On August 12, 2015, the Company received full payment of this low seven figure settlement, which is net of fees and expenses. The settlement amount will be reported in the Company's consolidated statement of operations, in other income, for the quarter ending September 30, 2015.

The Company continues to vigorously prosecute this litigation which is in the final phases of pretrial motion practice. Fact discovery is complete. Expert depositions are complete. All summary judgment motions have been ruled on by the Court. The rulings on summary judgment motions have been favorable to the Company. The litigation is on an eight week trial docket commencing October 26, 2015 and ending December 18, 2015. The Company will know on October 16, 2015 if the trial will occur during the eight week period or will be specially set for trial in early 2016.

Other

In addition to the matters noted above, from time to time, the Company is subject to legal proceedings, asserted claims and investigations in the ordinary course of business, including commercial claims, employment and other matters, which management considers immaterial, individually and in the aggregate.

The Company makes a provision for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed at least quarterly and adjusted to reflect the impact of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular case. Litigation is inherently unpredictable and costly. While the Company believes that it has valid defenses with respect to the legal matters pending against it, protracted litigation and/or an unfavorable resolution of one or more of such proceedings, claims or investigations against the Company could have a material adverse effect on the Company's consolidated financial position, cash flows or results of operations.

Item 6. Defaults upon Senior Securities

None.

Item 7. Other Information

Quantitative and Qualitative Disclosures about Market Risk

The primary objective of our investment activities is to preserve principal while maximizing our income from investments and minimizing our market risk. We currently invest in government and investment-grade corporate debt in accordance with our investment policy, which we may change from time to time. The securities in which we invest have market risk. This means that a change in prevailing interest rates, and/or credit risk, may cause the fair value of the investment to fluctuate. For example, if we hold a security that was issued with a fixed interest rate at the then-prevailing rate and the prevailing interest rate later rises, the fair value of our investment will probably decline. As of June 30, 2015, our portfolio of financial instruments consists of cash equivalents, including money market funds. Due to the short-term nature of these financial instruments, we believe there is no material exposure to interest rate risk, and/or credit risk, arising from our portfolio of financial instruments.

Risk Factors

Investing in our common stock involves a high degree of risk. You should carefully consider all of the matters described in this Quarterly Report for the six months ended June 30. 2015 and the "risk factors" included in our December 31, 2014 Annual Report filed with OTC Markets on March 27, 2015, which is incorporated herein by reference, in evaluating our current business and future performance. We cannot assure you that any of the events discussed in the risk factors will not occur. If we are not able to successfully address any of the risks or difficulties, we could experience significant changes in our business, operations and financial performance. In such circumstances, the trading price of our common stock could decline, and in some cases, such declines could be significant and you could lose part or all of your investment. In addition to the risks, other unforeseeable risks and uncertainties or factors that we currently believe are immaterial may also adversely affect our operating results, and there may be other risks that may arise in the future. Certain statements contained in this Quarterly Report for the six months ended June 30, 2015 constitute forward-looking statements. Please refer to the section entitled "Special Cautionary Notice Regarding Forward-Looking Statements" appearing on page 3 of this Quarterly Report for important limitations and guidelines regarding reliance on forward-looking statements.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Appointment of New Director

On March 18, 2015, we announced the appointment of Jack Kaye to our board of directors, effective April 1, 2015.

Item 8. Exhibits

None

Item 9. Certifications

Certification

I, Mark A. Emalfarb, certify that:

1. I have reviewed the Information and Quarterly Report, exhibits, and all notes thereto of Dyadic International, Inc.;

2. Based on my knowledge, this Quarterly Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Quarterly Report; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this Quarterly Report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this Quarterly Report.

Dated August 14, 2015

/s/ Mark A. Emalfarb

By: Mark A. Emalfarb
Title: President and Chief Executive Officer

Certification

I, Thomas L. Dubinski, certify that:

1. I have reviewed the Information and Quarterly Report, exhibits, and all notes thereto of Dyadic International, Inc.;

2. Based on my knowledge, this Quarterly Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Quarterly Report; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this Quarterly Report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this Quarterly Report.

Dated August 14, 2015

/s/ Thomas L. Dubinski

By: Thomas L. Dubinski
Title: Vice President and Chief Financial Officer