

**DYADIC INTERNATIONAL, INC.**  
A Delaware Corporation

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SIC Code: 2860

Federal EIN: 45-0486747

**Issuer's Quarterly Report**

**For the three months ended March 31, 2016**

**ISSUER'S EQUITY SECURITIES**

**COMMON STOCK**

\$0.001 Par Value Per Share  
100,000,000 Shares Authorized  
37,932,150 Shares Outstanding as of March 31, 2016  
**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. Dyadic cautions readers that any forward-looking information is not a guarantee of future performance and that actual results could differ materially from those contained in the forward-looking information. Such statements reflect the current views of our management with respect to our operations, results of operations and future financial performance. Forward-looking statements involve a number of risks, uncertainties or other factors within and/or beyond Dyadic’s control. These factors include, but are not limited to, our ability to carry out and implement our biopharmaceutical research and business plans and strategic initiatives, the outcome of the current litigation by Dyadic against its former counsel, our ability to maintain and obtain customers, our ability to execute and achieve our research and development objectives and with third party research and development organizations, our ability to obtain new license and research agreements and to earn and collect milestones and royalties, 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 retain and attract employees, consultants, directors, advisors and contract research organizations, 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, 2015 Annual Report filed with OTC Markets on March 29, 2016.

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](http://www.dyadic.com), contains general information about us and our products and services. We also maintain [www.dyadic.nl](http://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  
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## ***Item 2 Shares outstanding***

As of March 31, 2016, 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.

### **Common Stock**

Dyadic's common stock has a par value of \$0.001 per share. The following table shows our common stock share ownership as of March 31, 2016:

(i)	Number of shares authorized	100,000,000
(ii)	Number of shares issued	38,645,805
(iii)	Number of shares outstanding	37,932,150
(iv)	Number of shares held in treasury	713,655
(v)	Number of shares freely tradable	22,796,375
(vi)	Total number of holders of record	51

There are greater than 1,700 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 March 31, 2016:

(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**  
**CONSOLIDATED BALANCE SHEET**

	<b>March 31,</b> <b>2016</b>	<b>December 31,</b> <b>2015</b>
	(Unaudited)	(Audited)
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 62,593,869	\$ 68,601,138
Accounts Receivable, Net	10,259	78,952
Prepaid Expenses and Other Current Assets	398,970	490,750
Total Current Assets	<u>63,003,098</u>	<u>69,170,840</u>
Escrowed Funds from Sale of Assets	7,362,116	7,361,182
Other Assets	139,285	135,403
	<u>\$ 70,504,499</u>	<u>\$ 76,667,425</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts Payable	\$ 624,314	\$ 630,230
Accrued Expenses	618,971	2,113,672
Deferred Research and Development Obligation	52,432	129,018
Total Liabilities	<u>1,295,717</u>	<u>2,872,920</u>
Stockholders' Equity:		
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 – 38,645,805 and 37,932,150; and 40,298,324 and 40,298,324, respectively	38,646	40,299
Additional Paid-in Capital	89,801,867	92,157,374
Treasury Stock, Shares Held at Cost - 713,655 and 0, respectively	(1,114,100)	-
Stock Subscriptions Receivable	-	(40,625)
Stock to be Issued	133,545	350,553
Accumulated Deficit	(19,651,176)	(18,713,096)
Total Stockholders' Equity	<u>69,208,782</u>	<u>73,794,505</u>
	<u>\$ 70,504,499</u>	<u>\$ 76,667,425</u>

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

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

	<b>Three Months Ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
	(Unaudited)	(Unaudited)
<b>REVENUES:</b>		
Research and Development Revenue	\$ 86,891	\$ 38,148
<b>COSTS AND EXPENSES (INCOME):</b>		
Costs of Goods Sold	85,146	31,037
General and Administrative	891,979	829,146
Research and Development	244,934	-
Foreign Currency Exchange Gain, net	(132,799)	-
Total Expenses	1,089,260	860,183
<b>LOSS FROM CONTINUING OPERATIONS BEFORE OTHER INCOME (EXPENSE)</b>	<b>(1,002,369)</b>	<b>(822,035)</b>
<b>Other Income (Expense):</b>		
Interest Income	65,017	3,400
Interest Expense	(728)	-
Total Other Income	64,289	3,400
<b>LOSS FROM CONTINUING OPERATIONS</b>	<b>(938,080)</b>	<b>(818,635)</b>
<b>NET INCOME FROM DISCONTINUED OPERATIONS</b>	<b>-</b>	<b>437,979</b>
<b>NET LOSS</b>	<b>\$ (938,080)</b>	<b>\$ (380,656)</b>
<b>BASIC AND DILUTED NET INCOME (LOSS) PER COMMON SHARE:</b>		
Basic and Diluted Net Loss from Continuing Operations per Share	\$ (0.02)	\$ (0.02)
Basic and Diluted Net Income from Discontinued Operations per Share	-	0.01
Basic and Diluted Net Loss per Share	\$ (0.02)	\$ (0.01)
<b>Weighted-Average Common Shares Outstanding:</b>		
Basic and Diluted	38,793,717	34,194,659

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

DYADIC INTERNATIONAL, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE LOSS  
(unaudited)

	Common Stock		Treasury Stock		Additional Paid-In Capital	Stock Subscriptions	Stock to Be Issued	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount						
Balance at December 31, 2015	40,298,324	\$ 40,299	-	\$ -	\$ 92,157,374	\$ (40,625)	\$ 350,553	\$ -	\$ (18,713,096)	\$ 73,794,505
Amortization of Deferred Compensation of Employee and Nonemployee Stock Options					60,448					60,448
Issuance of Stock in Connection with Exercise of Stock Options	172,167	172			(172)					-
Purchases of Common Stock	64,516	65			99,935					100,000
Stock Compensation	247,550	247			366,761		(217,008)			150,000
Proceeds from Repayment of Stock Subscriptions						40,625				40,625
Purchases of Common Stock in Connection with Stock Repurchase Programs	(2,136,752)	(2,137)	(713,655)	(1,114,100)	(2,882,479)					(3,998,716)
Net Loss and Comprehensive Loss									(938,080)	(938,080)
Balance at March 31, 2016	38,645,805	\$ 38,646	(713,655)	\$ (1,114,100)	\$ 89,801,867	\$ -	\$ 133,545	\$ -	\$ (19,651,176)	\$ 69,208,782

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



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

	<b>Three Months Ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
	(Unaudited)	(Unaudited)
<b>OPERATING ACTIVITIES</b>		
Net loss	\$ (938,080)	\$ (380,656)
Less -net Income from discontinued operations, net of income tax expense	-	437,979
Loss from continuing operations	(938,080)	(818,635)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities		
Stock based compensation expense	210,448	52,775
Changes in operating assets and liabilities:		
Accounts receivable	68,693	-
Prepaid expenses and other current assets	91,780	7,227
Accounts payable	(5,918)	17,642
Accrued expenses	(1,494,700)	(12,378)
Deferred research and development obligation	(76,586)	30,483
Net cash used in continuing operating activities	(2,144,363)	(722,886)
Net cash used in discontinued operations	-	(181,608)
Net cash used in operating activities	(2,144,363)	(904,494)
<b>INVESTING ACTIVITIES</b>		
Restricted cash	(4,815)	13,350
Net cash provided by (used in) continuing investing activities	(4,815)	13,350
Net cash provided by discontinued operations	-	30,211
Net cash provided by (used in) investing activities	(4,815)	43,561
<b>FINANCING ACTIVITIES</b>		
Proceeds from the issuance of stock	100,000	-
Proceeds from repayment of stock subscriptions	40,625	23,000
Purchase of common stock	(3,998,716)	-
Proceeds from issuance of convertible debt	-	2,000,000
Net cash provided by (used in) financing activities	(3,858,091)	2,023,000
Net increase (decrease) in cash and cash equivalents	(6,007,269)	1,162,067
Cash and cash equivalents at beginning of period	68,601,138	2,495,455
Cash and cash equivalents at end of period	\$ <u>62,593,869</u>	\$ <u>3,657,522</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Cash paid for interest	\$ <u>728</u>	\$ <u>171,255</u>

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

## Notes to the Consolidated Financial Statements (unaudited)

### Note 1: Organization and Summary of Significant Accounting Policies

#### *Description of Business*

Dyadic International, Inc. is a global biotechnology company based in Jupiter, Florida with a foreign subsidiary, Dyadic Nederland, BV, which maintains a small satellite office in Wageningen, The Netherlands. Over the past two decades the Company has developed a method for producing commercial quantities of enzymes and other proteins which it used to develop and produce some of its own industrial enzymes, as well as licensing this technology to third parties such as Abengoa Bioenergy, BASF, Codexis and others. This technology is based on the *Myceliophthora thermophila* fungus, which the Company named C1. The C1 technology is a robust and versatile fungal expression system for gene discovery, development, expression and production of enzymes and other proteins.

The Company has long believed that the pharmaceutical field is one of the most attractive opportunities in which the C1 technology may be applied. The C1 technology platform 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 C1 can help bring biologic drugs to market faster, in greater volumes and at lower cost to drug developers and manufacturers. This can potentially improve access and reduce costs to patients and the healthcare system.

On December 31, 2015 the Company completed the sale of substantially all of the assets of its Industrial Technology business to DuPont's (NYSE: DD) Industrial Biosciences business for \$75 million in cash (the "DuPont Transaction"). 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. In connection with the DuPont Transaction, DuPont has granted back to Dyadic co-exclusive rights to the C1 technology for use in human and animal pharmaceutical applications, with the exclusive ability to enter into sub-license agreements in that field. DuPont will retain certain rights to utilize the C1 technology for use in pharmaceutical applications, including development and production of pharmaceutical products, for which it will make royalty payments to Dyadic upon commercialization. In certain circumstances, Dyadic may owe a royalty to either DuPont or certain licensor's of DuPont depending upon whether Dyadic elects to utilize certain patents either owned by DuPont or DuPont's licensors. The current escrow amount of \$7,362,116 in the accompanying balance sheet is net of contractual working capital adjustments already agreed to by the parties.

The combination of a portion of the proceeds from the DuPont Transaction and possible additional industry and government funding that will be sought are expected to provide Dyadic with the opportunity to accelerate the further development and optimization of the C1 technology in the area of biopharmaceuticals. In addition, the unique attributes of C1 may create attractive research, licensing, collaboration and other opportunities if C1 demonstrates operational efficiencies and reduced capital requirements for biologic drug manufacturers.

Currently, we intend to continue our existing program with Sanofi Pasteur and our EU-funded ZAPI vaccination program. The Company has initiated internally funded research & development pharmaceutical programs and is reviewing its options regarding its future internal and external pharmaceutical research initiatives. The Company plans to initially use contract research organizations to carry out its research and development activities. As part of the negotiated terms of the DuPont Transaction, the Company has begun to fund its research efforts at the Company's former research center in Wageningen, The Netherlands, which was acquired by DuPont. If the Company is able to successfully demonstrate C1's capabilities in developing biologics, management will consider setting up its own research and development site to carry out its business plan.

Going forward, the Company's focus will be related to leveraging the patented and proprietary C1 expression system to help speed up the development and production of biologic drugs at flexible commercial scales for its use in the discovery, development, and manufacturing of human and animal vaccines, monoclonal antibodies, biosimilars and/or biobetters, and other therapeutic proteins.

For further description of the Issuer's business, see our December 31, 2015 Annual Report filed with OTC Markets on March 29, 2016.

### ***Basis of Presentation***

The accompanying unaudited interim 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 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 included in our Annual Report for the year ended December 31, 2015 which were posted to the OTC Markets website on March 29, 2016.

We have reclassified the revenues and expenses of our industrial technology business to “income (loss) from discontinued operations” for all of the periods presented in the accompanying interim consolidated financial statements. The tables below set forth the combined results of operations and cash flows related to discontinued operations for the three-month period ended March 31, 2015.

**INCOME FROM DISCONTINUED OPERATIONS**

	<b>Three Months Ended March 31, 2015</b>
<b>REVENUES:</b>	
Product Related Revenue, Net	\$ 3,478,316
License Fee revenue	200,000
Research and Development Revenue	317,581
Total Revenue	<u>3,995,897</u>
<b>COSTS AND EXPENSES (INCOME):</b>	
Cost of Goods Sold	2,408,571
General and Administrative	132,525
Sales and Marketing	242,524
Research and Development	405,153
Foreign Currency Exchange Loss, Net	188,514
Total Expenses	<u>3,377,287</u>
<b>INCOME FROM DISCONTINUED OPERATIONS BEFORE OTHER EXPENSE</b>	<u>618,610</u>
<b>OTHER EXPENSE:</b>	
Interest Expense	(180,631)
<b>NET INCOME FROM DISCONTINUED OPERATIONS</b>	<u>\$ 437,979</u>

**CASH FLOWS FROM DISCONTINUED OPERATIONS**

	<b>Three Months Ended March 31, 2015</b>
Cash Flows (Used In) Operating Activities	\$ (181,608)
Net Cash Provided By Investing Activities	30,211
	<u>\$ (151,397)</u>

***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.

On December 31, 2015 the Company completed the sale of substantially all of the assets of its Industrial Technology business to DuPont's (NYSE: DD) Industrial Biosciences business for \$75 million in cash (the "DuPont Transaction"). 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. In connection with the DuPont Transaction, DuPont has granted back to Dyadic co-exclusive rights to the C1 technology for use in human and animal pharmaceutical applications, with the exclusive ability to enter into sub-license agreements in that field. DuPont will retain certain rights to utilize the C1 technology for use in pharmaceutical applications, including development and production of pharmaceutical products, for which it will make royalty payments to Dyadic upon commercialization. In certain circumstances, Dyadic may owe a royalty to either DuPont or certain licensor's of DuPont depending upon whether Dyadic elects to utilize certain patents either owned by DuPont or DuPont's licensors. The current escrow amount of \$7,362,116 in the accompanying balance sheet is net of interest earned to date and contractual working capital adjustments agreed to by the parties.

The combination of a portion of the proceeds from the DuPont Transaction and possible additional industry and government funding that will be sought are expected to provide Dyadic with the ability to focus on and accelerate the further development and optimization of the C1 technology in the area of biopharmaceuticals. In addition, the unique attributes of C1 may create attractive research, licensing, collaboration and other opportunities if the C1 technology demonstrates operational efficiencies and reduced requirements for biologic drug manufacturing capital expenditures.

Currently, we intend to continue our existing program with Sanofi Pasteur and our EU-funded ZAPI vaccination program. The Company has initiated internally funded research & development pharmaceutical programs and is reviewing its options regarding its future internal and external pharmaceutical research initiatives. The Company plans to initially use third party research organizations to carry out its research and development activities. As part of the negotiated terms of the DuPont Transaction, the Company has begun to fund its research efforts with DuPont at the Company's former research center in Wageningen, The Netherlands, which was acquired by DuPont. If the Company is able to successfully demonstrate C1's capabilities in developing biologics, management will consider setting up its own research and development site to carry out its business objectives.

Going forward, the Company's focus will be related to leveraging the patented and proprietary C1 expression system to help speed up the development and production of biologic drugs at flexible commercial scales for its use in the discovery, development, and manufacturing of human and animal vaccines, monoclonal antibodies, biosimilars and/or biobetters, and other therapeutic proteins.

At March 31, 2016, cash and cash equivalents were approximately \$62,594,000 compared to \$68,601,000 at December 31, 2015. Cash used in the quarter ended March 31, 2016 principally reflects stock re-purchases of approximately \$4.0 million, payment of DuPont Transaction related liabilities of approximately \$2.3 million and cash used in operating activities of approximately \$0.6 million partially offset by approximately \$0.6 million of cash received by Dyadic on DuPont's behalf that will be repaid to DuPont after our transition services agreement is completed after April 30, 2016 and other cash items of \$0.3 million.

On April 5, 2016, the Company reached a confidential settlement with one of the two remaining defendant law firms, Bilzin Sumberg Baena Price & Axelrod LLP, in its ongoing professional liability litigation. On April 19, 2016, the Company received full payment in the amount of \$2,100,000, which is net of legal fees and expenses. The settlement amount will be reported in the Company's consolidated statement of operations, in other income, for the quarter ending June 30, 2016. In the event the Company is able to reach a favorable settlement with the remaining defendant law firm Greenberg Traurig, LLP, Greenberg Traurig, P.A. (collectively, "Greenberg Traurig") and the estate of Robert I Schwimmer in its ongoing Professional Liability litigation, this will 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. See in Note 3: Commitments and Contingencies - *Professional Liability Lawsuit*, Note 6: Subsequent Events and *Item 5. Legal Proceedings* for additional information.

### ***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 consolidated financial statements.

### ***Cash and Cash Equivalents***

We treat liquid investments with original maturities of three months or less when purchased as cash and cash equivalents. At times, the Company has cash and cash equivalents at financial institutions exceeding the Federal Depository Insurance Company ("FDIC") insured limit on domestic currency and the Netherlands FDIC counterpart on foreign currency. The Company only deals with reputable financial institutions and has not experienced any losses on these accounts. At March 31, 2016 and December 31, 2015, amounts on deposit at U.S. financial institutions that exceeded these limits are approximately \$65,127,000 and \$72,400,000, respectively, and the deposits at Dutch

institutions that exceeded these limits at March 31, 2016 and December 31, 2015 were approximately \$3,988,000 and \$3,638,000, respectively. The Company established a structured investment program with the investment firm Raymond James & Associates (“RJ”) on March 16, 2016 to invest excess cash in US Government and agency securities, bank managed money market funds and/or a basket of short-term corporate bonds held to maturity in order to ensure safety of principal and a high degree of liquidity while maximizing yield. Liquidity and preservation of capital are the paramount considerations. Subsequent to March 31, 2016, the Company began investing excess cash in the structured investment program. Such investments consist of a basket of short-term corporate bonds with varying durations not to exceed eighteen (18) months.

### ***Investment Securities***

We classify our short-term debt securities as held-to-maturity. Held-to-maturity securities are those securities in which we have the ability and intent to hold the security until maturity. Held-to-maturity securities are recorded at amortized cost, adjusted for the amortization or accretion of premiums or discounts. Premiums and discounts are amortized or accreted over the life of the related held-to-maturity security as an adjustment to yield using the effective interest method. Available-for-sale investment securities are recorded at fair value. Other-than-temporary impairment charges are included in interest and other income, net, and unrealized gains (losses), if determined to be temporary, are included in accumulated other comprehensive income (loss) in stockholders’ equity.

### ***Escrowed Funds from Sale of Assets***

Escrowed funds from the sale of assets at March 31, 2016 represents \$8,000,000 of the proceeds from the DuPont Transaction held in escrow for eighteen months and \$1,000 of interest earned to date offset by the settlement of the net working capital true-up related to the transaction of approximately \$639,000 agreed to by the parties. The funds were paid to DuPont directly from the escrowed funds account on February 12, 2016.

### ***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.

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

The Company recognizes 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 March 31, 2016 and December 31, 2015, the deferred research and development obligation totaled approximately \$52,000 and \$129,000, respectively. During the quarters ended March 31, 2016 and 2015, the Company recognized research and development revenue from continuing operations in the amount of approximately \$87,000 and \$38,000 respectively.

### ***Income Taxes***

The Company has net operating loss carryforwards (“NOL’s”) available in 2016 that will begin to expire in 2034. NOL’s as of March 31, 2016 and December 31, 2015 were approximately \$6.3 million and \$5.8 million, respectively.

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.

For the quarters ended March 31, 2016 and 2015, the Company did not record a current provision for income tax for either period due to net losses reported.

The deferred tax assets at March 31, 2016 and December 31, 2015 were approximately \$2.2 million and \$2.0 million, respectively. In light of the Company's history of operating losses and the uncertainty regarding our ability to generate taxable income in the future, the Company has established a 100% valuation allowance against deferred tax assets at March 31, 2016 and December 31, 2015.

The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties, if any, in operating expenses. The Company is not subject to U.S. federal, state and local tax examinations by tax authorities for the years before 2012.

#### ***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, stock warrants, restricted stock and convertible debt. In computing diluted earnings per share, since the Company reported a loss for the three month periods ended March 31, 2016 and 2015, all outstanding common stock options and unvested restricted stock are considered anti-dilutive under the treasury stock method.

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

	<b>Three Months Ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
Net Loss, as Reported	\$ (938,080)	\$ (380,656)
As Reported Basic	38,692,948	34,142,505
Effect of Restricted Stock	98,269	49,654
Effect of Warrants	2,500	2,500
Total Reported Basic	<u>38,793,717</u>	<u>34,194,659</u>
Effect of Dilutive Stock Options	-	-
Effect of Restricted Stock	-	-
Weighted Average Dilutive Common Shares Outstanding	<u>38,793,717</u>	<u>34,194,659</u>
<b>Net Loss per Common Share</b>		
Basic	\$ (0.02)	\$ (0.01)
Dilutive	\$ (0.02)	\$ (0.01)

### ***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 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 adoption of this newly issued guidance is not expected to have an impact to the Company's consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, (Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes).” Under this standard, Companies are required to classify all deferred tax assets and liabilities as noncurrent on the balance sheet instead of separating deferred taxes into current and noncurrent amounts. Also, companies will no longer allocate valuation allowances between current and noncurrent deferred tax assets because those allowances also will be classified as noncurrent. Early adoption of the guidance is permitted, companies can start applying it in interim and annual financial statements that have not yet been issued. The Company has adopted this new guidance in its consolidated financial statements for the year ended December 31, 2015.

In February 2016, the FASB issued ASU 2016-02, (Leases (Topic 842)). Under the new guidance, lessees will be required to recognize the assets and liabilities that arise from operating leases. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. Public business entities should apply the amendments in ASU 2016-02 for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted for all public business entities and all nonpublic business entities upon issuance. The Company is currently evaluating the impact, if any, of the adoption of this newly issued guidance to its consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016-09, (Compensation—Stock Compensation (Topic 718) Improvements to Employee Share-Based Payment Accounting)). The guidance simplifies several aspects of the accounting for employee share-based payment transactions including allowing excess tax benefits or tax deficiencies to be recognized as income tax benefits or expenses in the Statements of Income rather than in Additional Paid in Capital (APIC). Also, excess tax benefits no longer represent a financing cash inflow on the Statement of Cash Flows and instead will be included as an operating activity. Under this guidance, excess tax benefits and tax deficiencies will be excluded from the calculation of diluted earnings per share, whereas under current accounting guidance, these amounts must be estimated and included in the calculation. In addition, this simplifies the accounting for forfeitures and changes the statutory tax withholding requirements for share-based payments. This guidance is effective for periods beginning after December 15, 2016 and early adoption is permitted. The Company is currently evaluating the



impact, if any, of the adoption of this newly issued guidance to its consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU No. 2016-08, (Revenue from Contracts with Customers (Topic 606)-Principal versus Agent Considerations (Reporting Revenue Gross versus Net). The guidance requires an entity to determine whether the nature of its promise is to provide the specified good or service itself (i.e., the entity is a principal) or to arrange for that good or service to be provided by the other party (i.e., the entity is an agent) when another party is involved in providing goods or services to a customer. Additionally, the amendments in this ASU require an entity that is a principal to recognize revenue in the gross amount of consideration to which it expects to be entitled in exchange for the specified good or service transferred to the customer, and require an entity that is an agent to recognize revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified good or service to be provided by the other party. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and is to be applied retrospectively, with early application not permitted. The Company is currently evaluating the impact, if any, of the adoption of this newly issued guidance to its consolidated financial statements and related disclosures.

In April 2016, the FASB issued ASU No. 2016-10, “Revenue from Contracts with Customers (Topic 606)-Identifying Performance Obligations and Licensing”. The guidance impacts entities with transactions that include contracts with customers to transfer goods or services (that are an output of the entity’s ordinary activities) in exchange for consideration, and they require entities to recognize revenue by following certain steps, including (1) identifying the contract(s) with a customer; (2) identifying the performance obligations in a contract; (3) determining the transaction price; (4) allocating the transaction price to the performance obligations in the contract; and (5) recognizing revenue when, or as, the entity satisfies a performance obligation. Notably, ASU No. 2016-10 does not impact the core revenue recognition principles set forth in Topic 606, but rather clarifies the identification of performance obligations and the licensing implementation guidance, while retaining the related principles for those areas. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and is to be applied retrospectively, with early application not permitted. The Company is currently evaluating the impact, if any, of the adoption of this newly issued guidance to its consolidated financial statements and related disclosures.

## **Note 2: Accounts Receivable**

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

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

The policy for determining past due status is based on the contractual payment terms of each customer, which are generally net 30 or net 60 days. Once collection efforts by the Company are exhausted, the determination for charging off uncollectible receivables is made. The Company does not accrue finance or interest charges on past due accounts receivable.

## **Note 3: 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 June 30, 2016 and thereafter the Company will reconsider the square footage of the leased space to align with the staffing requirements of the future operations of the Company.

### *The Netherlands Office*

The Company maintains a small satellite office in Wageningen, The Netherlands. The Company occupies approximately 900 square feet with annual rentals and common area maintenance charges of approximately \$4,700. The lease expires on February 28, 2019.

### ***Employment Agreements***

Two executives of the Company have employment agreements which contain, among other things, change of control provisions that, if triggered by the employees' voluntary termination, would entitle such executives to severance payments aggregating approximately \$1,850,000. The employee agreements that have been described in the Company's previous filings have been terminated and replaced by new employment agreements entered into subsequent to March 31, 2016. The new agreements amend the aggregate payments due for change of control from a lump sum payment, if triggered, to monthly installments beginning May 1, 2016 and continuing throughout the next 24 to 36 months.

### ***Professional Liability Lawsuit***

On March 26, 2009, the Company filed a complaint in the Circuit Court of the 15<sup>th</sup> 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"), Jenkins & Gilchrist, P.C. ("Jenkins & 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 Jenkins & Gilchrist and later at Greenberg Traurig. Jenkins & 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 Moscowwitz & Moscowwitz, P.A. and its attorneys Norman A. Moscowwitz and Jane W. Moscowwitz (collectively, the "Moscowwitz 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 Jenkins & Gilchrist, Bilzin Sumberg and the Moscowwitz 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 Jenkins & Gilchrist and Bilzin Sumberg also included claims for common law indemnity against the Company and Mr. Emalfarb. In addition, Jenkins & Gilchrist made a claim against the Company for breach of the implied covenant of good faith and fair dealing. On July 18, 2011, the Moscowwitz Defendants filed a motion for summary judgment which the Circuit Court denied in its entirety. On September 9, 2011, Jenkins & 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 Moscowwitz 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 10<sup>th</sup> and 11<sup>th</sup> 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 year ended December 31, 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 were scheduled to appear before the Court on November 13, 2015 for hearings on various pre-trial motions. At that time, the Court was expected to address when the professional liability litigation will be set for trial in 2016. The parties also voluntarily agreed to again attend mediation on November 18, 2015.

The parties attended both mediation and non-binding arbitration. No resolution was reached. Pretrial motion practice is now substantially completed. On March 3, 2016, the Court issued an Order setting a six week jury trial commencing January 6, 2017.

On April 5, 2016, the Company reached a confidential settlement with one of the two remaining defendant law firms, Bilzin Sumberg Baena Price & Axelrod LLP, in its ongoing professional liability litigation. On April 19, 2016, the Company received full payment in the amount of \$2,100,000, which is net of legal fees and expenses. The settlement amount will be reported in the Company's consolidated statement of operations, in other income, for the quarter ending June 30, 2016. The trial with the remaining defendant law firm Greenberg Traurig, LLP, Greenberg Traurig, P.A. (collectively, "Greenberg Traurig") and the estate of Robert I Schwimmer remains set for January 6, 2017.

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. The requirement for 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 4: Common Stock**

##### ***Issuances of Common Stock***

During the three month period ended March 31, 2016 and 2015, the Company issued 484,233 and 0 shares of common stock, respectively. The shares of common stock issued for the three month period ended March 31, 2016 are as follows:

- 172,167 shares were issued on various dates through-out the quarter in connection with the net exercise of stock options at an average price per share of \$0.15 to \$1.55
- 103,744 shares were issued for stock awards in connection with the DuPont Transaction, at an average price per share of \$1.67 to \$1.68
- 96,774 shares were issued on January 19, 2016 for compensation in connection with the formation of the Special Committee of the Board of Directors at an average price per share of \$1.55
- 64,516 shares were issued on January 29, 2016 in connection with the purchase of stock by a member of the board of directors at an average price per share of \$1.55.
- 47,032 shares were issued for compensation earned in lieu of cash compensation through December 31, 2015 to Dyadic Board members at an average price per share of \$0.99

As of March 31 2016, there were 1,147,273 outstanding warrants to purchase shares of common stock. These warrants were issued on December 31, 2015 in conjunction with the repayment or conversion of the Convertible Debt at a strike price of \$1.48. The warrants will expire on December 31, 2016. At March 31, 2016, 2,500 shares of common stock from warrants exercised in 2013 had not yet been issued.

During the three month period ended March 31, 2016 and 2015, \$40,625 and \$23,000 respectively was repaid under the Company's 2013 Employee Loan Program (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 March 31, 2016 and December 31, 2015, advances to employees under the Loan Program were approximately \$0 and \$40,625, respectively, and are included in stockholders' equity in the accompanying consolidated balance sheets.

##### ***Share Repurchase Program and Buybacks***

On February 16, 2016 the board of directors authorized a stock repurchase program, under which the Company may repurchase up to \$15 million of its outstanding common stock. Under the stock repurchase program, the Company may repurchase shares in open-market purchases in accordance with all applicable securities laws and regulations, including Rule 10b-18 of the Securities Exchange Act of 1934, as amended. The extent to which the Company repurchases its shares, and the timing of such repurchases, will depend upon a variety of factors, including market conditions, regulatory requirements and other corporate considerations, as determined by the Company's management. The repurchase program may be extended, suspended or discontinued at any time. The Company expects to finance the program from existing cash resources. For the three month period ended March 31, 2016, the Company repurchased 713,655 shares of common stock at an average price of \$1.56.

In addition to the share repurchase program the Company repurchased and retired an aggregate of 2,136,752 shares of its common stock at \$1.35 per share for an aggregate purchase price of \$2,884,615 pursuant to a Securities Purchase Agreement entered into with Abengoa Bioenergy New Technologies, LLC ("ABNT"). The \$1.35 per share price is equal to the average conversion price that Dyadic convertible debt holders received upon conversion of debt at December 31, 2015.

For the three month period ended March 31, 2016, the Company repurchased a total of 2,850,407 shares at an average cost of \$1.40 per share. Such shares consist of the ABNT transaction and the share repurchase program.

The Company's common stock repurchase program activity for the three months ended March, 31, 2016 is as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Treasury Shares Purchased as Part of Publicly Announced Plan	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plan
January 1, 2016 through January 31, 2016	-	\$ -	-	\$ 15,000,000
February 1, 2016 through February 29, 2016	83,755	1.63	83,755	14,863,621
March 1, 2016 through March 31, 2016	629,900	1.55	713,655	13,885,900
Total/Average Publicly Announced Plan	713,655	\$ 1.56	713,655	\$ 13,885,900
Abengoa Repurchased and Retired Shares on January 12, 2016	2,136,752	1.35		
Total Shares Repurchased	<u>2,850,407</u>	<u>\$ 1.40</u>		

## Note 5: 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 4, 2016, the Company granted its non-employee directors stock options to purchase an aggregate of 125,000 shares of the Company’s common stock at an exercise price of \$1.82 per share. The stock options vest over four years and expire on January 3, 2026. The fair market value of such stock options was \$1.46 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	2.240%
Dividend Yield	0%
Average Volatility Factor	77.501%
Average Option Life	10 year

On January 19, 2016, the Company granted a consultant stock options to purchase 200,000 shares of the Company’s common stock at an exercise price of \$1.57 per share. The stock options vest over four years and expire on January 18, 2026. The fair market value of such stock options was \$1.25 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	2.060%
Dividend Yield	0%
Average Volatility Factor	77.284%
Average Option Life	10 year

During the three month period ended March 31, 2016 and 2015, there were 446,500 and 38,125, respectively, stock options exercised. The 446,500 stock options exercised during the three month period ended March 31, 2016 were based on a cashless exercise resulting in the issuance of 172,167 shares of common stock at a weighted average exercise price of \$0.78 and the surrender of 274,333 shares at a weighted average exercise price of \$1.16.

During the three month period ended March 31, 2016 and 2015, there were 954,500 and 508,750, respectively, stock options that expired or were canceled. The canceled stock options for the three month period ended

March 31, 2016 principally reflect stock options canceled resulting from employee/consultants separations in connection with the DuPont Transaction. As of March 31, 2016, there were stock options outstanding under the Company's equity plans to purchase 2,635,250 shares of common stock.

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

	<u>Shares</u>	<u>Weighted-Average Exercise Price</u>	<u>Weighted-Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value</u>
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		
Canceled	(208,750)	1.38		
Outstanding at December 31, 2015	<u>3,711,250</u>	<u>1.63</u>	<u>6.3</u>	<u>962,205</u>
Granted	325,000	1.67		
Exercised	(446,500)	1.02		
Expired	(150,000)	2.12		
Canceled	(804,500)	1.96		
Outstanding at March 31, 2016	<u>2,635,250</u>	<u>1.61</u>	<u>6.9</u>	<u>421,645</u>
Exercisable at March 31, 2016	<u>2,341,500</u>	<u>\$ 1.61</u>	<u>6.4</u>	<u>\$ 405,645</u>

The Company recognized non-cash share-based compensation expense for its share-based awards of approximately \$210,000 and \$53,000 the three months ended March 31, 2016 and 2015 respectively.

During the three month period ended March 31, 2016 and 2015, the Company recognized approximately \$150,000 and \$29,000, respectively, in non-cash share-based compensation expense related to restricted stock issued. The restricted stock issued in three months ended March 31, 2016 was in connection with the formation of a special committee of the board.

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

	<u>Three Months Ended March 31,</u>	
	<u>2016</u>	<u>2015</u>
Total Stock Compensation Expense - Continuing Operations	\$ 210,448	\$ 52,775
Total Stock Compensation Expense - Discontinued Operations	-	9,245
Total Stock Compensation Expense	<u>\$ 210,448</u>	<u>\$ 62,020</u>

#### **Note 6: Subsequent Events**

On April 5, 2016, the Company reached a confidential settlement with one of the two remaining defendant law firms, Bilzin Sumberg Baena Price & Axelrod LLP, in its ongoing professional liability litigation. On April 19, 2016, the Company received full payment in the amount of \$2,100,000, which is net of legal fees and expenses. The settlement amount will be reported in the Company's consolidated statement of operations, in other income, for the quarter ending June 30, 2016.

On May 9, 2016 before the market opened, Director, Steven Warner sold 268,314 shares of Dyadic International, Inc. common stock to the Company in connection with the stock repurchase program at \$1.65 per share which represented a 2% discount to the closing price of the stock on Friday, May 6, 2016.

The Company has evaluated these unaudited consolidated financial statements for subsequent events through May 12, 2016, 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" to our Annual Report for the year ended December 31, 2015 which was filed with the OTC Markets on March 29, 2016. 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, 2015 which was filed with the OTC Markets on March 29, 2016.

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

### ***OVERVIEW***

#### ***Description of Business***

Dyadic International, Inc. is a global biotechnology company based in Jupiter, Florida with a foreign subsidiary, Dyadic Nederland, BV, which maintains a small satellite office in Wageningen, The Netherlands. Over the past two decades the Company has developed a method for producing commercial quantities of enzymes and other proteins which it used to develop and produce some of its own industrial enzymes, as well as licensing this technology to third parties such as Abengoa Bioenergy, BASF, Codexis and others. This technology is based on the *Myceliophthora thermophila* fungus, which the Company named C1. The C1 technology is a robust and versatile fungal expression system for gene discovery, development, expression and production of enzymes and other proteins.

The Company has long believed that the pharmaceutical field is one of the most attractive opportunities in which the C1 technology may be applied. The C1 technology platform 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 C1 can help bring biologic drugs to market faster, in greater volumes and at lower cost to drug developers and manufacturers. This can potentially improve access and reduce costs to patients and the healthcare system.

On December 31, 2015 the Company completed the sale of substantially all of the assets of its Industrial Technology business to DuPont's (NYSE: DD) Industrial Biosciences business for \$75 million in cash (the "DuPont Transaction"). 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. In connection with the DuPont Transaction, DuPont has granted back to Dyadic co-exclusive rights to the C1 technology for use in human and animal pharmaceutical applications, with the exclusive ability to enter into sub-license agreements in that field. DuPont will retain certain rights to utilize the C1 technology for use in pharmaceutical applications, including development and production of pharmaceutical products, for which it will make royalty payments to Dyadic upon commercialization. In certain circumstances, Dyadic may owe a royalty to either DuPont or certain licensor's of DuPont depending upon whether Dyadic elects to utilize certain patents either owned by DuPont or DuPont's licensors. The current escrow amount of \$7,362,116 in the accompanying balance sheet is net of contractual working capital adjustments agreed to by the parties.

The combination of a portion of the proceeds from the DuPont Transaction and possible additional industry and government funding that will be sought are expected to provide Dyadic with the opportunity to accelerate the further development and optimization of the C1 technology in the area of biopharmaceuticals. In addition, the unique attributes of C1 may create attractive research, licensing, collaboration and other opportunities if C1 demonstrates operational efficiencies and reduced capital requirements for biologic drug manufacturers.

Currently, we intend to continue our existing program with Sanofi Pasteur and our EU-funded ZAPI vaccination program. The Company has initiated internally funded research & development pharmaceutical programs and is reviewing its options regarding its future internal and external pharmaceutical research initiatives. The Company plans to initially use contract research organizations to carry out its research and development activities. As part of the negotiated terms of the DuPont Transaction, the Company has begun to fund its research efforts at the Company's former research center in Wageningen, The Netherlands, which was acquired by DuPont. If the Company is able to successfully demonstrate C1's capabilities in developing biologics, management will consider setting up its own research and development site to carry out its business plan.

Going forward, the Company's focus will be related to leveraging the patented and proprietary C1 expression system to help speed up the development and production of biologic drugs at flexible commercial scales for its use in the discovery, development, and manufacturing of human and animal vaccines, monoclonal antibodies, biosimilars and/or biobetters, and other therapeutic proteins.

### ***Development goals***

The Company has started an initial exploratory research program to evaluate the use of the current C1 technology to develop imperative non-glycosylated therapeutic products such as Insulin and ranibizumab, a biosimilar version of Lucentis, and is evaluating other potential possibilities:

- Global human insulin market is estimated to reach \$42 billion by 2019, at a compound annual growth rate of 12.5% from 2014-2019. The market is being driven by the growing prevalence of diabetes worldwide, aging population that increases the incidence of diabetes, growing obese population due to the change in lifestyle, favorable government initiatives, and the introduction of pen and inhalation devices that deliver human insulin efficiently and effectively. We believe that the production of low cost insulin by C1 will be a potential solution for the growing demand in the multibillion-dollar insulin market.
- Among other mAb-based biosimilars, ranibizumab, a biosimilar version of Lucentis, for the treatment of retinal diseases, achieved global sales of approximately \$4.5 billion per IMS Health. Since the aging population continues to grow in developed and undeveloped countries there is a growing need to deliver more medicines and therapies to more people around the world faster, in greater volumes and at lower cost. Producing non-glycosylated biosimilars, such as ranibizumab, a biosimilar version of Lucentis, by using the C1 Technology we can create a differentiated approach for a gene expression system as an effective alternative in the emerging biosimilar, bio-better global-market as it becomes more competitive.

The Company's longer term objective, which will require substantially more time and money to achieve, is to leverage the C1 expression host system for the even larger therapeutic glycoprotein market. The C1 system has the potential to become a significant platform for the development and production of therapeutic glycoproteins with human-compatible or even superior glycan structures. We believe that with the rapid advances already available today, and those being made at an accelerated pace in genomics and synthetic biology, the hyper productive and novel C1 fungal cell line is a superior option to further engineer glycosylation pathways: (i) to create improved immunogenicity in the case of vaccines, or (ii) to eliminate immunogenicity in the case of glycoproteins as therapeutic drugs. The Company is currently evaluating the best strategies to carry out these critical research and development tasks. We are in discussions with various leading experts and laboratories in the field of glycoengineering to identify the best path forward to glycoengineer C1 cell lines.

We believe in the saying that *"The expression system is not everything, but everything is nothing without a good expression system."* Based on our academic and commercial collaborations, we believe experts in academia and industry regard Dyadic's C1 Expression System as among the foremost expression systems in the world. We have licensed, on a non-exclusive basis, our C1 Expression System to some of the world's largest and most renowned industrial biotechnology companies such as Abengoa, BASF, Codexis among others. We sold substantially all the



assets of our Industrial Technology business to DuPont's Industrial Biosciences business ("DuPont") for \$75 million in cash (the "DuPont Transaction"). We believe this transaction provides us with an exceptional opportunity to unlock value and provide Dyadic operational flexibility to develop our pharmaceutical business. We will now focus C1 on the pharmaceutical sector where we believe it has the potential to help develop and manufacture drugs and vaccines faster and more efficiently than existing production systems. We believe that utilizing the C1 Expression System may be the critical differentiator in allowing Dyadic, our collaborators and licensees to compete in these technology-driven markets.

### ***Recent Developments***

On January 19, 2016 the Dyadic board of directors approved the formation of a compensated Special Committee to address the advisory needs of the Company in connection with the Company's ongoing litigation against former legal counsel and biopharmaceutical business development. The role of the Special Committee would be to serve as a resource to management with respect to the foregoing matters, but that all decisions with respect to such matters would be subject to Board review and approval following a presentation by the Special Committee. Michael Tarnok and Jack Kaye were appointed to the compensated Special Committee.

On March 15, 2016, our board of directors revised our director compensation policy, to 100% cash compensation instead of 80% cash and 20% restricted stock effective January 1, 2016. Directors who are also employees or officers of the Company or any of its subsidiaries do not receive any separate compensation as a director. Non-employee directors receive an annual retainer for board service of \$36,000, paid in equal monthly installments. In addition to the Annual Board Retainer, a director serving as Chairman of the Board shall receive an additional annual retainer of \$12,000, paid in equal monthly installments. In addition to the Annual Board Retainer, an independent director who serves as Chair of the Company's Audit Committee shall receive an additional annual retainer of \$9,600, paid in equal monthly installments.

### ***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 or as milestones are achieved. The Company typically performs services as specified in each respective agreement on a best efforts basis, and is reimbursed based on contract terms and conditions under 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 contract terms and conditions under each contract. As of March 31, 2016 and December 31, 2015, the deferred research and development obligation totaled approximately \$52,000 and \$129,000, respectively.

The Company recognized research and development revenue during the three month period ended March 31, 2016 and 2015 in the amount of approximately \$87,000 and \$38,000, 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.

For the quarters ended March 31, 2016 and 2015, the Company did not record a current provision for income tax for either period due to net losses reported.

The deferred tax assets at March 31, 2016 and December 31, 2015 were approximately \$2.2 million and \$2.0 million, respectively. In light of the Company’s history of operating losses and the uncertainty regarding our ability to generate taxable income in the future, the Company has established a 100% valuation allowance against deferred tax assets at March 31, 2016 and December 31, 2015.

The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties, if any, in operating expenses. The Company is not subject to U.S. federal, state and local tax examinations by tax authorities for the years before 2012.

### ***Recent Accounting Pronouncements***

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 adoption of this newly issued guidance is not expected to have an impact to the Company's consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, (Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes).” Under this standard, Companies are required to classify all deferred tax assets and liabilities as noncurrent on the balance sheet instead of separating deferred taxes into current and noncurrent amounts. Also, companies will no longer allocate valuation allowances between current and noncurrent deferred tax assets because those allowances also will be classified as noncurrent. Early adoption of the guidance is permitted, companies can start applying it in interim and annual financial statements that have not yet been issued. The Company has adopted this new guidance in its consolidated financial statements for the year ended December 31, 2015.

In February 2016, the FASB issued ASU 2016-02, (Leases (Topic 842)). Under the new guidance, lessees will be required to recognize the assets and liabilities that arise from operating leases. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. Public business entities should apply the amendments in ASU 2016-02 for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted for all public business entities and all nonpublic business entities upon issuance. The Company is currently evaluating the impact, if any, of the adoption of this newly issued guidance to its consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016-09, (Compensation—Stock Compensation (Topic 718) Improvements to Employee Share-Based Payment Accounting)). The guidance simplifies several aspects of the accounting for employee share-based payment transactions including allowing excess tax benefits or tax deficiencies to be recognized as income tax benefits or expenses in the Statements of Income rather than in Additional Paid in Capital (APIC). Also, excess tax benefits no longer represent a financing cash inflow on the Statement of Cash Flows and instead will be included as an operating activity. Under this guidance, excess tax benefits and tax deficiencies will be excluded from the calculation of diluted earnings per share, whereas under current accounting guidance, these amounts must be estimated and included in the calculation. In addition, this simplifies the accounting for forfeitures and changes the statutory tax withholding requirements for share-based payments. This guidance is effective for periods beginning after December 15, 2016 and early adoption is permitted. The Company is currently evaluating the impact, if any, of the adoption of this newly issued guidance to its consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU No. 2016-08, (Revenue from Contracts with Customers (Topic 606)- Principal versus Agent Considerations (Reporting Revenue Gross versus Net). The guidance requires an entity to determine whether the nature of its promise is to provide the specified good or service itself (i.e., the entity is a principal) or to arrange for that good or service to be provided by the other party (i.e., the entity is an agent) when another party is involved in providing goods or services to a customer. Additionally, the amendments in this ASU require an entity that is a principal to recognize revenue in the gross amount of consideration to which it expects to be entitled in exchange for the specified good or service transferred to the customer, and require an entity that is an agent to recognize revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified good or service to be provided by the other party. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and is to be applied retrospectively, with early application not permitted. The Company is currently evaluating the impact, if any, of the adoption of this newly issued guidance to its consolidated financial statements and related disclosures.

In April 2016, the FASB issued ASU No. 2016-10, “Revenue from Contracts with Customers (Topic 606)- Identifying Performance Obligations and Licensing”. The guidance impacts entities with transactions that include contracts with customers to transfer goods or services (that are an output of the entity’s ordinary activities) in exchange for consideration, and they require entities to recognize revenue by following certain steps, including (1) identifying the contract(s) with a customer; (2) identifying the performance obligations in a contract; (3) determining the transaction price; (4) allocating the transaction price to the performance obligations in the contract; and (5) recognizing revenue when, or as, the entity satisfies a performance obligation. Notably, ASU No. 2016-10 does not impact the core revenue recognition principles set forth in Topic 606, but rather clarifies the identification of performance obligations and the licensing implementation guidance, while retaining the related principles for those areas. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and is to be applied retrospectively, with early application not permitted. The Company is currently evaluating the impact, if any, of the adoption of this newly issued guidance to its consolidated financial statements and related disclosures.

### ***Results of Operations***

#### ***Three Month Period Ended March 31, 2016 Compared to the Same Period in 2015***

##### ***Revenue***

Research and development revenue for the three month period ended March 31, 2016 was approximately \$87,000 compared to \$38,000 for the same period a year ago. The increase in revenue for the period reflects activity from two biopharmaceutical R&D projects.

##### ***Operating Expenses***

##### ***General and Administrative Expenses***

General and administrative expenses for the three month ended March 31, 2016 increased 8% to approximately \$892,000 compared to \$829,000 for the same period a year ago. The increase reflects an increase in non-cash stock based compensation, primarily related to the formation of the Special Committee of the Board and litigation costs partially offset by lower costs in connection with downsizing the organization after the DuPont Transaction.

##### ***Research and Development***

Research and Development expenses for the three month period ended March 31, 2016 increased to approximately \$245,000 compared to \$0 for the same period a year ago. The increase reflects the research and development service agreement with DuPont to support our ongoing biopharmaceutical and internal research and development projects.

##### ***Income Taxes***

The Company has net operating loss carryforwards (“NOL’s”) available in 2016 that will begin to expire in 2034. NOL’s as of March 31, 2016 and December 31, 2015 were approximately \$6.3 million and \$5.8 million, respectively.

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.

For the quarters ended March 31, 2016 and 2015, the Company did not record a current provision for income tax for either period due to net losses reported.

The deferred tax assets at March 31, 2016 and December 31, 2015 were approximately \$2.2 million and \$2.0 million, respectively. In light of the Company's history of operating losses and the uncertainty regarding our ability to generate taxable income in the future, the Company has established a 100% valuation allowance against deferred tax assets at March 31, 2016 and December 31, 2015.

The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties, if any, in operating expenses. The Company is not subject to U.S. federal, state and local tax examinations by tax authorities for the years before 2012.

### ***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.

On December 31, 2015 the Company completed the sale of substantially all of the assets of its Industrial Technology business to DuPont's (NYSE: DD) Industrial Biosciences business for \$75 million in cash (the "DuPont Transaction"). 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. In connection with the DuPont Transaction, DuPont has granted back to Dyadic co-exclusive rights to the C1 technology for use in human and animal pharmaceutical applications, with the exclusive ability to enter into sub-license agreements in that field. DuPont will retain certain rights to utilize the C1 technology for use in pharmaceutical applications, including development and production of pharmaceutical products, for which it will make royalty payments to Dyadic upon commercialization. In certain circumstances, Dyadic may owe a royalty to either DuPont or certain licensor's of DuPont depending upon whether Dyadic elects to utilize certain patents either owned by DuPont or DuPont's licensors. The current escrow amount of \$7,362,116 in the accompanying balance sheet is net of interest earned to date and contractual working capital adjustments agreed to by the parties.

The combination of a portion of the proceeds from the DuPont Transaction and possible additional industry and government funding that will be sought are expected to provide Dyadic with the ability to focus on and accelerate the further development and optimization of the C1 technology in the area of biopharmaceuticals. In addition, the unique attributes of C1 may create attractive research, licensing, collaboration and other opportunities if the C1 technology demonstrates operational efficiencies and reduced requirements for biologic drug manufacturing capital expenditures.

Currently, we intend to continue our existing program with Sanofi Pasteur and our EU-funded ZAPI vaccination program. The Company has initiated internally funded research & development pharmaceutical programs and is reviewing its options regarding its future internal and external pharmaceutical research initiatives. The Company plans to initially use third party research organizations to carry out its research and development activities. As part of the negotiated terms of the DuPont Transaction, the Company has begun to fund its research efforts with DuPont at the Company's former research center in Wageningen, The Netherlands, which was acquired by DuPont. If the Company is able to successfully demonstrate C1's capabilities in developing biologics, management will consider setting up its own research and development site to carry out its business objectives.

Going forward, the Company's focus will be related to leveraging the patented and proprietary C1 expression system to help speed up the development and production of biologic drugs at flexible commercial scales for its use in the discovery, development, and manufacturing of human and animal vaccines, monoclonal antibodies, biosimilars and/or biobetters, and other therapeutic proteins.

At March 31, 2016, cash and cash equivalents were approximately \$62,594,000 compared to \$68,601,000 at December 31, 2015. Cash used in the quarter ended March 31, 2016 principally reflects stock re-purchases of approximately \$4.0 million, payment of DuPont Transaction related liabilities of approximately \$2.3 million and cash used in operating activities of approximately \$0.6 million partially offset by approximately \$0.6 million of cash received by Dyadic on DuPont's behalf that will be repaid to DuPont after the transition services agreement is completed after April 30, 2016 and other cash items of \$0.3 million.

On April 5, 2016, the Company reached a confidential settlement with one of the two remaining defendant law firms, Bilzin Sumberg Baena Price & Axelrod LLP, in its ongoing professional liability litigation. On April 19, 2016, the Company received full payment in the amount of \$2,100,000, which is net of legal fees and expenses. The settlement amount will be reported in the Company's consolidated statement of operations, in other income, for the quarter ending June 30, 2016. In the event the Company is able to reach a favorable settlement with the remaining defendant law firm Greenberg Traurig, LLP, Greenberg Traurig, P.A. (collectively, "Greenberg Traurig") and the estate of Robert I Schwimmer in its ongoing Professional Liability litigation, this will 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. See in Note 3: Commitments and Contingencies - *Professional Liability Lawsuit*, Note 6: Subsequent Events and *Item 5. Legal Proceedings* for additional information.

Net cash used in operating activities for the three months ended March 31, 2016 was principally attributable to a net loss of approximately (\$938,000) and changes in operating assets and liabilities of approximately (\$1,416,000) primarily related to payment of DuPont Transaction related liabilities, and stock based compensation of approximately \$210,000.

Net cash used in operating activities for the three month period ended March 31, 2015 was principally attributable to a net loss of approximately (\$819,000) and cash used in discontinued operations of (\$181,000) and offset by changes in operating assets and liabilities of \$43,000 and stock based compensation of approximately \$53,000.

Net cash used in financing activities for the three months ended March 31, 2016 of approximately (\$3,858,000) was principally attributable to repurchase of common stock of (\$3,999,000) offset by the issuance of common stock of \$100,000 and the proceeds received from outstanding stock subscriptions of \$41,000.

Net cash provided by financing activities for the three months ended March 31, 2015 of \$2,023,000 was principally attributable to the issuance of convertible debt.

## ***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"), Jenkins & Gilchrist, P.C. ("Jenkins & 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 Jenkins & Gilchrist and later at Greenberg Traurig. Jenkins & 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, Moscowitz & Moscowitz, P.A. and its attorneys, Norma A. Moscowitz and Jane W. Moscowitz, 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 were scheduled to appear before the Court on November 13, 2015 for hearings on various pre-trial motions. At that time, the Court was expected to address when the professional liability litigation will be set for trial in 2016. The parties also voluntarily agreed to again attend mediation on November 18, 2015.

The parties attended both mediation and non-binding arbitration. No resolution was reached. Pretrial motion practice is now substantially completed. On March 3, 2016, the Court issued an Order setting a six week jury trial commencing January 6, 2017.

On April 5, 2016, the Company reached a confidential settlement with one of the two remaining defendant law firms, Bilzin Sumberg Baena Price & Axelrod LLP, in its ongoing professional liability litigation. On April 19, 2016, the Company received full payment in the amount of \$2,100,000, which is net of legal fees and expenses. The settlement amount will be reported in the Company's consolidated statement of operations, in other income, for the quarter ending June 30, 2016. The trial with the remaining defendant law firm Greenberg Traurig, LLP, Greenberg Traurig, P.A. (collectively, "Greenberg Traurig") and the estate of Robert I Schwimmer remains set for January 6, 2016.

In addition to the matters noted above, from time to time, the Company is subject to legal proceedings, asserted claims and investigations in the ordinary course of business, including commercial claims, employment and other matters, which management considers immaterial, individually and in the aggregate. The Company makes a provision for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. The requirement for 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 March 31, 2016, our portfolio of financial instruments consists of cash equivalents, including money market funds. As of March 31, 2016, 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 three months period ended March 31, 2016 and the "risk factors" included in our December 31, 2015 Annual Report filed with OTC Markets on March 29, 2016, 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 three months ended March 31, 2016 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 January 18, 2016 Robert D. Burke, MD resigned from the Board of Directors and all related board committees to which he served which included the compensation, and nominating committees of the board. Dr. Burke served on the board of directors since June 2008.

On January 19, 2016 the Dyadic board of directors approved the formation of a compensated Special Committee to address the advisory needs of the Company in connection with the Company’s ongoing litigation against former legal counsel and biopharmaceutical business development. The role of the Special Committee would be to serve as a resource to management with respect to the foregoing matters, but that all decisions with respect to such matters would be subject to Board review and approval following a presentation by the Special Committee. Michael Tarnok and Jack Kaye were appointed to the compensated Special Committee.

On March 15, 2016, our board of directors revised our director compensation policy to return to 100% cash compensation instead of 80% cash and 20% restricted stock, effective January 1, 2016. Directors who are also employees or officers of the Company or any of its subsidiaries do not receive any separate compensation as a director. Non-employee directors receive an annual retainer for board service of \$36,000, paid in equal monthly installments. In addition to the Annual Board Retainer, a director serving as Chairman of the Board shall receive an additional annual retainer of \$12,000, paid in equal monthly installments. In addition to the Annual Board Retainer, an independent director who serves as Chair of the Company’s Audit Committee shall receive an additional annual retainer of \$9,600, paid in equal monthly installments.

#### ***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 May 12, 2016

                  /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 May 12, 2016

                  /s/ Thomas L. Dubinski                  

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