DYADIC INTERNATIONAL, INC.
A Delaware Corporation

140 Intracoastal Pointe Drive, Suite 404
Jupiter, Florida 33477

Telephone: (561) 743-8333
Facsimile: (561) 743-8343

SIC Code: 2860

Federal EIN: 45-0486747

Issuer's Quarterly Report

For the three and six months ended June 30, 2016

ISSUER'S EQUITY SECURITIES

COMMON STOCK

$0.001 Par Value Per Share
100,000,000 Shares Authorized
38,792,752 Shares Issued as of June 30, 2016
36,902,197 Shares Outstanding as of June 30, 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.

TABLE OF CONTENTS

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 International, Inc., and its subsidiaries 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 the 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 office is as follows:

The address of the issuer is:	140 Intracoastal Pointe Drive, Suite 404 Jupiter, Florida 33477
The telephone and facsimile is:	Telephone: (561) 743-8333 Facsimile: (561) 743-8343

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

Item 2 Shares outstanding

As of June 30, 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 end of each 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 June 30, 2016:

(i)	Number of shares authorized	100,000,000
(ii)	Number of shares issued	38,792,752
(iii)	Number of shares outstanding	36,902,197
(iv)	Number of shares held in treasury	1,890,555
(v)	Number of shares freely tradable	21,822,741
(vi)	Total number of holders of record	52

There are greater than 1,685 beneficial shareholders owning at least 100 shares of the Company's common stock.

Preferred Stock

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

	June 30, 2016	December 31, 2015
	(Unaudited)	(Audited)
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 14,958,236	$ 68,601,138
Short-term Investment Securities	36,987,740	—
Accounts Receivable, Net	29,761	78,952
Prepaid Expenses and Other Current Assets	636,713	490,750
Total Current Assets	52,612,450	69,170,840
Long-term Investment Securities	10,695,331	—
Escrowed Funds from Sale of Assets	7,363,026	7,361,182
Other Assets	136,699	135,403
Total Assets	$ 70,807,506	$ 76,667,425
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts Payable	$ 2,537,735	$ 630,230
Accrued Expenses	201,545	2,113,672
Deferred Research and Development Obligation	36,422	129,018
Total Liabilities	2,775,702	2,872,920
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 - 38,792,752 and 36,902,197, respectively, as of June 30, 2016; and 40,298,324 and 40,298,324, respectively, as of December 31, 2015	38,793	40,299
Additional Paid-In Capital	90,184,700	92,157,374
Treasury Stock, Shares Held at Cost - 1,890,555 and 0, respectively	(3,097,460)	—
Stock Subscriptions Receivable	—	(40,625)
Stock to be Issued	—	350,553
Accumulated Deficit	(19,094,229)	(18,713,096)
Total Stockholders' Equity	68,031,804	73,794,505
Total Liabilities and Stockholder's Equity	$ 70,807,506	$ 76,667,425

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

DYADIC INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
REVENUES:				
Research and Development Revenue	$ 14,945	$ 25,835	$ 101,836	$ 63,983
COSTS AND EXPENSES (INCOME):				
Costs of Goods Sold	13,676	19,796	98,822	50,833
General and Administrative	1,091,953	1,353,854	1,983,932	2,183,000
Research and Development	349,380	—	594,314	—
Foreign Currency Transaction Loss (Gain), Net	101,128	128,657	(31,671)	128,657
Total Expenses	1,556,137	1,502,307	2,645,397	2,362,490
LOSS FROM CONTINUING OPERATIONS BEFORE OTHER INCOME (EXPENSE)	(1,541,192)	(1,476,472)	(2,543,561)	(2,298,507)
Other Income (Expense):				
Settlement of Litigation, Net	2,100,000	—	2,100,000	—
Interest Income	132,065	2,687	197,082	6,087
Interest Expense	(181)	—	(909)	—
Total Other Income	2,231,884	2,687	2,296,173	6,087
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	690,692	(1,473,785)	(247,388)	(2,292,420)
Income Tax Expense from Continuing Operations	(133,745)	—	(133,745)	—
NET INCOME (LOSS) FROM CONTINUING OPERATIONS	556,947	(1,473,785)	(381,133)	(2,292,420)
NET INCOME FROM DISCONTINUED OPERATIONS	—	1,050,577	—	1,488,556
NET INCOME (LOSS)	$ 556,947	$ (423,208)	$ (381,133)	$ (803,864)
BASIC NET INCOME (LOSS) PER SHARE:				
Basic Net Income (Loss) from Continuing Operations per Share	$ 0.01	$ (0.04)	$ (0.01)	$ (0.06)
Basic Net Income from Discontinued Operations per Share	—	0.03	—	0.04
Basic Net Income (Loss) per Share	$ 0.01	$ (0.01)	$ (0.01)	$ (0.02)
DILUTED NET INCOME (LOSS) PER SHARE:				
Diluted Net Income (Loss) from Continuing Operations per Share	$ 0.01	$ (0.04)	$ (0.01)	$ (0.06)
Diluted Net Income from Discontinued Operations per Share	—	0.03	—	0.04
Diluted Net Income (Loss) per Share	$ 0.01	$ (0.01)	$ (0.01)	$ (0.02)
Weighted-Average Number of Shares:				
Basic	37,580,900	34,207,808	38,186,194	34,202,488
Diluted	37,906,553	34,207,808	38,186,194	34,202,488

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

DYADIC INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE LOSS

(Unaudited)

	Common Stock		Treasury Stock		Additional Paid-In Capital	Stock Subscriptions	Stock to Be Issued	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
Stock-based Compensation	96,774	97			459,786				459,883
Vesting of Restricted Stock	219,776	219			349,959		(350,178)		—
Exercise of Warrants	2,500	3			372		(375)		—
Exercise of Stock Options	247,614	247			(247)				—
Sale of Common Stock	64,516	65			99,935				100,000
Repayment of Stock Subscriptions						40,625			40,625
Purchases of Common Stock	(2,136,752)	(2,137)	(1,890,555)	(3,097,460)	(2,882,479)				(5,982,076)
Net Loss and Other Comprehensive Loss								(381,133)	(381,133)
Balance at June 30, 2016	38,792,752	$ 38,793	(1,890,555)	$(3,097,460)	$ 90,184,700	$ —	$ —	$ (19,094,229)	$68,031,804

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

DYADIC INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30, 2016 (Unaudited)	Six Months Ended June 30, 2015 (Unaudited)
OPERATING ACTIVITIES		
Net loss from continuing operations	$ (381,133)	$ (2,292,420)
Net income from discontinued operations, net of income tax expense	—	1,488,556
Net loss	(381,133)	(803,864)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities		
Amortization of premium on investment securities	(104,555)	—
Stock based compensation expense	459,883	232,692
Foreign currency transaction loss	(13,931)	—
Changes in operating assets and liabilities:		
Accounts receivable	44,684	(168,154)
Prepaid expenses and other current assets	(146,151)	47,731
Accounts payable	1,920,136	(334,477)
Accrued expenses	(1,906,132)	174,768
Deferred research and development obligation	(92,596)	215,247
Net cash used in continuing operations	(219,795)	(636,057)
Net cash provided by discontinued operations	—	1,172,617
Net cash (used in) provided by operating activities	(219,795)	536,560
INVESTING ACTIVITIES		
Restricted cash	(3,140)	10,894
Purchase of held-to-maturity investment securities	(47,578,516)	—
Net cash (used in) provided by continuing operations	(47,581,656)	10,894
Net cash used in discontinued operations	—	(96,718)
Net cash used in investing activities	(47,581,656)	(85,824)
FINANCING ACTIVITIES		
Proceeds from the sale of common stock	100,000	3,050
Proceeds from repayment of stock subscriptions	40,625	90,750
Purchases of common stock	(5,982,076)	—
Proceeds from issuance of convertible debt	—	2,000,000
Repayment of convertible debt	—	(50,000)
Net cash (used in) provided by continuing operations	(5,841,451)	2,043,800
Net cash provided by (used in) discontinued operations	—	—
Net cash (used in) provided by financing activities	(5,841,451)	2,043,800
Net (decrease) increase in cash and cash equivalents	(53,642,902)	2,494,536
Cash and cash equivalents at beginning of period	68,601,138	2,495,455
Cash and cash equivalents at end of period	$ 14,958,236	$ 4,989,991
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	$ 909	$ 352,730
Cash paid for income taxes, net of refunds	$ 169,903	$ —

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. ("Dyadic", "we", or the "Company") 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 required for the production of industrial enzymes; and has successfully licensed this technology to third parties such as Abengoa Bioenergy, BASF, Codexis and others. This technology is based on the *Myceliopthora thermophila* fungus, which the Company named C1. The C1 technology is a robust and versatile fungal expression system for gene discovery, development, and production of enzymes and other proteins.

On December 31, 2015, the Company sold its industrial technology business to DuPont's (NYSE: DD) industrial biosciences business for $75 million (the "DuPont Transaction"). The DuPont Transaction included $8 million of the purchase price to be held in escrow 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 granted 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. 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 or licensed by DuPont. The current escrow amount of $7,363,026 in the accompanying balance sheet is net of contractual working capital adjustments already agreed to by the parties and interest earned to date.

The Company is currently focusing on leveraging the patented and proprietary C1 expression system to help accelerate the development and production of biologic vaccines and 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.

Basis of Presentation

The accompanying unaudited interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiary. All significant intra-entity transactions and balances have been eliminated in consolidation.

The accompanying unaudited interim consolidated financial statements for Dyadic International, Inc. and its subsidiary 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 was posted to the OTC Markets website on March 29, 2016.

We have reclassified the revenues and expenses of our industrial technology business related to the DuPont Transaction 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 results of operations from discontinued operations for the three and six months ended June 30, 2015, and cash flows from discontinued operations for the six months ended June 30, 2015:

INCOME FROM DISCONTINUED OPERATIONS

	Three Months Ended June 30, 2015	Six Months Ended June 30, 2015
REVENUES:		
Product Related Revenue, Net	$ 2,756,394	$ 6,234,710
License Fee Revenue	600,000	800,000
Research and Development Revenue	449,582	767,163
Total Revenue	3,805,976	7,801,873
COSTS AND EXPENSES (INCOME):		
Cost of Goods Sold	2,189,810	4,598,381
General and Administrative	(202,520)	(69,995)
Sales and Marketing	299,933	542,457
Research and Development	403,421	808,574
Foreign Currency Transaction (Gain) Loss, Net	(153,755)	34,759
Total Expenses	2,536,889	5,914,176
INCOME FROM DISCONTINUED OPERATIONS BEFORE OTHER EXPENSE	1,269,087	1,887,697
OTHER EXPENSE:		
Interest Expense	(218,510)	(399,141)
NET INCOME FROM DISCONTINUED OPERATIONS	$ 1,050,577	$ 1,488,556

CASH FLOWS FROM DISCONTINUED OPERATIONS

	Six Months Ended June 30, 2015
Cash Flows Provided By Operating Activities	$ 1,172,617
Net Cash Used In Investing Activities	(96,718)
	$ 1,075,899

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 highly liquid investments with original maturities of three months or less when purchased as cash and cash equivalents, including money market funds, which are unrestricted for withdrawal or use. At times, the Company has cash and cash equivalents at financial institutions exceeding the Federal Depository Insurance Company

("FDIC") and the Securities Investor Protection Corporation ("SIPC") insured limit on domestic currency and the Netherlands FDIC counterpart for foreign currency. The Company only deals with reputable financial institutions and has not experienced any losses on these accounts. As of June 30, 2016 and December 31, 2015, amounts on deposit at U.S. financial institutions that exceeded these limits were approximately $17,344,000 and $72,400,000, respectively, and the deposits at Dutch institutions that exceeded these limits as of June 30, 2016 and December 31, 2015 were approximately $3,885,000 and $3,638,000, respectively.

Investment Securities

Investment securities are classified as held-to-maturity, available-for-sale, or trading at the date of purchase. Held-to-maturity securities are recorded at amortized cost, adjusted for the amortization or accretion of premiums or discounts. Premiums and discounts are amortized over the life of the related held-to-maturity security. Available-for-sale securities are recorded at fair value with associated unrealized gains or losses included in accumulated other comprehensive income (loss) in stockholders' equity. Other-than-temporary impairment charges are included in other income (expense).

In April 2016, the Company began to invest excess cash in the structured investment program managed by a reputable investment firm. Such investments consist of a basket of money market funds and investment grade corporate bonds with varying durations, in each case, less than eighteen (18) months.

Management determines the appropriate classification of its investments at the time of purchase and reevaluates the classifications at each balance sheet date. The Company's investments in debt securities have been classified and accounted for as held-to-maturity. Held-to-maturity securities are those securities that the Company has the ability and intent to hold until maturity. The Company's investments in money market funds have been classified and accounted for as available-for-sale securities, and presented as cash equivalents on the balance sheet. The Company classifies its investment securities as either short-term or long-term based on each instrument's underlying contractual maturity date. Investment securities with maturities of 12 months or less are classified as short-term, and investment securities with maturities greater than 12 months are classified as long-term. The Company did not have any investment securities classified as trading as of June 30, 2016 and December 31, 2015.

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.

Prepaid Expenses and Other Assets

Prepaid expenses and other assets as of June 30, 2016, and December 31, 2015 consisted of the following:

	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Prepaid income taxes	$ 259,095	$ 233,900
Prepaid expenses - general	154,983	99,208
Prepaid insurance	171,026	94,289
Prepaid value added taxes	51,609	63,353
	$ 636,713	$ 490,750

Escrowed Funds from Sale of Assets

As of June 30, 2016, the balance of escrowed funds from the sale of assets was $7,363,026, representing $8,000,000 of the proceeds from the DuPont Transaction held in escrow for eighteen months and approximately $2,000 of interest earned to date offset by the settlement of a net working capital adjustment of approximately $639,000 which has been agreed to by the parties. The amount of working capital adjustment was paid to DuPont directly from the escrowed funds account on February 12, 2016.

Accounts Payable

Accounts payable as of June 30, 2016, and December 31, 2015 consisted of the following:

	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Payable related to DuPont transition services agreement	$ 1,733,770	$ —
Payable to DuPont for research and development services	250,000	—
Accounts payable - other	553,965	630,230
	$ 2,537,735	$ 630,230

Accrued Expenses

Accrued expenses as of June 30, 2016, and December 31, 2015 consisted of the following:

	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Accrued employee termination costs, wages and benefits	$ 55,727	$ 1,967,497
Accrued expenses - other	145,818	146,175
	$ 201,545	$ 2,113,672

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 from research funding under collaboration agreements when earned on a "proportional performance" basis as research hours are incurred. The Company typically performs services as specified in each respective agreement on a best efforts basis, and is reimbursed based on labor hours incurred on each contract. The Company initially defers revenue for any amounts billed and payments received in advance for services performed. The Company then recognizes revenue pursuant to the related pattern of performance, based on total labor hours incurred relative to total labor hours estimated under the contract. As of June 30, 2016 and December 31, 2015, the deferred research and development obligation were $36,422 and $129,018, respectively. During the six months ended June 30, 2016 and 2015, the Company recognized research and development revenue from continuing operations in the amount of $101,836 and $63,983 respectively.

Research and Development Costs

Research and development ("R&D") costs are expensed as incurred. During the three and six months ended June 30, 2016, the Company recorded $349,380 and $594,314 of R&D expenses respectively. The R&D costs are related to the Company's internally funded R&D pharmaceutical programs and other governmental and commercial projects.

Foreign Currency Transaction Gain or Loss

The Company's foreign subsidiary uses the U.S. dollar as its functional currency, and it initially measures the foreign currency denominated assets and liabilities at the transaction date. Monetary assets and liabilities are then re-measured at exchange rates in effect at the end of each period, and inventories, property and nonmonetary assets and liabilities are converted at historical rates.

Other Income

During the three months ended June 30, 2016, the Company recorded a gain on settlement of litigation, net of legal fees and expenses, in the amount of approximately $2.1 million. On April 19, 2016, the Company received such amount in connection with the Company's settlement with one of the two remaining defendant law firms, Bilzin Sumberg Baena Price & Axelrod LLP, in its ongoing professional liability litigation.

Fair Value Measurements

The Company applies fair value accounting for certain financial instruments that are recognized or disclosed at fair value in the financial statements. The Company defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

- *Level 1* – Quoted prices in active markets for identical assets or liabilities.
- *Level 2* – Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- *Level 3* – Inputs that are generally unobservable and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability.

Assets and liabilities on the unaudited interim consolidated balance sheets are measured at carrying values, which approximate fair values due to the short term nature of these balances. Such items include cash and cash equivalents, accounts receivable, accounts payable, prepaid expenses, and accrued expenses. See Note 2 for further information on the fair value measurements of the Company's investment securities.

Income Taxes

The Company has net operating loss ("NOL") carryforwards available in 2016 that will begin to expire in 2034. As of June 30, 2016 and December 31, 2015, the Company had NOLs in the amount of approximately $4.9 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 quarter ended June 30, 2016, the Company recorded a current provision for income tax of $133,745 for adjustments related to our 2015 tax return.

The deferred tax assets as of June 30, 2016 and December 31, 2015 were approximately $2.1 million and $2.0 million, respectively. Due to 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 as of June 30, 2016 and December 31, 2015.

The Company is not subject to U.S. federal, state and local tax examinations by tax authorities for the years before 2013.

Comprehensive Income (Loss)

Comprehensive income (loss) includes net income (loss) and other revenue, expenses, gains and losses that are recorded as an element of shareholders' equity but are excluded from net income (loss) under U.S. GAAP. The Company does not have any items that are not included in net income (loss), and therefore, its comprehensive income (loss) is the same as net income (loss) for all periods presented.

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 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. ASU 2016-02 will be effective for the Company beginning in the first quarter of 2019 and early application 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 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. ASU 2016-09 will be effective for the Company beginning in the first quarter of 2017 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.

Financial Instruments

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 will be effective for the Company beginning in the first quarter of 2018. The Company is currently evaluating the impact, if any, of the adoption of this newly issued guidance to its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which modifies the measurement of expected credit losses of certain financial instruments. ASU 2016-13 will be effective for the Company beginning in the first quarter of 2020. The Company is currently evaluating the impact, if any, of the adoption of this newly issued guidance to its consolidated financial statements.

Revenue Recognition

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which amends the existing accounting standards for revenue recognition. ASU 2014-09 is based on principles that govern the recognition of revenue at an amount an entity expects to be entitled when products are transferred to customers. ASU 2014-09 will be effective for the Company beginning in the first quarter of 2018.

Subsequently, the FASB has issued the following standards related to ASU 2014-09: ASU 2016-08, Revenue from Contracts with Customers (Topic 606) - Principal versus Agent Considerations (Reporting Revenue Gross versus Net); ASU 2016-10, Revenue from Contracts with Customers (Topic 606) - Identifying Performance Obligations and Licensing; and ASU 2016-12, Revenue from Contracts with Customer (Topic 606) - Narrow-Scope Improvement and Practical Expedients. The Company must adopt ASU 2016-08, ASU 2016-10, and ASU 2016-12 together with ASU 2014-09 (collectively, the "new revenue standards.")

The new revenue standards may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. The Company is currently evaluating the timing of its adoption and the impact, if any, of the adoption of the new revenue standards to its consolidated financial statements and related disclosures.

Note 2: Cash, Cash Equivalents and Investment Securities

The Company's held-to-maturity debt securities are carried at amortized costs, and its investments in money market funds are classified as cash equivalents. The following tables show the Company's cash, available-for-sale securities, and short-term and long-term investment securities by major security type as of June 30, 2016 and December 31, 2015:

	June 30, 2016						
	Level (1)	**Fair Value**	**Unrealized Gains/ Losses**	**Adjusted Cost**	**Cash and Cash Equivalents**	**Short-Term Investment Securities**	**Long-Term Investment Securities**
Cash		$ 4,332,157	$ —	$ 4,332,157	$ 4,332,157	$ —	$ —
Money Market Funds	1	10,626,079	—	10,626,079	10,626,079	—	—
Corporate Bond	2	47,598,796	—	47,683,071	—	36,987,740	10,695,331
Total		$ 62,557,032	$ —	$ 62,641,307	$ 14,958,236	$ 36,987,740	$ 10,695,331

	December 31, 2015						
	Level (1)	**Fair Value**	**Unrealized Gains/ Losses**	**Adjusted Cost**	**Cash and Cash Equivalents**	**Short-Term Investment Securities**	**Long-Term Investment Securities**
Cash		$ 67,082,876	$ —	$ 67,082,876	$ 67,082,876	$ —	$ —
Money Market Funds	1	1,518,262	—	1,518,262	1,518,262	—	—
Corporate Bond	2	—	—	—	—	—	—
Total		$ 68,601,138	$ —	$ 68,601,138	$ 68,601,138	$ —	$ —

(1) See Note 1 - Significant accounting policy for the definition of the three-level fair value hierarchy.

The Company considers the declines in market value of its investment portfolio to be temporary in nature. The Company's investment policy requires investment securities to be investment grade and held to maturity with the primary objective to maintain a high degree of liquidity while maximizing yield. When evaluating an investment for other-than-temporary impairment, the Company reviews factors such as the length of time and extent to which fair value has been below its cost basis, the financial condition of the issuer and any changes thereto, changes in market interest rates, and whether it is more likely than not the Company will be required to sell the investment before recovery of the investment's cost basis. As of June 30, 2016, the Company does not consider any of its investments to be other-than-temporarily impaired.

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 $8,700. The lease expires on June 30, 2017. See Note 7, Subsequent Events.

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 January 31, 2019.

Employment Agreements

The previous employment agreements of two executives of the Company contained, among other things, change of control obligations of approximately $1.56 million that, if triggered by the employees' voluntary termination, would entitle such executives to a lump sum severance payment. During the second quarter of 2016, the Company entered into new employment agreements with these two executives. These agreements included, among other provisions, payment of the former change of control obligations over the term of the new agreements rather than in a lump sum payment, modification of base compensation, and all incentive payments in excess of base compensation are solely in the form of stock options contingent upon the achievement of certain milestones either specified in the agreements and/or to be determined by the compensation committee on an annual basis. The payment of change of control obligations began in the second quarter of 2016 and will continue for the 24 and 36 month terms of their respective contracts. The new employment agreements do not contain any further change of control obligations. See Note 5, *Share-Based Compensation* for additional information regarding the options issued for incentive compensation pursuant to these agreements.

Professional Liability Lawsuit

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

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

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

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

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

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

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

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

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

On November 26, 2013, the Court entered a Case Management Order. Pursuant to the Order, all pretrial motions and other litigation activities were to have been concluded by the end of 2014. The Court ordered mediation was held on November 10th and 11^{th,} 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 was 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 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 was reported in the Company's consolidated statement of operations, in other income, for the quarter ended 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.

On July 8, 2016, the Court heard oral argument on Greenberg Traurig's Renewed Motion for Summary Judgment as to its judgmental immunity affirmative defense.

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 six months ended June 30, 2016 and 2015, the Company issued 631,180 and 0 shares of common stock, respectively. The shares of common stock issued for the three and six months ended June 30, 2016 are as follows:

	Three Months Ended June 30, 2016		**Six Months Ended June 30, 2016**	
	Number of Shares Issued	Price per Share	Number of Shares Issued	Price per Share
Exercise of Stock Options	75,447	\$0.15 - \$1.53	247,614	\$0.15 - \$1.55
Grants and Vesting of Restricted Stock	69,000	\$1.93	316,550	\$0.97 - \$1.93
Sale of Common Stock	—	N/A	64,516	\$1.55
Exercise of Warrants	2,500	\$0.15	2,500	\$0.15
TOTAL	146,947		631,180	

As of June 30, 2016, there were 1,147,273 outstanding warrants that are exercisable 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, and will expire on December 31, 2016.

During the six months ended June 30, 2016 and 2015, \$40,625 and \$97,750, 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 repayable 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 related stock options and warrants. As of June 30, 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 January 12, 2016, 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 as of December 31, 2015. These shares repurchased from ABNT were treated as effective retirements, and therefore reduced reported shares issued and outstanding by the number of shares repurchased. The Company recorded the excess of the purchase price over the par value of the common stock as a reduction of additional paid-in capital.

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 (the "2016 Stock Repurchase Program"). Under the 2016 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. Under the 2016 Stock Repurchase Program, all repurchased shares are to be held in treasury.

The following table summarized the Company's 2016 Stock Repurchase Program activities during the periods presented:

Period	Number of Shares Purchased	Average Repurchase Price per Share	Amount	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 12, 2016 - ABNT repurchased and retired shares	2,136,752	$1.35	$2,884,615	—	N/A
2016 Stock Repurchase Program:					
January 1, 2016 through March 31, 2016	713,655	1.56	1,114,100	713,655	$13,885,900
April 1, 2016 through April 30, 2016	303,723	1.72	522,526	303,723	13,363,374
May 1, 2016 through May 31, 2016	491,964	1.67	822,477	491,964	12,540,897
June 1, 2016 through June 30, 2016	381,213	$1.67	638,357	381,213	$11,902,540
Total open market and privately negotiated purchase	4,027,307		$5,982,075	1,890,555	

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"). Options granted under the Equity Compensation Plans are service-based and typically vest in equal annual installments over a four year period.

During the six months ended June 30, 2016, the Company granted stock options to purchase an aggregate of 1,253,333 shares of the Company's common stock at a weighted average exercise price of $1.68 per share. The weighted average grant-date fair market value of stock options granted during the six months ended June 30, 2016 was $1.26 per stock option based on the Black-Scholes valuation model. Assumptions used in the Black-Scholes valuation model for options granted were as follows:

Risk-Free interest rate	1.22% - 2.24%
Expected annual dividend yield	0.00%
Expected stock price volatility	74.79% - 77.50%
Expected life of options	5 - 10 Years

During the six months ended June 30, 2016 and 2015, there were 696,500 and 15,000, respectively, stock options exercised. The 696,500 stock options exercised during the six months ended June 30, 2016 were based on a cashless exercise resulting in the issuance of 247,614 shares of common stock at a weighted average exercise price of $0.80 and the surrender of 448,886 shares at a weighted average exercise price of $2.24.

During the six months ended June 30, 2016 and 2015, there were 1,779,500 and 434,750, respectively, stock options that expired or were canceled. The canceled stock options for the six months ended June 30, 2016 principally reflect stock options canceled resulting from employee and consultant separations in connection with the DuPont Transaction.

The following table summarizes the Company's two Equity Compensation Plans:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
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	3,711,250	1.63	6.3	$962,205
Granted	1,253,333	1.68		
Exercised	(696,500)	0.80		
Expired	(150,000)	2.12		
Canceled	(1,629,500)	2.24		
Outstanding at June 30, 2016	2,488,583	$1.61	6.3	235,960
Exercisable at June 30, 2016	1,463,583	$1.56	6.1	$231,960

The forgoing table includes 650,000 stock options issued in connection with the contingent compensation incentives discussed in Note 3, *Commitments and Contingencies*, and will only vest upon the achievement of the performance milestones specified in the employment agreements. In the event that the performance milestones are not achieved, the option grants relating to any unattained milestones will be automatically canceled. Recognition of compensation costs related to these milestone-based contingent stock options has been deferred until these options vest upon the achievement of the incentive milestones contained in the employment agreements.

Share-based compensation expense is included in general and administrative expenses in the consolidated statements of operations. The following table summarizes the Company's non-cash share-based compensation expense related to continuing and discontinuing operations for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Share-based compensation expense - stock options	$ 249,435	$ 160,229	$ 309,883	$ 182,502
Share-based compensation expense - restricted stock	$ —	$ 21,443	$ 150,000	$ 50,190
Share-based compensation expense from continuing operations	$ 249,435	$ 181,672	$ 459,883	$ 232,692
Share-based compensation expense from discontinued operations	—	26,586	—	37,585
Total share-based compensation expense	$ 249,435	$ 208,258	$ 459,883	$ 270,277

Note 6: Earnings Per Share

Basic earnings (loss) per share is computed by dividing net income or (loss) available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings (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. The dilutive effect of potentially dilutive securities is reflected in diluted earnings per share by applying the treasury stock method. Under the treasury stock method, an increase in the fair market value of the Company's common stock can result in a greater dilutive effect from potentially dilutive securities.

The following table shows the calculation of basic and diluted earnings per share for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net Income (Loss) from Continuing Operations	$ 556,947	$(1,473,785)	$ (381,133)	$ (2,292,420)
Net Income (Loss) from Discontinued Operations	—	1,050,577	—	1,488,556
Total Net Income (Loss), As Reported	$ 556,947	$ (423,208)	$ (381,133)	$ (803,864)
Weighted Average Common Shares	37,530,856	34,142,505	38,111,902	34,142,505
Adjustment for Restricted Stock	50,044	62,803	74,292	57,483
Adjustment for Warrants	—	2,500	—	2,500
Total Basic Weighted Average Shares	37,580,900	34,207,808	38,186,194	34,202,488
Adjustment for Dilutive Stock Options	187,852	—	—	—
Adjustment for Dilutive Warrants	137,801	—	—	—
Total Dilutive Weighted Average Shares	37,906,553	34,207,808	38,186,194	34,202,488
Basic Net Income (Loss) Per Share:				
Continuing Operations	$ 0.01	$ (0.04)	$ (0.01)	$ (0.06)
Discontinued Operations	—	0.03	—	0.04
Total Basic Net Income (Loss) Per Share	$ 0.01	$ (0.01)	$ (0.01)	$ (0.02)
Diluted Net Income (Loss) Per Share:				
Continuing Operations	$ 0.01	$ (0.04)	$ (0.01)	$ (0.06)
Discontinued Operations	—	0.03	—	0.04
Total Diluted Net Income (Loss) Per Share	$ 0.01	$ (0.01)	$ (0.01)	$ (0.02)

Potentially dilutive securities whose effect would have been anti-dilutive are excluded from the calculation of diluted earnings (loss) per share. For the six months ended June 30, 2016 and 2015, 2,488,583 and 3,807,375 shares of potentially dilutive securities were excluded from the computation of diluted earnings (loss) per share, respectively, as the effect would have been anti-dilutive. In addition, 1,147,276 warrants outstanding as of June 30, 2016 would have been anti-dilutive and were excluded from the computation of diluted earnings (loss) per share for the six months ended June 30, 2016.

Note 7: Subsequent Events

For purpose of disclosure in the unaudited consolidated financial statements, the Company has evaluated subsequent events through August 11, 2016, the date the unaudited consolidated financial statements were available to be issued. Except as discussed below, 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 accompanying unaudited financial statements.

In July 2016, the Company entered into an extension agreement for the lease at 140 Intracoastal Pointe Drive in Jupiter Florida, extending the end of the lease term from June 30, 2016 to June 30, 2017. See Note 3, Commitments and Contingencies for additional information.

On August 4, 2016, the Company entered into a research and development agreement with Aluma-Bio, a third party Contract Research Organization, to conduct a project to further develop the Company's C1 technology for recombinant vaccine production. The project includes a work plan of six months for a total cost of approximately $50,000.

On August 5, 2016, the Company received a 60-day notice from Sanofi Pasteur S.A., indicating that they have decided to terminate the Proof of Concept, Exclusive Option & Technology Transfer Agreement dated on March 30, 2011. On October 5, 2016, the effective termination date of the Agreement, Sanofi's prior option rights to the C1 technology previously covered by the Agreement revert back to Dyadic. Upon such reversion, Dyadic expects to leverage the knowledge gained, and the progress made from the meaningful improvements to the C1 expression system across all biologic vaccine and drug indications.

Subsequent to June 30, 2016, the Company repurchased, pursuant to the terms of its 2016 Stock Repurchase Program, approximately 800,000 additional shares at an average price of $1.62 through August 11, 2016.

On August 8, 2016, the Company's board of directors approved a reverse stock split, which will be subject to shareholders' approval. The board of directors authorized management to engage with the Company's advisors to determine the appropriate metrics, timing and process required to implement this action (including the effect that it will have on all issued and outstanding shares, stock options or other equity awards, as applicable). Management currently anticipates that the reverse stock split proposal will be submitted to shareholders at a special meeting of Dyadic's shareholders in the fourth quarter of this year. An affirmative vote by the majority of Dyadic's shareholders will permit the board of directors to implement the reverse stock split.

The primary purpose of the reverse stock split is to enable the Company to satisfy certain listing requirements to the extent the board of directors authorizes an application for listing on NASDAQ or other national exchange in the future. However, there can be no assurances given that the board of directors will authorize such action or that the Company will be able to satisfy all listing requirements.

Additional information regarding the reverse stock split will be set out in the Company's proxy statement distributed in advance of the special meeting of shareholders.

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. ("Dyadic", "we", or the "Company") 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 required for the production of industrial enzymes; and has successfully licensed this technology to third parties such as Abengoa Bioenergy, BASF, Codexis and others. This technology is based on the *Myceliopthora thermophila* fungus, which the Company named C1. The C1 technology is a robust and versatile fungal expression system for gene discovery, development, and production of enzymes and other proteins.

On December 31, 2015, the Company sold its industrial technology business to DuPont's (NYSE: DD) industrial biosciences business for $75 million (the "DuPont Transaction"). The transaction included $8 million of the purchase price to be held in escrow 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 granted 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. 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 licensed in by DuPont. The current escrow amount of $7,363,026 in the accompanying balance sheet is net of contractual working capital adjustments already agreed to by the parties.

The Company is currently focusing on leveraging the patented and proprietary C1 expression system to help accelerate the development and production of biologic vaccines and 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.

The Company believes that the pharmaceutical sector is an attractive opportunity to potentially apply the C1 technology platform. The Company expects to utilize a portion of the proceeds from the DuPont Transaction and in combination with additional funding that is being sought from industry and government programs to further develop and optimize the C1 technology platform to become a safe and efficient expression system. 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 vaccines and drug manufacturers. The Company's primary objective is to position the C1 technology as the expression platform of choice in the development and production of commercial scale biologic vaccines and drugs. In particular, as the global population ages, Dyadic's vision is for C1 to improve the speed and efficiency in which biologic vaccines and drugs are brought to market. This could improve access and lower the cost of drugs for patients and the health-care system, and most importantly, save lives.

We intend to continue our participation in the existing EU-funded ZAPI vaccination program. Additionally, the Company has initiated internally funded research and development pharmaceutical programs at the Company's former research center in Wageningen, the Netherlands, which was acquired by DuPont. The Company anticipates engaging an additional third party Contract Research Organization ("CRO") at the end of the third quarter or early in the fourth quarter of 2016 to further modify and improve the Company's C1 technology for use in developing and manufacturing biologic vaccines and drugs. Management is evaluating how best to leverage the encouraging results, knowledge and experience, along with the progress made from the meaningful improvements to the C1 expression system from our research collaboration with Sanofi Pasteur (which will end on October 5th, 2016) and otherwise across all biologic vaccine and drug indications on our own, or in collaboration with other parties. The Company's developed C1 expressed proteins that tested in mice trials by Sanofi Pasteur, produced data indicating that C1 technology produced antigen generated an equal, or better, immune response in mice than the industry standard antigen. The Sanofi project, along with our own research efforts enabled the Company to successfully demonstrate that our C1 technology is able to produce vaccines at high levels, in addition to the potential to improve therapeutic vaccine performance. We consider the experience and knowledge obtained from the research invaluable and expect it will generate a greater interest in the C1 technology for developing and manufacturing biologic vaccines and drugs. We continue to review and evaluate our existing and new opportunities for internal and external pharmaceutical research and development. When the Company has successfully demonstrated C1's capabilities in developing biologics, we will consider setting up our own research and development site in furtherance of our business objectives.

Development Goals

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

- 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, an aging population that increases the incidence of diabetes, growing obesity due to changing lifestyles, 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 represents one of the largest potential opportunities for which C1 may be applied.

- Therapeutic antibodies for the treatment of retinal diseases, such as mAb-based biosimilars and ranibizumab, a biosimilar version of Lucentis, 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 an increasing 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, 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, and with the accelerated pace of new advancement being made, 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 has and continues to evaluate the best strategies to conduct 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. The additional CRO that the Company anticipates engaging at the end of the third quarter or early in the fourth quarter 2016 will not only focus on improving the Company's C1 technology in developing biologic vaccines and drugs, but also glycoengineering of C1.

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. Prior to the DuPont Transaction, we had successfully licensed our C1 expression system, on a non-exclusive basis, to some of the world's largest and most renowned industrial biotechnology companies such as Abengoa, BASF, Codexis, among others. We are optimistic about the impact that the C1 expression system may have on the development and manufacturing of biologic vaccines and drugs and 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. Further, we believe biologics developed without the most productive expression system will face reimbursement challenges.

Recent Developments

See *Item 7 Other Information - Board of Directors Changes* and *Reverse Stock Split Plan* for information about certain recent developments regarding the Company.

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 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.

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.

Recent Accounting Pronouncements

See Note 1 to the Consolidated Financial Statements for information about recent accounting pronouncements.

Results of Operations

Three Months and Six Months Ended June 30, 2016 Compared to the Same Periods in 2015

Revenue

Research and development revenue for the three months ended June 30, 2016 decreased 42% to approximately $14,900 compared to $25,800 for the same period a year ago. The decrease in revenue was due to the mix and timing of project activity from two biopharmaceutical R&D projects.

Research and development revenue for the six months ended June 30, 2016 increased 59% to approximately $101,800 compared to $64,000 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 months ended June 30, 2016 decreased 19% to approximately $1,092,000 compared to $1,353,900 for the same period a year ago. The decrease primarily reflects lower employee related costs due to the organizational downsizing in connection with the DuPont Transaction of $416,200, cost reimbursement received from the DuPont for services rendered in the transition services agreement of $38,200, and a decrease in litigation costs of $217,800, offset by an increase in executive compensation costs of $245,600, an increase in outside financial services and recruitment costs of $99,800, and an increase in costs related to the Company's transition to a biopharmaceutical research company of $63,900.

General and administrative expenses for the six months ended June 30, 2016 decreased 9% to approximately $1,983,900 compared to $2,183,000 for the same period a year ago. The decrease primarily reflects lower employee related costs due to the organizational downsizing in connection with the DuPont Transaction of $566,300, cost reimbursement received from DuPont for services rendered in the transition services agreement of $182,200, and a decrease in litigation costs of $105,500, offset by an increase in non-cash stock compensation in connection with the Special Committee of the Board of $200,000, an increase in executive compensation costs of $244,700, an increase in costs related to the Company's transition to a biopharmaceutical research company of $133,600, and an increase in financial personnel compensation and related recruitment costs of $76,600.

Research and Development

Research and development expenses from continuing operations for the three and six months ended June 30, 2016 increased to approximately $349,400 and $594,300 compared to $0 and $0, respectively, for the same periods a year ago. The increase reflects the R&D service agreement with DuPont to support our ongoing biopharmaceutical and internally funded projects, and other governmental and commercial projects.

Foreign Currency Transaction Gain or Loss

The Company's foreign currency transaction gain or loss, for the six months ended June 30, 2016 was a gain of appropriately $31,700 compared to a loss of $128,700 for the same period a year ago. The change represents the strengthening of the US dollar in comparison to the Euro.

Settlement of Litigation

During the three months ended June 30, 2016, the Company recorded a gain on settlement of litigation, net of legal fees and expenses, in the amount of $2.1 million. On April 19, 2016, the Company received such amount in connection with the Company's settlement with one of the two remaining defendant law firms, Bilzin Sumberg Baena Price & Axelrod LLP, in its ongoing professional liability litigation.

Interest Income

Interest income for the three and six months ended June 30, 2016 increased to approximately $132,100 and $197,100 compared to $2,700 and $6,100, respectively for the same periods a year ago. The increase in interest income was related to the Company's investments in debt securities.

The Company has net operating loss ("NOL") carryforwards available in 2016 that will begin to expire in 2034. As of June 30, 2016 and December 31, 2015, the Company had NOLs in the amount of approximately $4.9 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 quarter ended June 30, 2016, the Company recorded a current provision for income tax of $133,745 for adjustments related to our 2015 tax return.

The deferred tax assets as of June 30, 2016 and December 31, 2015 were approximately $2.1 million and $2.0 million, respectively. Due to 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 as of June 30, 2016 and December 31, 2015.

The Company is not subject to U.S. federal, state and local tax examinations by tax authorities for the years before 2013.

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.

Our primary future cash needs are expected to be concentrated on operating activities, including working capital and R&D expenses. In addition, we may use cash to repurchase additional shares of our common stock under our $15 million share repurchase program. We believe our existing cash position and investments in debt securities will be adequate to meet our operational, business, and other liquidity requirements in the next twelve months.

On April 5, 2016, the Company reached a 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 was reported in the Company’s consolidated statement of operations, in other income, for the quarter ended 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,* and *Item 5. Legal Proceedings* for additional information.

At June 30, 2016, cash and cash equivalents were approximately $14,958,000 compared to $68,601,000 at December 31, 2015. Cash used in the six months ended June 30, 2016 of approximately $53.6 million primarily reflects stock repurchases of approximately $6.0 million, purchase of investment securities of approximately $47.6 million, payment of DuPont Transaction related liabilities of approximately $1.9 million, and cash used in operating activities of approximately $2.1 million, offset by cash received from the litigation settlement of approximately $2.1 million, and approximately $1.7 million of cash received by Dyadic on DuPont's behalf in connection with the DuPont transition service agreement that will be settled in the third quarter of 2016, and other cash items of approximately $0.2 million.

Net cash used in operating activities for the six months ended June 30, 2016 of approximately $219,800 was principally attributable to a net loss of approximately $381,100, amortization of premium on investment securities of approximately $104,600, and changes in operating assets and liabilities of approximately $194,000 primarily related to the renewal of director and officer insurance and change from installment to lump sum payment of the premium, offset by stock based compensation expenses of approximately $459,900.

Net cash used in operating activities for the six months ended June 30, 2015 of approximately $536,600 was principally attributable to a net loss of approximately $803,900 and changes in operating assets and liabilities of approximately $64,900, offset by stock based compensation expenses of approximately $232,700 and cash provided by discontinued operations of approximately $1,172,600.

Net cash used in investing activities for the six months ended June 30, 2016 of approximately $47.6 million was primarily used for purchase of investment securities.

Net cash used in investing activities for the six months ended June 30, 2015 of approximately $85,800 was attributable to the cash used in discontinued operations of approximately $96,700, offset by interest earned on restricted cash of approximately $10,900.

Net cash used in financing activities for the six months ended June 30, 2016 of approximately $5.8 million was principally attributable to repurchase of common stock of $6.0 million offset by the issuance of common stock of $100,000 and the proceeds received from outstanding stock subscriptions of approximately $40,600.

Net cash provided by financing activities for the six months ended June 30, 2015 of approximately $2,043,800 was principally attributable to the cash proceeds from the private placement of convertible debt in the amount of $2.0 million and the repayment of stock subscriptions of approximately $90,800, offset by the repayment of convertible debt of $50,000.

Item 5. Legal Proceedings

Professional Liability Lawsuit

See Note 3 to the Consolidated Financial Statements for information on legal proceeding regarding the professional liability lawsuits.

The Company is also subject to legal proceedings, asserted claims and investigations in the ordinary course of business, including from time to time 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 June 30, 2016, our portfolio of financial instruments consists of cash equivalents, including money market funds. As of June 30, 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 and six months ended June 30, 2016 and the "risk factors" included in our December 31, 2015 Annual Report filed with the 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 and six months ended June 30, 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, our 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 the Board review and approval following a presentation by the 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.

In June 2016, our board of directors reevaluated our director compensation plan, taking into consideration of benchmark comparisons of board compensation and our reduced internal resources after the DuPont Transaction. In anticipation of the workload demands and time commitments expected of board members in 2016 and 2017, the Company increased each board member's cash compensation from a base of $3,000 per month to $5,000 per month beginning July 1, 2016, and the annual stock option award was increased from 25,000 options to 50,000 options retroactively to the beginning of 2016. Accordingly, additional 25,000 stock options were granted to each board member on June 7, 2016.

Reverse Stock Split Plan

On August 8, 2016, the Company's board of directors approved a reverse stock split, which will be subject to shareholders' approval. The board of directors authorized management to engage with the Company's advisors to determine the appropriate metrics, timing and process required to implement this action (including the effect that it will have on all issued and outstanding shares, stock options or other equity awards, as applicable). Management currently anticipates that the reverse stock split proposal will be submitted to shareholders at a special meeting of Dyadic's shareholders in the fourth quarter of this year. An affirmative vote by the majority of Dyadic's shareholders will permit the board of directors to implement the reverse stock split.

The primary purpose of the reverse stock split is to enable the Company to satisfy certain listing requirements to the extent the board of directors authorizes an application for listing on NASDAQ or other national exchange in the future. However, there can be no assurances given that the board of directors will authorize such action or that the Company will be able to satisfy all listing requirements.

Additional information regarding the reverse stock split will be set out in the Company's proxy statement distributed in advance of the special meeting of shareholders.

Item 8. Exhibits

None

Item 9. Certifications

Certification

I, Mark A. Emalfarb, certify that:

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

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

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

Dated August 11, 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 August 11, 2016

/s/ Thomas L. Dubinski

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