DYADIC INTERNATIONAL, INC.
A Delaware Corporation

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SIC Code: 2860

Federal EIN: 45-0486747

Issuer's Quarterly Report

For the nine months ended September 30, 2015

ISSUER'S EQUITY SECURITIES

COMMON STOCK

$0.001 Par Value Per Share
100,000,000 Shares Authorized
34,180,630 Shares Issued and Outstanding as of September 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, the likelihood that the transaction relating to the sale of substantially all of Dyadic's enzyme and technology assets, including its C1 Platform Technology, is consummated on a timely basis or at all, including whether the conditions required to complete the transaction will be met, Dyadic's ability to roll over its existing debt if the DuPont Transaction is delayed beyond December 31, 2015 and/or obtain additional debt or equity financing sources, 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, the outcome of the current litigation by Dyadic against its former counsel, 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 September 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 tier 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 September 30, 2015:

(i)	Number of shares authorized	100,000,000
(ii)	Number of shares outstanding	34,180,630
(iii)	Number of shares freely tradable	15,548,635

(iv)	Total number of holders of record	54

There are greater than 2,100 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 September 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 SHEET

	September 30, 2015	December 31, 2014
	(Unaudited)	(Audited)
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 6,316,134	$ 2,495,455
Assets Held for Sale	6,334,561	5,888,835
Prepaid Expenses and Other Current Assets	111,786	136,286
Total Current Assets	12,762,481	8,520,576
Other Assets	14,778	14,777
	$ 12,777,259	$ 8,535,353
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities:		
Accounts Payable	$ 57,348	$ 495,976
Accrued Expenses	460,709	382,063
Deferred Research and Development Obligation	167,451	68,714
Liabilities Related to Assets Held for Sale	2,604,072	1,717,634
Note Payable to Stockholder	1,424,941	-
Convertible Subordinated Debt	8,660,787	-
Income Taxes Payable	32,200	-
Total Current Liabilities	13,407,508	2,664,387
Note Payable to Stockholder	-	1,424,941
Convertible Subordinated Debt	-	6,710,787
Total Liabilities	13,407,508	10,800,115
Stockholders' Deficit:		
Preferred Stock, $.0001 Par Value:		
Authorized Shares – 5,000,000; None Issued and Outstanding	-	-
Common Stock, $.001 par value:		
Authorized Shares – 100,000,000; Issued and Outstanding – 34,180,630 and 34,142,505, Respectively	34,181	34,143
Additional Paid-in Capital	82,630,606	82,262,225
Stock Subscriptions Receivable	(40,625)	(131,375)
Stock to be Issued	139,651	70,659
Accumulated Deficit	(83,394,062)	(84,500,414)
Total Stockholders' Deficit	(630,249)	(2,264,762)
	$ 12,777,259	$ 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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
REVENUES:				
Research and Development Revenue	$ 213,485	$ -	$ 285,721	$ (6,505)
Total Revenue	213,485	-	285,721	(6,505)
COST OF GOODS SOLD:	34,993	2,878	92,145	34,281
GROSS PROFIT	178,492	(2,878)	193,576	(40,786)
EXPENSES:				
General and Administrative	1,000,641	1,237,924	3,217,837	4,203,337
Research and Development	-	3,993	-	72,422
Gain on Sale of Fixed Assets	-	-	-	(19,755)
Total Expenses	1,000,641	1,241,917	3,217,837	4,256,004
LOSS FROM CONTINUING OPERATIONS	(822,149)	(1,244,795)	(3,024,261)	(4,296,790)
Other Income				
Interest Income	2,638	6,519	8,725	23,052
Gain on Settlement of Litigation, Net	2,170,000	-	2,170,000	-
Total Other Income	2,172,638	6,519	2,178,725	23,052
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	1,350,489	(1,238,276)	(845,536)	(4,273,738)
Provision for Income Taxes	(22,222)	-	-	-
NET INCOME (LOSS) FROM CONTINUING OPERATIONS	1,328,267	(1,238,276)	(845,536)	(4,273,738)
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF TAX	581,959	190,683	1,951,889	(21,717)
NET INCOME (LOSS)	$ 1,910,226	$ (1,047,593)	$ 1,106,353	$ (4,295,455)
BASIC NET INCOME (LOSS) PER COMMON SHARE				
Basic Net Income (Loss) from continuing operations per share	$ 0.04	$ (0.04)	$ (0.02)	$ (0.13)
Basic Net Income from discontinued operations per share	0.02	0.01	0.05	0.00
Basic Net Income (Loss) per share	$ 0.06	$ (0.03)	$ 0.03	$ (0.13)
Diluted NET INCOME (LOSS) PER COMMON SHARE				
Diluted Net Income (Loss) from continuing operations per share	$ 0.04	$ (0.04)	$ (0.02)	$ (0.13)
Diluted Net Income from discontinued operations per share	0.02	0.01	0.05	0.00
Diluted Net Income (Loss) per share	$ 0.06	$ (0.03)	$ 0.03	$ (0.13)
Weighted-Average Common Shares Outstanding				
Basic	34,247,456	34,110,995	34,219,493	34,086,943
Diluted	34,418,151	34,110,995	34,410,769	34,086,943

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	-	-	360,350	-	-	-	-	360,350
Stock Issued for Stock Options Exercised	38,125	38	8,031	-	-	-	-	8,069
Stock to Be Issued for Restricted Stock Units	-	-	-	-	68,992	-	-	68,992
Proceeds from Repayment of Stock Subscriptions	-	-	-	90,750	-	-	-	90,750
Net Income and Comprehensive Income	-	-	-	-	-	-	1,106,353	1,106,353
Balance at September 30, 2015	34,180,630	$ 34,181	$ 82,630,606	$ (40,625)	$ 139,651	$ -	$ (83,394,062)	$ (630,249)

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

	Nine Months Ended September 30,	
	2015	**2014**
	(Unaudited)	(Unaudited)
Operating Activities		
Net Income (Loss)	$ 1,106,353	$ (4,295,455)
Less - Income (Loss) from Discontinued Operations, Net of Income Tax Expense	1,951,889	(21,717)
Income (Loss) from Continuing Operations	(845,536)	(4,273,738)
Adjustments to Reconcile Net Loss to Net Cash		
Provided By (Used In) Operating Activities		
Depreciation and Amortization of Fixed Assets	-	1,215
Gain on Sale of Fixed Assets	-	(19,755)
Share-Based Compensation Expense on Stock Options Granted and Restricted Stock	365,819	487,125
Changes in Operating Assets and Liabilities:		
Prepaid Expenses and Other Current Assets	24,500	(20,061)
Other Assets	-	1,395
Accounts Payable	(438,628)	432,687
Accrued Expenses	78,647	15,526
Deferred Research and Development Obligation	98,737	(34,415)
Net Cash (Used In) Continuing Operating Activities	(716,461)	(3,410,021)
Net Cash Provided By (Used In) Discontinued Operations	2,630,466	(1,942,302)
Net Cash Provided By (Used In) Operating Activities	1,914,005	(5,352,323)
Investing Activities		
Proceeds from Sale of Fixed Assets	-	19,755
Net Cash (Used In) Continuing Investing Activities	-	19,755
Net Cash (Used In) Discontinued Operations	(142,145)	(216,503)
Net Cash (Used In) Investing Activities	(142,145)	(196,748)
Financing Activities		
Proceeds from Issuance of Convertible Debt	2,000,000	-
Repayment of Convertible Debt	(50,000)	-
Proceeds from Stock Option Exercises	8,069	1,150
Proceeds from Repayment of Stock Subscriptions	90,750	54,588
Net Cash Provided by Continuing Financing Activities	2,048,819	55,738
Net Increase (Decrease) in Cash and Cash Equivalents	3,820,679	(5,493,333)
Cash and Cash Equivalents at Beginning of Period	2,495,455	8,892,396
Cash and Cash Equivalents at End of Period	$ 6,316,134	$ 3,399,063

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

Notes to the Consolidated Condensed Financial Statements (unaudited)

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.

Sale of Industrial Technology Business

On November 9, 2015, Dyadic entered into a definitive agreement to sell substantially all of its enzyme and technology assets, including its C1 Platform Technology, to DuPont's Industrial Biosciences ("DuPont") for $75 million in cash (the "DuPont Agreement"). The Agreement provides for $8 million of the purchase price to be held in an escrow account for 18 months to ensure Dyadic's obligations with respect to certain indemnity claims and working capital adjustments. Completion of the transaction, which is expected by the end of 2015, is subject to approval by a majority of Dyadic's stockholders and customary closing conditions. Following the completion of the transaction, the Company intends to focus on its biopharmaceutical business.

In connection with the transaction, DuPont will grant back to Dyadic co-exclusive rights to the C1 technology for use in human and animal pharmaceutical applications, with exclusive ability to enter into sub-license agreements in that field. DuPont will retain certain rights to utilize the C1 technology for development and production of pharmaceutical products, for which it will make royalty payments to Dyadic upon commercialization.

Dyadic has long believed that the pharmaceutical field is one of the most attractive opportunities in which to apply the C1 Platform Technology. We believe that the C1 Platform Technology has potential to be a safe and efficient expression system that may help speed up the development and production of biologics at flexible commercial scales. In particular, as the aging population grows in developed and undeveloped countries, Dyadic believes the C1 Platform Technology can help bring biologic drugs to market faster, in greater volumes and at lower cost to drug developers and manufacturers and, hopefully, to patients and the healthcare system. See Note 7 Subsequent Events for additional information.

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 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.

We have reclassified the revenues and expenses of our industrial technology business to "income (loss) from discontinued operations" and the related assets and liabilities to "assets held for sale" and "liabilities related to assets held for sale" for all of the periods presented in the accompanying consolidated financial statements. The tables below set forth the assets and liabilities related to discontinued operations at September 30, 2015 and December 31, 2014 and their combined results of operations and cash flows for the nine months ended September 30, 2015 and 2014.

BALANCE SHEET DISCONTINUED OPERATIONS (Unaudited)

		September 30, 2015		December 31, 2014
ASSETS HELD FOR SALE				
Accounts Receivable, Net of Allowance for Doubtful Accounts of $66,000 and $64,382, Respectively	$	2,096,773	$	1,044,990
Inventory, Net of Inventory Reserves of $62,752 and $237,782, Respectively		3,127,114		3,607,062
Prepaid Expenses and Other Current Assets		104,168		135,006
Fixed Assets, Net of Accumulated Depreciation of $2,646,391 and $2,495,775, Respectively		472,938		539,902
Intangible Assets, Net of Accumulated Amortization of $742,351 and $710,199, Respectively		400,063		418,973
Other Assets		133,505		142,902
	$	6,334,561	$	5,888,835
LIABILITIES RELATED TO ASSETS HELD FOR SALE				
Accounts Payable	$	1,315,271	$	1,008,778
Accrued Expenses		562,338		346,768
Deferred Research and Development Obligation		726,463		362,089
	$	2,604,072	$	1,717,635

INCOME (LOSS) FROM DISCONTINUED OPERATIONS (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
REVENUES:				
Product Related Revenue, Net	$ 3,272,497	$ 2,712,295	$ 9,507,207	$ 7,629,019
License Fee Revenue	567	700,000	800,567	700,000
Research and Development Revenue	471,322	373,730	1,230,233	1,510,226
Total Revenue	3,744,386	3,786,025	11,538,007	9,839,245
COST OF GOODS SOLD:	2,264,790	1,946,974	6,856,869	6,339,098
GROSS PROFIT	1,479,596	1,839,051	4,681,138	3,500,147
EXPENSES:				
General and Administrative	82,733	198,641	(21,472)	489,505
Sales and Marketing	139,263	316,119	681,727	899,090
Research and Development	453,208	840,472	1,261,783	1,513,299
Foreign Currency Exchange Loss (Gain), Net	(8,661)	120,234	154,754	108,246
Total Expenses	666,543	1,475,466	2,076,792	3,010,140
INCOME FROM DISCONTINUED OPERATIONS	813,053	363,585	2,604,346	490,007
Other Income (Expense)				
Interest Expense	(221,116)	(172,902)	(620,257)	(511,724)
Total Other Income (Expense)	(221,116)	(172,902)	(620,257)	(511,724)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS BEFORE INCOME TAXES	591,937	190,683	1,984,089	(21,717)
Provision for Income Taxes	(9,978)	-	(32,200)	-
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS	$ 581,959	$ 190,683	$ 1,951,889	$ (21,717)

CASH FLOWS FROM DISCONTINUED OPERATIONS

	Nine Months Ended September 30,	
	2015	2014
	(Unaudited)	(Unaudited)
Cash Flows Provided By (Used In) Operating Operations	$ 2,630,466	$ (1,942,302)
Net Cash (Used In) Investing Activities	(142,145)	(216,503)
	$ 2,488,321	$ (2,158,805)

Liquidity and Capital Resources

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

As of September 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 has been 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, on October 14, 2014, 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 will continue to evaluate its cost structure to improve liquidity and profitability.

Management's sourcing of strategic alternatives to monetize the Company's assets has resulted in the sale of substantially all of its enzyme and technology assets, including its C1 Platform Technology, to DuPont, as discussed above. Should our shareholders approve the DuPont transaction and all other closing conditions are satisfied such that we can consummate the transaction, the Company's debt will be retired either through conversion or payment from the proceeds of the DuPont transaction.

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 in the amount of $2,170,000, which is net of fees and expenses. The settlement amount is 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.

On September 29, 2015, the Court removed the professional liability litigation from its trial docket, and, in an effort to promote settlement, ordered the parties to non-binding arbitration with an initial hearing to occur before December 16, 2015.The parties are scheduled to appear before the Court on November 13, 2015 for hearings on various pre-trial motions, at which time, the Court is also expected to set a 2016 trial date. The parties have also voluntarily agreed to participate in non-binding mediation on November 18, 2015.

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 should the DuPont transaction not close. 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 nor can it be sure it will obtain the required shareholder vote to complete the DuPont transaction.

At September 30, 2015, cash and cash equivalents were approximately $6,316,000 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.

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

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.

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 September 30, 2015 and December 31, 2014, the deferred research and development obligation totaled approximately $32,000 and $69,000, respectively.

The Company recognized research and development revenue during the three month period ended September 30, 2015 and 2014 in the amount of approximately $213,000 and $0, respectively. During the nine month period ended September 30, 2015 and 2014 the Company recognized research and development revenue in the amount of approximately $286,000 and ($ 7,000) respectively.

Income Taxes

As of September 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.

If the sale of substantially all of the Company's enzyme and technology assets to DuPont, as described in Note 7 Subsequent Events is consummated, the transaction will result in a taxable gain to Dyadic for U.S. state and federal income tax purposes in an amount equal to the purchase price received less Dyadic's adjusted tax basis in the assets being sold. Dyadic's gain for U.S. federal income tax purposes is expected to be offset by available net operating losses, subject to applicable limitations. The Transaction is expected to result in some federal alternative minimum tax being imposed on Dyadic in the year of the sale despite our existing tax losses and credits. In addition, Dyadic expects that all or substantially all of the taxable gain resulting from the Transaction will be subject to state income tax, despite our existing tax losses and credits. Furthermore, Dyadic may be subject to income taxes in foreign jurisdictions on the gain from the Transaction in several of the jurisdictions where we maintain foreign subsidiaries. The Transaction also may result in Dyadic being subject to foreign, state or local sales, use or other taxes in jurisdictions in which Dyadic files tax returns or has assets.

The Company is not subject to U.S. federal, state and local tax examinations by tax authorities for the years before 2011.

For the three and nine month periods ended September 30, 2015 the Company recorded a tax liability of approximately $32,000. The Company has significant net operating loss carryforwards, however, due to alternative minimum tax limitations of 90% of NOLS, the Company has recorded a provision for income taxes. The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties, if any, in operating expenses.

Comprehensive Income (Loss)

Comprehensive income (loss) is the same as net income or (loss) for all periods presented.

Basic and Diluted Net Income (Loss) per Common Share

Basic income (loss) per share is computed by dividing net income or (loss) by the weighted average number of common shares outstanding during the period. Diluted income (loss) per share is computed by dividing net income (loss) adjusted for convertible debt interest by the weighted average number of common shares after considering the additional dilution related to common stock options, restricted stock and convertible debt. In computing diluted earnings per share, the outstanding common stock options are considered dilutive using the treasury stock method.

The Company's restricted stock awards are treated as outstanding for earning per share calculations since these shares have full voting rights and are entitled to participate in dividends declared on common shares, if any, and undistributed earnings. As participating securities, the shares of restricted stock are included in the calculation of basic EPS using the two-class method.

The following information is necessary to calculate net income (loss) per share for the periods presented:

	Three Months Ended September 30	
	2015	2014
Net income (loss), as reported	$ 1,910,226	$ (1,047,593)
As report Basic	34,162,356	34,081,328
Effect of Restricted Stock	82,600	17,167
Effect of Warrants exercised - unissued	2,500	12,500
Total Reported Basic	34,247,456	34,110,995
Effect of dilutive stock options	147,845	-
Effect of Restricted Stock unvested	22,850	-
Weighted average diluted common shares outstanding	34,418,151	34,110,995
Net income (loss) per common share		
Basic	$ 0.06	$ (0.03)
Diluted	$ 0.06	$ (0.03)
Employee stock options excluded from computation of diluted income per share amounts because their effect would be anti-dilutive	2,533,373	2,330,042

	Nine Months Ended September 30	
	2015	2014
Net income (loss), as reported	$ 1,106,353	$ (4,295,455)
As report Basic	34,149,195	34,051,471
Effect of Restricted Stock	67,798	22,972
Effect of Warrants exercised - unissued	2,500	12,500
Total Reported Basic	34,219,493	34,086,943
Effect of dilutive stock options	168,427	-
Effect of Restricted Stock unvested	22,850	-
Weighted average diluted common shares outstanding	34,410,770	34,086,943
Net income (loss) per common share		
Basic	$ 0.03	$ (0.13)
Diluted	$ 0.03	$ (0.13)
Employee stock options excluded from computation of diluted income per share amounts because their effect would be anti-dilutive	2,533,373	2,330,042

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 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 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 (included in Assets Held for Sale)

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.

Note 3: 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 September 30, 2015 consolidated balance sheet. If the sale of substantially all of the Company’s enzyme and technology assets to DuPont, as described in Note 7 Subsequent Events is consummated, the Company will be required to repay and terminate this note, including the release of all liens on the assets of the Company.

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 September 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 September 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.

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 2010 Notes, the 2011 Notes and the 2015 Note has been classified as a short-term liability in the accompanying September 30, 2015 consolidated balance sheets.

Approximately $7,311,000 of the 2010 Notes, the 2011 Notes and the 2015 Notes are held by four related parties, which include a member of management, as well as three other related parties.

Interest expense related to the foregoing debt for the three month period ended September 30, 2015 and 2014 was approximately $219,000 and $170,000, respectively. Interest expense related to the foregoing debt for the nine month period ended September 30, 2015 and 2014 was approximately $617,000 and $508,000, respectively.

If the sale of substantially all of the Company's enzyme and technology assets to DuPont, as described in Note 7 Subsequent Events is consummated, the Company will be required to repay (to the extent any holders have not elected to convert prior to the closing of the transaction) and terminate the 2010 Notes, 2011 Notes and 2015 Note, including the release of all liens on the assets of the Company. In addition, with respect to the warrant provision included in the 2010 Notes and 2011 Notes, the Board of Directors has approved a modification to such provision, subject to and conditioned upon, the consummation of the Transaction, to permit the issuance of warrants to purchase common stock equal to 25% of the outstanding principal balance of the Convertible Notes and all unpaid accrued interest thereon at $1.48 per common share. The warrants, if issued, will have a one year term.

Note 4: 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.

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 in the amount of $2,170,000, which is net of fees and expenses. The settlement amount is reported in the Company's consolidated statement of operations, in other income, for the quarter ending September 30, 2015.

On September 29, 2015, the Court removed the professional liability litigation from the Court's eight week trial docket which commenced on October 26, 2015. Instead, the Court, in an effort to promote settlement, ordered the parties to non-binding arbitration with an initial hearing to occur before December 16, 2015. The parties are scheduled to appear before the Court on November13, 2015 for hearings on various pre-trial motions. At that time, the Court is expected to address when the professional liability litigation will be set for trial in 2016. The parties have also voluntarily agreed to again attend mediation on November 18, 2015.

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 5: Common Stock

Issuances of Common Stock

For the three month period ended September 30, 2015 and 2014, stock options to purchase 23,125 and 5,000 shares of common stock, respectively, were exercised at exercise prices ranging from $0.15 to $0.23 per share. For the nine month period ended September 30, 2015 and 2014, stock options to purchase 38,125 and 20,500, shares of common stock, respectively, were exercised at exercise prices ranging from $0.15 to $0.23 per share. Employees exercised 0 and 15,500 options under the Company's 2013 Employee Loan Program (the Loan Program) in the nine month period ending September 30, 2015 and 2014, respectively.

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

During the nine month period ended September 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 nine month period ended September 30, 2015 and 2014, $90,750 and $54,588 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 September 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 6: 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 director 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

On June 1, 2015, the Company granted a new employee stock options to purchase 1,000 shares of the Company's common stock at an exercise price of $0.93 per share. The stock options vest over four years and expire on May 31, 2025. The fair market value of such stock options was $0.74 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	2.36%
Dividend Yield	0.00%
Average Volatility Factor	76.007%
Average Option Life	10 year

During the nine month period ended September 30, 2015 and 2014, there were 434,750 and 0, respectively, stock options that expired or were canceled. As of September 30, 2015, there were stock options outstanding under the Company's equity plans to purchase 3,785,250 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	156,000		1.04
Exercised	(38,125)		0.21
Expired	(300,000)		2.28
Cancelled	(134,750)		1.29
Outstanding at September 30, 2015	3,785,250		1.63
Exercisable at September 30, 2015	2,719,623	$	1.67

During the nine month period ended September 30, 2015 and 2014, the Company recognized approximately $33,000 in non-cash share-based compensation expense related to these RSU's. The Company will recognize approximately $30,000 in additional non-cash share-based compensation expense related to these 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 nine month period ended September 30, 2015, the Company granted 47,017 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 nine month period ended September 30, 2015, the Company recognized approximately $36,000 in non-cash share-based compensation expense related to these RSU's. The Company will recognize approximately $8,000 in additional non-cash share-based compensation expense related to these RSU's over the remaining vesting period.

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 $159,000 and $278,000 the three months ended September 30, 2015 and 2014 respectively, and $429,000 and $673,000 for the nine month period ended September 30, 2015 and 2014, respectively.

Total non-cash share-based compensation expense from continuing and discontinuing operations is as follows:

	Three Months Ended September 30,	
	2015	2014
Total Stock Option Compensation Expense - Continuing Operations	$ 133,121	$ 197,162
Total Stock Option Compensation Expense - Discontinued Operations	25,943	80,298
Total Stock Option Compensation Expense	$ 159,064	$ 277,460

	Nine Months Ended September 30,	
	2015	2014
Total Stock Option Compensation Expense - Continuing Operations	$ 365,819	$ 487,125
Total Stock Option Compensation Expense - Discontinued Operations	63,523	185,456
Total Stock Option Compensation Expense	$ 429,342	$ 672,581

If the sale of substantially all of the Company's enzyme and technology assets to DuPont, as described in Note 7 Subsequent Events is consummated, such transaction will constitute a "change of control" under the Company's stock option and restricted stock unit benefit plans. As a result, the Board of Directors unanimously approved, in accordance with and pursuant to such plans, the immediate and automatic vesting of all outstanding stock options and RSUs upon consummation of the transaction, and, in the case of stock options, the same would become immediately exercisable.

Note 7: Subsequent Events

On November 9, 2015, the company entered into a definitive agreement to sell substantially all the assets of its Industrial Technology business to DuPont's Industrial Biosciences ("DuPont") for $75 million in cash (the "DuPont Agreement"). Following the completion of the transaction, the Company intends to focus on its biopharmaceutical business.

In connection with the transaction, DuPont will grant back to Dyadic co-exclusive rights to the C1 technology for use in human and animal pharmaceutical applications, with exclusive ability to enter into sub-license agreements in that field. DuPont will retain certain rights to utilize the C1 technology for development and production of pharmaceutical products, for which it will make royalty payments to Dyadic upon commercialization.

The combination of a portion of the proceeds from the transaction and additional industry and government funding that will be sought, are expected to provide the Company the ability to focus on and accelerate the further development and optimization of the C1 Expression System technology in the area of biopharmaceuticals. The unique attributes of the C1 Expression System technology may create attractive licensing opportunities through operational efficiencies and reduced requirements for licensee capital expenditures.

The Company also intends to continue its existing programs with Sanofi Pasteur and its involvement within the EU-funded ZAPI program. The Company plans to focus our research programs on the further development of the C1 technology platform for use in developing and manufacturing human and animal vaccines, monoclonal antibodies, biosimilars and/or biobetters, and other therapeutic proteins.

The agreement provides for $8 million of the purchase price to be held in an escrow account for 18 months to ensure the Company's obligations with respect to certain indemnity claims and working capital adjustments. The Company expects to utilize approximately $66 million of its net operating loss carryovers to substantially offset the gain realized from this transaction. Simultaneous with the signing of the Agreement, stockholders owning approximately 26.4% of Dyadic's shares currently outstanding, including an affiliate of our Chief Executive Officer and Director, Mark A Emalfarb, have entered into a voting agreement pursuant to which, subject to certain limitations, they have agreed to, among other things, vote the shares controlled by them in favor of the transaction.

Completion of the transaction, which is expected by the end of 2015, is subject to approval by a majority of Dyadic's stockholders and customary closing conditions.

The Company intends to use a minimum of $15 million of the transaction proceeds to initiate a stock repurchase program. The timing and details of such stock repurchase program have not yet been determined. The total amount of proceeds that will be used to repurchase stock will be contingent on several factors, including the amount of debt required to be paid off in connection with the transaction, the amount of transaction-related expenses, the amount necessary to satisfy retained and contingent liabilities, the outcome of the Company's ongoing litigation further described in Note 4 Commitments and Contingencies and Item 5. Legal Proceedings of this document, and the amount management determines will be required to fund the ongoing pharmaceutical business described above.

The DuPont Agreement provides that Dyadic will retain all of the potential rights and obligations associated with its ongoing professional services liability litigation against its former law firms, Greenberg, Traurig, LLP, Greenberg Traurig, P.A. and Bilzin, Sumberg Baena Price and Axelrod, LLP.

The Company has evaluated these unaudited consolidated financial statements for subsequent events through November 12, 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.

We have reclassified the revenues and expenses of our industrial technology business to "income (loss) from discontinued operations" and the related assets and liabilities to "assets held for sale" and "liabilities related to assets held for sale" for all of the periods presented in the accompanying consolidated financial statements.

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***

Upon the successful completion of the DuPont transaction, DuPont has granted back to Dyadic co-exclusive rights to the C1 Platform Technology for use in human and animal pharmaceutical applications, with exclusive ability to enter into sub-license agreements in that field. DuPont will retain certain rights to utilize the C1 Platform Technology for development and production of pharmaceutical products, for which it will make royalty payments to Dyadic upon commercialization. The Company has long believed that the pharmaceutical field is one of the most attractive opportunities in which to apply the C1 Platform Technology. The Company also believes that the C1 Platform Technology has potential to be a safe and efficient expression system that may help speed up the development and production of biologics at flexible commercial scales. In particular, as the aging population grows in developed and undeveloped countries, the Company believes the C1 Platform Technology can help bring biologic drugs to market faster, in greater volumes and at lower cost to drug developers and manufacturers and, hopefully, to patients and the healthcare system. Should the DuPont transaction not be approved by our shareholders, any of the closing conditions are not satisfied or the transaction fails to be consummated for any other reason, we expect to continue to generate revenues by leveraging C1 Platform Technology 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 Platform Technology, 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.

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.

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 September 30, 2015 and December 31, 2014, the deferred research and development obligation totaled approximately $32,000 and $69,000, respectively.

The Company recognized research and development revenue during the three month period ended September 30, 2015 and 2014 in the amount of approximately $213,000 and $0, respectively. During the nine month period ended September 30, 2015 and 2014 the Company recognized research and development revenue in the amount of approximately $286,000 and ($ 7,000) 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.

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 September 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.

If the sale of substantially all of the Company's enzyme and technology assets to DuPont, as described in Note 7 Subsequent Events is consummated, the transaction will result in a taxable gain to Dyadic for U.S. state and federal income tax purposes in an amount equal to the purchase price received less Dyadic's adjusted tax basis in the assets being sold. Dyadic's gain for U.S. federal income tax purposes is expected to be offset by available net operating losses, subject to applicable limitations. The Transaction is expected to result in some federal alternative minimum tax being imposed on Dyadic in the year of the sale despite our existing tax losses and credits. In addition, Dyadic expects that all or substantially all of the taxable gain resulting from the Transaction will be subject to state income tax, despite our existing tax losses and credits. Furthermore, Dyadic may be subject to income taxes in foreign jurisdictions on the gain from the Transaction in several of the jurisdictions where we maintain foreign subsidiaries. The Transaction also may result in Dyadic being subject to foreign, state or local sales, use or other taxes in jurisdictions in which Dyadic files tax returns or has assets.

The Company is not subject to U.S. federal, state and local tax examinations by tax authorities for the years before 2011.

For the three and nine month periods ended September 30, 2015 the Company recorded a tax liability of approximately $32,000. The Company has significant net operating loss carryforwards, however, due to alternative minimum tax limitations of 90% of NOLS, the Company has recorded a provision for income taxes. The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties, if any, in operating expenses.

Recent Accounting Pronouncements

In May 2014, FASB issued ASU 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 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 Nine Month Periods Ended September 30, 2015 Compared to the Same Periods in 2014

Revenue

Research and development revenue for the three month period ended September 30, 2015 was approximately $213,000 compared to $0 for the same period a year ago. The increase in revenue for the period reflects activity from two biopharmaceutical R&D projects.

Research and development revenue for the nine month period ended September 30, was approximately $286,000 compared to ($7,000) for the same period a year ago. The increase in revenue for the period reflects activity from two biopharmaceutical R&D projects.

Revenue by Geography

The increase in European revenue of approximately $293,000 represents the continued work on biopharmaceutical R&D projects.

Gross Profit

Gross profit for the three month period ended September 30, 2015 increased to approximately $178,000 compared to a loss of $3,000 for the same period a year ago. At this time the Company has two ongoing biopharmaceutical R&D projects.

Gross profit for the nine month period ended September 30, 2015 increased to approximately $194,000 compared to a loss of $41,000 for the same period a year ago. At this time the Company has two ongoing biopharmaceutical R&D projects.

Operating Expenses

General and Administrative Expenses

General and administrative expenses for the three month period ended September 30, 2015 declined 19% to approximately $1,000,000 compared to $1,238,000 for the same period a year ago. The decrease primarily reflects lower litigation costs of approximately $208,000 and lower professional service costs, compensation and project related spending of $30,000.

General and administrative expenses for the nine month period ended September 30, 2015 declined 23% to approximately $3,218,000 compared to $4,184,000 for the same period a year ago. The decrease primarily reflects lower litigation costs of approximately $1,360,000 offset by higher professional service costs, compensation and project related spending of $394,000.

Research and Development

Research and Development expenses for the three and nine month period ended September 30, 2015 decreased to $0 from approximately $72,000 in 2014 as a result of the closure of our North Carolina lab in April 2014.

Other Income

Other income increased in the three and nine month periods ended September 30, 2015 by approximately $2,166 and $2,156,000, respectively as compared to the same periods in the prior year. The increase principally relates the 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 in the amount of $2,170,000, which is net of fees and expenses.

Income Taxes

As of September 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.

If the sale of substantially all of the Company’s enzyme and technology assets to DuPont, as described in Note 7 Subsequent Events is consummated, the transaction will result in a taxable gain to Dyadic for U.S. state and federal income tax purposes in an amount equal to the purchase price received less Dyadic’s adjusted tax basis in the assets being sold. Dyadic’s gain for U.S. federal income tax purposes is expected to be offset by available net operating losses, subject to applicable limitations. The Transaction is expected to result in some federal alternative minimum tax being imposed on Dyadic in the year of the sale despite our existing tax losses and credits. In addition, Dyadic expects that all or substantially all of the taxable gain resulting from the Transaction will be subject to state income tax, despite our existing tax losses and credits. Furthermore, Dyadic may be subject to income taxes in foreign jurisdictions on the gain from the Transaction in several of the jurisdictions where we maintain foreign subsidiaries. The Transaction also may result in Dyadic being subject to foreign, state or local sales, use or other taxes in jurisdictions in which Dyadic files tax returns or has assets.

The Company is not subject to U.S. federal, state and local tax examinations by tax authorities for the years before 2011.

For the three and nine month periods ended September 30, 2015 the Company recorded a tax liability of approximately $32,000. The Company has significant net operating loss carryforwards, however, due to alternative minimum tax limitations of 90% of NOLS, the Company has recorded a provision for income taxes. The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties, if any, in operating expenses.

Discontinued Operations

Net income from discontinued operations increased for the three month period ended September 30, 2015 by approximately $391,000 as compared to the same period in the prior year. The increase is principally due to product related revenue gross profit growth of approximately $540,000 and lower operating expenses; R&D of $400,000, Sales and Marketing of $200,000, currency exchange of $100,000 and G&A of $100,000, partially offset by lower licensing revenue of $699,000, lower R&D margin due to mix of commercial and government projects of $200,000 and higher interest expense due to increased debt of $50,000.

Net income from discontinued operations increased for the nine months ended September 30, 2015 by approximately $1,699,000 as compared to the same period in the prior year. The increase is principally due to product related revenue gross profit growth of approximately $2,080,000, increased licensing revenue of $101,000 and lower operating expenses; R&D of $251,000, Sales and Marketing of $217,000, and G&A patent costs $350,000 and other G&A $160,000, partially offset by lower R&D margin due to lower volume of commercial projects and mix of commercial and government projects of $993,000 and higher interest expense due to increased debt of $108,000, currency exchange of $46,000 and income tax provision of $32,000.

LIQUIDITY AND CAPITAL RESOURCES

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

As of September 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 has been 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, on October 14, 2014, 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 will continue to evaluate its cost structure to improve liquidity and profitability.

The foregoing activities have resulted in the sale of the Company's Industrial Technology business as discussed above. Should our shareholders approve the DuPont transaction and we are able to successfully close, the Company's debt will be retired either through conversion or payment from the proceeds of the DuPont transaction.

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 in the amount of $2,170,000, which is net of fees and expenses. The settlement amount is 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.

On September 29, 2015, the Court removed the professional liability litigation from its trial docket, and, in an effort to promote settlement, ordered the parties to non-binding arbitration with an initial hearing to occur before December 16, 2015.The parties are scheduled to appear before the Court on November 13, 2015 for hearings on various pre-trial motions, at which time, the Court is also expected to set a 2016 trial date. The parties have also voluntarily agreed to participate in non-binding mediation on November 18, 2015.

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 should the DuPont transaction not close. 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 nor can it be sure it will obtain the required shareholder vote to complete the DuPont transaction.

At September 30, 2015, cash and cash equivalents were approximately $6,316,000 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 by operating activities for the nine month period ended September 13, 2015 was approximately $1,914,000, which includes $2,630,000 in discontinued operations and cash used in continuing operations of approximately ($717,000). Cash used in operating activities of for the nine months ended September 30, 2014 was ($5,352,000) which includes ($1,115,000) used for discontinued operations and ($4,237,000) used for continuing operations.

Net cash provided by operating activities for the nine months ended September 30, 2015 was principally attributable to a net loss of approximately ($846,000) and changes in operating assets and liabilities of approximately ($237,000) and an increase in stock based compensation of approximately $366,000.

Net cash used in operating activities for the nine month period ended September 30, 2014 was approximately ($5,352,000) which includes ($1,115,000) in discontinued operations and ($4,237,000) from continuing operations . The net cash used in continuing operating activities was principally attributable to a net loss of ($4,274,000) and changes in operating assets and liabilities of $36,000, an increase in stock based compensation of approximately $487,000 offset by a decrease in accounts payable of approximately $433,000.

Net cash used in investing activities for the nine months ended September 30, 2015 was approximately ($142,000) as compared to approximately ($197,000) for the nine months ended September 30, 2014. The decrease in net cash used in investing activities was principally attributable to discontinued operations.

Net cash provided by financing activities for the nine months ended September 30, 2015 was approximately $2,049,000 which principally includes the cash proceeds from a private placement of a $2,000,000 convertible subordinated secured promissory note on March 9, 2015 offset by the repayment of a $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.

On September 29, 2015, the Court removed the professional liability litigation from the Court's eight week trial docket which commenced on October 26, 2015. Instead, the Court, in an effort to promote settlement, ordered the parties to non-binding arbitration with an initial hearing to occur before December 16, 2015. The parties are scheduled to appear before the Court on November13, 2015 for hearings on various pre-trial motions. At that time, the Court is expected to address when the professional liability litigation will be set for trial in 2016.The parties have also voluntarily agreed to again attend mediation on November 18, 2015.

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 September 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 nine months ended September 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 nine months ended September 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.

Board of Directors Changes

On July 1, 2015 Jack Kaye accepted the role of Chairman of the Audit Committee replacing Frank Gerardi. Mr. Gerardi will continue on throughout the year as a consultant to the board of directors.

Item 8. Exhibits

None

Item 9. Certification

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 November 12, 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 November 12, 2015

/s/ Thomas L. Dubinski

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