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: 2836

Federal EIN: 45-0486747

Issuer's Quarterly Report

For the three months ended March 31, 2017

ISSUER'S EQUITY SECURITIES

COMMON STOCK

$0.001 Par Value Per Share
100,000,000 Shares Authorized
38,930,738 Shares Issued as of March 31, 2017
28,703,168 Shares Outstanding as of March 31, 2017

OTCQX: DYAI

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

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

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Special Cautionary Note Regarding Forward-Looking Statements

Information (other than historical facts) set forth in this Quarterly Report contains forward-looking statements within the meaning of the Federal Securities Laws, which involve a number of risks and uncertainties that could cause our actual results to differ materially from those reflected in the forward-looking statements. Forward-looking statements generally can be identified by use of the words "expect," "should," "intend," "anticipate," "will," "project," "may," "might," potential" or "continue" and other similar terms or variations of them or similar terminology. Dyadic 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, (1) general economic, political and market conditions; (2) our ability to carry out and implement our biopharmaceutical research and business plans and strategic initiatives; (3) our ability to retain and attract employees, consultants, directors and advisors; (4) our ability to implement and successfully carry out Dyadic's and third parties research and development efforts; (5) our ability to obtain new license and research agreements; (6) our ability to maintain our existing access to, and/or expand access to third party contract research organizations in order to carry out our research projects for ourselves and third parties; (7) competitive pressures and reliance on key customers and collaborators; and (8) 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, 2016 Annual Report filed with the OTC Markets on March 24, 2017.

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 follow:

The address of the issuer is:	140 Intracoastal Pointe Drive, Suite 404 Jupiter, Florida 33477
The telephone and facsimile is:	Telephone: (561) 743-8333 Facsimile: (561) 743-8343
The issuer's website:	Dyadic's corporate website, www.dyadic.com, contains general information about us and our products and services. We also maintain www.dyadic.nl. The information contained on 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 March 31, 2017, 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. Certain shares of our common stock are currently eligible for resale in the public market pursuant to the exemption from registration offered by Rule 144 under the Securities Act ("Rule 144"). The remaining outstanding shares of our common stock are "restricted securities" within the meaning of Rule 144, and may be eligible for resale in the future.

Common Stock

Dyadic's common stock has a par value of $0.001 per share. The following table shows our common stock share ownership as of March 31, 2017:

(i)	Number of shares authorized	100,000,000
(ii)	Number of shares issued	38,930,738
(iii)	Number of shares outstanding	28,703,168
(iv)	Number of shares held in treasury	10,227,570
(v)	Number of shares freely tradable (public float) (1)	20,531,591
(vi)	Total number of holders of record	83

There are greater than 1,712 beneficial shareholders owning at least 100 shares of the Company's common stock.

(1) Represents the number of shares outstanding excluding shares held by shareholders owning 10% or more of our common stock, and shares held by our officers and directors. Their shares may be "control shares" subject to the volume and manner of sale restrictions under Rule 144.

Preferred Stock

Dyadic's preferred stock has a par value of $0.0001 per share. The following table shows our preferred stock share ownership as of March 31, 2017:

(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

	March 31, 2017	December 31, 2016
	(Unaudited)	(Audited)
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 7,979,545	$ 6,889,357
Escrowed Funds from Sale of Assets	7,365,963	7,364,859
Short-term Investment Securities	35,312,375	42,050,052
Interest Receivable	311,074	493,154
Accounts Receivable	180,837	588,213
Litigation Settlement Receivable, Net	4,358,223	—
Prepaid Expenses and Other Current Assets	158,073	242,289
Total Current Assets	55,666,090	57,627,924
Long-term Investment Securities	—	1,066,643
Other Assets	5,879	5,853
Total Assets	$ 55,671,969	$ 58,700,420
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts Payable	$ 323,289	$ 279,057
Accrued Expenses	410,193	389,000
Contract Loss Reserve	207,892	216,324
Deferred Research and Development Obligation	40,278	122,222
Income Taxes Payable	252,925	3,634
Total Current Liabilities	1,234,577	1,010,237
Commitments and Contingencies (See Note 3)		
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 Shares - 38,930,738 and 38,930,738, Outstanding Shares - 28,703,168 and 32,382,265 as of March 31, 2017 and December 31, 2016, respectively	38,931	38,931
Additional Paid-In Capital	93,605,871	93,257,472
Treasury Stock, Shares Held at Cost - 10,227,570 and 6,548,473 shares, as of March 31, 2017 and December 31, 2016, respectively	(16,088,212)	(10,401,906)
Accumulated Deficit	(23,119,198)	(25,204,314)
Total Stockholders' Equity	54,437,392	57,690,183
Total Liabilities and Stockholders' Equity	$ 55,671,969	$ 58,700,420

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 March 31,	
	2017	**2016**
	(Unaudited)	(Unaudited)
REVENUES:		
Research and Development Revenue	$ 121,527	$ 86,891
COSTS AND EXPENSES:		
Cost of Revenue	121,528	85,146
Provision for Contract Losses	210,540	—
Research and Development	319,524	244,934
General and Administrative	1,790,291	891,979
Foreign Currency Exchange Gain	(27,836)	(132,799)
Total Costs and Expenses	2,414,047	1,089,260
LOSS FROM OPERATIONS	(2,292,520)	(1,002,369)
Other Income (Expense):		
Settlement of Litigation, Net	4,358,223	—
Interest Income	116,193	65,017
Interest Expense	—	(728)
Total Other Income	4,474,416	64,289
INCOME (LOSS) BEFORE INCOME TAXES	2,181,896	(938,080)
Provision for Income Taxes	85,556	—
NET INCOME (LOSS)	$ 2,096,340	$ (938,080)
NET INCOME (LOSS) PER SHARE		
Basic	$ 0.07	$ (0.02)
Diluted	$ 0.07	$ (0.02)
Weighted-Average Number of Shares:		
Basic	29,616,461	38,793,717
Diluted	29,686,676	38,793,717

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

DYADIC INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited)

	Common Stock		Treasury Stock		Additional Paid-In Capital	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount			
Balance at December 31, 2016	38,930,738	$ 38,931	(6,548,473)	$ (10,401,906)	$ 93,257,472	$ (25,204,314)	$ 57,690,183
Stock-based Compensation	—	—	—	—	337,175	—	337,175
Repurchases of Common Stock	—	—	(3,679,097)	(5,686,306)	—	—	(5,686,306)
Cumulative Effect of Change in Accounting Principle	—	—	—	—	11,224	(11,224)	—
Net Income	—	—	—	—	—	2,096,340	2,096,340
Balance at March 31, 2017	38,930,738	$ 38,931	(10,227,570)	$ (16,088,212)	$ 93,605,871	$ (23,119,198)	$ 54,437,392

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

DYADIC INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31,	
	2017	**2016**
	(Unaudited)	(Unaudited)
OPERATING ACTIVITIES		
Net income (loss)	$ 2,096,340	$ (938,080)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Stock-based compensation expense	337,175	210,448
Amortization of premium on held-to-maturity securities	276,870	—
Premium on held-to-maturity securities	(100,550)	—
Provision for contract losses	(8,432)	—
Foreign currency transaction loss	4,405	—
Litigation settlement	(4,358,223)	—
Changes in operating assets and liabilities:		
Interest receivable	182,080	—
Accounts receivable	409,552	68,693
Prepaid expenses and other current assets	86,719	91,780
Accounts payable	35,801	(5,918)
Accrued expenses	20,540	(1,494,700)
Deferred research and development obligation	(81,944)	(76,586)
Income taxes payable	249,291	—
Net cash used in operating activities	**(850,376)**	**(2,144,363)**
INVESTING ACTIVITIES		
Purchases of held-to-maturity investment securities	(12,000,000)	—
Proceeds from maturities of investment securities	19,628,000	—
Escrowed funds and restricted cash	(1,130)	(4,815)
Net cash provided by (used in) investing activities	**7,626,870**	**(4,815)**
FINANCING ACTIVITIES		
Proceeds from issuance of stock	—	100,000
Proceeds from repayment of stock subscriptions	—	40,625
Repurchases of common stock	(5,686,306)	(3,998,716)
Net cash used in financing activities	**(5,686,306)**	**(3,858,091)**
Net increase (decrease) in cash and cash equivalents	**1,090,188**	**(6,007,269)**
Cash and cash equivalents at beginning of period	6,889,357	68,601,138
Cash and cash equivalents at end of period	**$ 7,979,545**	**$ 62,593,869**
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	$ —	$ 728
Cash received from income tax refund	$ 163,735	$ —

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 operations in the United States and the Netherlands. Over the past two decades, the Company has developed a platform for producing commercial quantities of enzymes and other proteins intended for the industrial (non-pharmaceutical) application; 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 nicknamed C1. The C1 technology is a robust and versatile fungal expression system for the 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 $75.0 million (the "DuPont Transaction"). The DuPont Transaction included $8.0 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. The current escrow amount of approximately $7.4 million in the accompanying balance sheet is net of contractual working capital adjustments already agreed to by the parties and interest earned to date. See details under caption "Escrowed Funds from Sale of Assets" under Note 1 to the Consolidated Financial Statements.

In connection with the DuPont Transaction, DuPont granted Dyadic co-exclusive rights to the C1 technology for use in all human and animal pharmaceutical applications, with the exclusive ability to enter into sub-license agreements. DuPont retained certain rights to utilize the C1 technology in pharmaceutical applications, including the 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 Company is currently focused on the biopharmaceutical industry, specifically in applying the proprietary C1 expression system to help accelerate the development and production of biologic vaccines and drugs at flexible commercial scales. C1 technology is anticipated to be particularly beneficial in the development and manufacturing of human and animal vaccines, monoclonal antibodies, biosimilars and/or biobetters, as well as other therapeutic proteins.

Basis of Presentation

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

The accompanying unaudited interim consolidated financial statements for Dyadic International, Inc. and Subsidiaries (collectively, "Dyadic" or the "Company") have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial reporting. Accordingly, certain information and footnote disclosures normally included in annual consolidated financial statements have been condensed or omitted. In the opinion of management, the accompanying unaudited interim consolidated financial statements reflect all adjustments (consisting of only normal recurring adjustments and the elimination of intra-entity accounts) considered necessary for a fair presentation of all periods presented. The results of Dyadic's operations for any interim periods are not necessarily indicative of the results of operations for any other interim period or for a full fiscal year. These unaudited interim consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes included in our Annual Report for the year ended December 31, 2016, which was posted to the OTC Markets website on March 24, 2017.

As a result of the DuPont Transaction, the Company conducts business in one operating segment, which is identified by the Company based on how resources are allocated and operating decisions are made. Management evaluates performance and allocates resources based on the Company as a whole.

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.

Investment Securities

Investment securities are classified as held-to-maturity, available-for-sale, or trading. 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. 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. When a debt security is purchased at a premium, the statement of cash flows reflects an investing outflow for the face value of the debt, with the premium reflected as an operating outflow. Other-than-temporary impairment charges are included in other income (expense).

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 consolidated balance sheet. As of March 31, 2017 and December 31, 2016, all our money market funds were invested in U.S. Government money market funds. The Company did not have any investment securities classified as trading as of March 31, 2017, and December 31, 2016.

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, from the applicable reporting date.

Escrowed Funds from Sale of Assets

As of March 31, 2017 and December 31, 2016, the balances of escrowed funds from the sale of assets were approximately $7,366,000 and $7,365,000, respectively, including interests earned on escrowed funds of approximately $5,000 and $4,000, respectively. The balance of escrowed funds represents $8,000,000 of the proceeds from the DuPont Transaction held in escrow for eighteen months and 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, and the Company does not anticipate any additional adjustment on the escrowed amount, which is expected to be released in July, 2017.

Concentrations

For the three months ended March 31, 2017, the Company's revenue was generated from two customers, and its accounts receivable was generated from one customer. For the three months ended March 31, 2016, the Company's revenue was generated from one customer, and its accounts receivable was generated from one customer. The loss of business from one or a combination of the Company's customers could adversely affect its revenues.

The Company conducts operations in The Netherlands through its foreign subsidiary, and generates a large portion of its revenues from customers that are located outside of the United States. There was one European customer that accounted for approximately 32.6% of total revenue and 100% of total accounts receivable for the three months ended March 31, 2017. For the three months ended March 31, 2016, all of the Company revenue and accounts receivable were from European customers.

Accounts Receivable

Account receivable consists of amounts billed and currently due from customers and unbilled receivables. Unbilled receivables represent the excess of contract costs and contract revenue (or amount reimbursable under contracts) recognized to date using the proportional performance accounting method over billings to date. Such amounts become billable according to the contract terms, which usually consider the passage of time, achievement of certain milestones or completion of the project. We anticipate that substantially all of such unbilled amounts will be billed and collected over the next twelve months. The following table summarizes the billed and unbilled receivables:

	March 31, 2017	December 31, 2016
	(Unaudited)	(Audited)
Billed receivable	$ —	$ 125,000
Unbilled receivable	180,837	463,213
	$ 180,837	$ 588,213

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following:

	March 31, 2017	December 31, 2016
	(Unaudited)	(Audited)
Prepaid expenses - general	$ 57,082	$ 59,058
Prepaid insurance	49,355	94,313
Prepaid value added taxes	51,636	88,918
	$ 158,073	$ 242,289

Accrued Expenses

Accrued expenses consisted of the following:

	March 31, 2017	December 31, 2016
	(Unaudited)	(Audited)
R&D expenses	$ 284,981	$ 284,329
Employee wages and benefits	91,412	93,400
Other	33,800	11,271
	$ 410,193	$ 389,000

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.

Since the sale of our industrial technology business to DuPont on December 31, 2015, the Company has devoted substantial resources to apply the C1 technology for use in the biopharmaceutical industry and enhancement of our intellectual property portfolio. We have no pharmaceutical products approved for sale at this point, and all of our revenue to date has been research revenue from third party collaborations and government grants. The Company may generate future revenue from license agreements and collaborative arrangements, which may include upfront payment for licenses or options to obtain license, payment for research and development services and milestone payments.

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 revenue is recognized over the respective contract periods as the services are performed. The Company initially defers revenue for any amounts billed and payments received in advance of related 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. Contract accounting requires judgment relative to assessing risks, estimating the revenue and costs and making assumptions for the length of time to complete the contract. Any changes to these assumptions and estimates could result in further adjustments in the future. Changes in estimated revenues, cost of revenues and the related effect on operating income are recognized in the current period using a cumulative catch-up adjustment to reflect the cumulative effect of the changes on current and prior periods based on a contact's proportional performance completed.

Provision for Contract Losses

The Company assesses the profitability of our collaboration agreements to provide research services to our contracted business partners and identifies those contracts where current operating results or forecasts indicate probable future losses. If the anticipated contract cost exceeds the anticipated contract revenue, a provision for the entire estimated loss on the contract is recorded and then accreted into the statement of operations over the remaining term of the contract. The provision for contract losses is based on judgment and estimates, including revenues and costs, where applicable, the consideration of our business partners' reimbursement, and when such loss is deemed probable to occur and is reasonable to estimate.

Research and Development Costs

Research and development ("R&D") costs are expensed as incurred. The R&D costs are related to the Company's internally funded R&D pharmaceutical programs and other governmental and third party commercial R&D projects.

Research and development expenses consist of the costs incurred in performing research and development activities, including personnel-related costs, facilities, research-related overhead, services from contract research

organizations, and other external costs. Research and development costs incurred by type of cost consisted of the following:

	Three Months Ended	
	March 31, 2017	March 31, 2016
	(Unaudited)	(Unaudited)
Outside contracted services	$ 190,888	$ 163,109
Personnel related costs	108,437	75,265
Facilities, overhead and other	20,199	6,560
	$ 319,524	$ 244,934

General and Administrative Expenses

General and administrative expenses consisted of the following:

	Three Months Ended	
	March 31, 2017	March 31, 2016
	(Unaudited)	(Unaudited)
Litigation expenses	$ 540,997	$ 107,995
Salary and benefits	492,058	115,518
Non-cash share-based compensation expenses	302,101	181,049
Other	455,135	487,417
	$ 1,790,291	$ 891,979

Litigation Settlement

On March 1, 2017, Dyadic and the last remaining defendant law firm Greenberg Traurig, LLP, and Greenberg Traurig, P.A. (collectively, "Greenberg Traurig") reached a confidential settlement in connection with the litigation before the case went to the jury. On April 14, 2017, the Company received the full settlement payment in the amount of $4,500,000, net of legal fees and expenses. Per the settlement agreement dated October 22, 2013 between Mark A. Emalfarb ("MAE"), and Dyadic, whereby Dyadic agreed to pay MAE 5% of any net company proceeds in connection with the litigation up to $25 million, and 8% of any net company proceeds in excess of $25 million; provided, that the maximum amount payable under the agreement shall be $6 million. In the first quarter of 2017, the Company accrued an amount of $141,777 payable to MAE to satisfy this contractual obligation. The net receivable amount of $4,358,223 from the litigation settlement was reported in the Company's consolidated statement of operations, in other income, for the quarter ended March 31, 2017. See Note 3: *Commitments and Contingencies* - Professional Liability Lawsuit.

Income Taxes

For the three months ended March 31, 2017, the Company recorded a current provision for income tax of $85,556 based on management's estimate of our income taxes exposure, assessment of temporary differences resulting from differing treatment of items for tax and accounting purposes, and discrete items for the quarter. There were no unrecognized tax benefits as of March 31, 2017 and December 31, 2016.

The deferred tax assets as of March 31, 2017 and December 31, 2016 were approximately $6.5 million and $3.6 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 March 31, 2017 and December 31, 2016.

On March 30, 2017, the Company received a letter from the US Internal Revenue Service (the "IRS") informing the Company that its 2015 federal tax return was selected for examination. The Company has provided the IRS with all requested information, and the first meeting with the IRS is scheduled in late May 2017. The IRS audit is in an early stage and the Company has not been informed of any issues or assessment.

Recent Accounting Pronouncements

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.

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. ASU 2014-09 will be effective for the Company beginning in the first quarter of 2018. 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.

Other 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. 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 does not expect the standard to have a material impact to its consolidated financial statements and related disclosures.

In November 2016, the FASB issued Accounting Standards Update No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (ASU 2016-18), which requires companies to include amounts generally described as restricted cash and restricted cash equivalents in cash and cash equivalents when reconciling beginning-of-period and

end-of-period total amounts shown on the statement of cash flows. This guidance will be effective for the Company in the first quarter of 2018 and early adoption is permitted. The Company is still evaluating the impact, if any, of the adoption of this guidance to its consolidated financial statements and related disclosures.

Other pronouncements issued by the FASB or other authoritative accounting standards group with future effective dates are either not applicable or not significant to our consolidated financial statements.

Recently Adopted Accounting Pronouncement

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.

The Company adopted ASU 2016-09 in the first quarter of 2017 that began January 1, 2017. We have elected to account for forfeitures as they occur, rather than estimate expected forfeitures over the course of a vesting period. As a result of the adoption of ASU 2016-09, we recognized the net cumulative effect of this change as an $11,224 increase to additional paid-in-capital, and an $11,224 increase to accumulative deficit as of January 1, 2017.

Note 2: Cash, Cash Equivalents, and Investments

The Company's investments in debt securities are classified as held-to-maturity and are recorded at amortized cost, 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 March 31, 2017 and December 31, 2016:

	March 31, 2017				
	Level (1)	Fair Value	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Adjusted Cost
Cash and Cash Equivalents					
Cash		$ 3,281,096	$ —	$ —	$ 3,281,096
Money Market Funds	1	4,698,449	—	—	4,698,449
Subtotal		7,979,545	—	—	7,979,545
Short-Term Investment Securities (2)					
Corporate Bonds	2	35,239,747	442	(73,070)	35,312,375
Total		$ 43,219,292	$ 442	$ (73,070)	$ 43,291,920

	December 31, 2016				
	Level (1)	Fair Value	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Adjusted Cost
Cash and Cash Equivalents					
Cash		$ 3,501,160	$ —	$ —	$ 3,501,160
Money Market Funds	1	3,388,197	—	—	3,388,197
Subtotal		6,889,357			6,889,357
Short-Term Investment Securities (2)					
Corporate Bonds	2	41,983,334	708	(67,426)	42,050,052
Long-Term Investment Securities (3)					
Corporate Bonds	2	1,058,240	—	(8,403)	1,066,643
Total		$ 49,930,931	$ 708	$ (75,829)	$ 50,006,052

(1) Definition of the three-level fair value hierarchy:
- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 - Other inputs that are directly or indirectly observable in the markets
- Level 3 - Inputs that are generally unobservable

(2) Short-term investment securities will mature within 12 months or less.
(3) Long-term investment securities as of December 31, 2016 will be mature in February 2018.

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 March 31, 2017, 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, and thereafter, the Company will reconsider the square footage of the leased space to align with the staffing requirements of the future operations of the Company.

The Netherlands Office

The Company maintains a small satellite office in Wageningen, The Netherlands. The Company occupies approximately 900 square feet with annual rentals and common area maintenance charges of approximately $4,700. The lease expires on January 31, 2019.

Employment Agreements

As of March 31, 2017, there have been no material changes to the Company executives' employment agreements as compared to December 31, 2016.

Purchase Obligations

As of March 31, 2017, there have been no material changes to the Company's purchase obligations outside the ordinary course of business as compared to December 31, 2016.

Professional Liability Lawsuit

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

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

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

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

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

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

On August 8, 2012, the Company, Jenkens & Gilchrist and Mr. Schwimmer entered into a Settlement Agreement and General Releases (the "J&G Settlement Agreement") whereby Jenkens & Gilchrist paid the Company $525,000

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

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

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

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

On July 31, 2015, the Company reached a settlement with one of the three remaining defendant law firms in its ongoing professional liability litigation. On August 12, 2015 the Company received full payment in the amount of $2,170,000, which is net of fees and expenses. The settlement amount 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.

On July 28, 2016, the Company stipulated to the release of the estate of Robert Schwimmer as a defendant. This was a procedural decision as Greenberg Traurig remains liable for the negligent conduct of deceased Greenberg Traurig lawyer, Robert Schwimmer.

On August 17, 2016, the Court denied Greenberg Traurig's Renewed Motion for Summary Judgment as to its judgmental immunity affirmative defense.

On October 17, 2016, Greenberg Traurig filed a Motion to Continue the Trial. On October 18, 2016, Greenberg Traurig filed a motion to bifurcate the liability and damages determination by the jury into separate trials. On October 27, 2016, the Court heard oral argument on both motions. Both motions were denied.

Trial commenced against Greenberg Traurig in this continuing professional liability litigation on January 6, 2017 and continued for eight weeks thereafter. On March 1, 2017, Dyadic and Greenberg Traurig settled before the case went to the jury, and reached a confidential settlement. On April 14, 2017, the Company received the full settlement payment in the amount of $4,500,000, net of legal fees and expenses. Per the settlement agreement dated October 22, 2013 between Mark A. Emalfarb ("MAE"), and Dyadic, whereby Dyadic agreed to pay MAE 5% of any net company proceeds in connection with the litigation up to $25 million, and 8% of any net company proceeds in excess of $25 million; provided, that the maximum amount payable under the agreement shall be $6 million. In the first quarter of 2017, the Company accrued an amount of $141,777 payable to MAE to satisfy this contractual obligation. The net receivable amount of $4,358,223 from litigation settlement was reported in the Company's consolidated statement of operations, in other income, for the quarter ended March 31, 2017. See Note 3: *Commitments and Contingencies* - Professional Liability Lawsuit.

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: Share-Based Compensation

Description of Equity Plans

The 2011 Equity Incentive Plan (the "2011 Plan") was adopted by the Company's Board of Directors on April 28, 2011, and approved by the Company's stockholders on June 15, 2011. The 2011 Plan serves as the successor to the Company's 2006 Stock Option Plan (the "2006 Plan"). Since the effective date of the 2011 Plan, all future equity awards were made from the 2011 Plan, and no additional awards will be granted under the 2006 plan. Under the 2011 Plan, 3,000,000 shares of the Company's common stock have been initially reserved for issuance pursuant to a variety of share-based compensation awards, plus any shares available for issuance under the 2006 Plan or are subject to awards under the 2006 Plan which are forfeited or lapse unexercised and which following the effective date are not issued under the 2006 Plan.

As of March 31, 2017, there were 2,668,640 stock options outstanding and 2,056,711 shares of common stock available for grant under the 2011 Plan. As of December 31, 2016, there were 2,158,083 stock options outstanding and 2,567,268 shares of common stock available for grant under the 2011 Plan.

Stock Options - Options are granted to purchase common stock at prices that are equal to the fair value of the common shares on the date the option is granted. Conditions of vesting are determined by the Board of Directors at the time of grant under the Plan. The term of any stock option awards under the Company's 2011 Plan is no more than ten years with the exception of the CEO which is five years.

The grant-date fair value of each option grant is estimated using the Black-Scholes option pricing model and amortized on a straight-line basis over the requisite service period, which is generally the vesting period, for each separately vesting portion of the award as if the award was, in substance, multiple awards. The Company has elected to account for forfeitures as they occur, upon the adoption of ASU 2016-09 beginning on January 1, 2017 (See Note 1

- *Recently Adopted Accounting Pronouncement*). Use of a valuation model requires management to make certain assumptions with respect to selected model inputs, including the following:

Risk-free interest rate. The risk-free interest rate is based on U.S. Treasury rates with securities approximating the expected lives of options at the date of grant.

Expected dividend yield. The expected dividend yield is zero, as the Company has never paid dividends to common shareholders and does not currently anticipate paying any in the foreseeable future.

Expected stock price volatility. The expected stock price volatility was historically calculated based on the Company's own volatility. During the Company's 2017 annual review of its volatility assumption, the Company determined that it would be appropriate to use historical volatilities of peer companies adjusted for term and leverage as the best estimate of the Company's expected stock price volatility, given the significant changes in the Company's business and capital structure subsequent to the DuPont Transaction. The change in assumption is effective January 1, 2017 and only has impact on new options granted in 2017.

Expected life of option. The expected life of option was based on the contractual term of the option and expected employee exercise and post-vesting employment termination behavior. During the Company's 2017 annual review of its expected life of option assumption, the Company determined that it would be appropriate to use the weighted-average vesting period and contractual term of the option as the best estimate of the expected life of a new option (with the exception of the CEO which remains 5 years), given the reduction in force and employee pool changes subsequent to the DuPont Transaction. The change in assumption is effective January 1, 2017 and only has impact on new options granted in 2017.

Discount for lack of marketability. During the Company's 2017 annual review of its assumptions, the Company determined to apply a discount to reflect the lack of marketability due to the holding period restriction of its shares under Rule 144. The change in assumption is effective January 1, 2017 and only has impact on new options granted in 2017.

The assumptions used in the Black-Scholes option pricing model for stock options granted during the three months ended March 31, 2017 are as follows:

Risk-Free interest rate	1.94% - 2.15%
Expected dividend yield	—%
Expected stock price volatility	70.24% - 71.43%
Expected life of option	5 - 6.25 years
Discount for lack of marketability	17.72%

The following table summarizes the stock option activity for the three months ended March 31, 2017:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2016	2,158,083	$1.60	6.1	$214,883
Granted (1)	610,557	1.63		
Exercised	—	—		
Expired	(100,000)	1.33		
Canceled	—	—		
Outstanding at March 31, 2017	2,668,640	$1.62	7.1	$83,093
Exercisable at March 31, 2017	1,356,502	$1.58	6.4	$83,093

(1) Represents stock options granted on January 3, 2017 in connection with the annual share-based compensation awards, including (a) 339,667 stock options with an exercise price of $1.63 granted to executives and key personnel, vesting upon grant or one year anniversary, (b) 250,000 stock options with an exercise price of $1.63 granted to Board of Directors, vesting 25% upon grant and the remaining 75% will vest annually in equal installments over four years, and (c) 20,890 stock options with an exercise price of $1.63 granted to employees, vesting annually in equal installments over four years.

The weighted average grant-date fair value of stock options granted for the three months ended March 31, 2017 was $0.83, based on the Black-Scholes option pricing model.

As of March 31, 2017, total unrecognized compensation cost related to non-vested stock options granted under the Company's share option plan was approximately $470,939, which is expected to be recognized over a weighted-average period of 2.89 years. The Company will adjust unrecognized compensation cost for actual forfeitures as they occur.

Compensation Expenses

The Company recognized non-cash share-based compensation expense for its share-based awards in its statement of operations, and these charges had no impact on the Company's reported cash flows. Total non-cash share-based compensation expense was allocated among the following expense categories:

	Three Months Ended	
	March 31, 2017	March 31, 2016
General and administrative	$ 302,101	$ 181,049
Research and development	35,074	29,399
Total	$ 337,175	$ 210,448

Note 5: Shareholders' Equity

Share Repurchases and Buybacks

Privately Negotiated Share Buyback Transactions

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 in the accumulated deficit in compliance with US GAAP.

On January 11, 2017, the Company entered into a Securities Purchase Agreement with Pinnacle Family Office Investments L.P ("Pinnacle") to repurchase an aggregate of 2,363,590 shares of its common stock at $1.54 per share for an aggregate purchase price of $3,639,929. Upon repurchase, the shares are treated by Dyadic as treasury stock. The repurchase of shares from Pinnacle was in addition to Dyadic's 2016 Stock Repurchase Program as discussed below.

2016 Stock Repurchase Program

On February 16, 2016, the Board of Directors authorized a one-year 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 was authorized to 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 repurchased its shares, and the timing of such repurchases, was dependent 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 financed the program from its existing cash resources. Under the 2016 Stock Repurchase Program, all repurchased shares were held in treasury. The 2016 Stock Repurchase Program ended on February 15, 2017.

The following table summarizes the Company's stock repurchase activities:

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
January 11, 2017 - Pinnacle Family Office Investments L.P. repurchased shares	2,363,590	1.54	3,639,929	2,363,590	N/A
2016 Stock Repurchase Program:					$ 15,000,000
January through December 2016	6,548,473	1.59	10,401,906	6,548,473	4,598,094
January 2017	867,507	1.60	1,384,021	867,507	3,214,073
February 2017	448,000	1.48	662,356	448,000	$ 2,551,717
Total open market and privately negotiated purchases	**12,364,322**	**$1.53**	**$ 18,972,827**	**10,227,570**	

Treasury Stock

As of March 31, 2017, there were 10,227,570 shares of common stock held in treasury, at a cost of approximately $16.1 million, representing the purchase price on the date the shares were surrendered to the Company. As of December 31, 2016, there were 6,548,473 shares held in treasury, at a cost of approximately $10.4 million.

Note 6: Net Income (Loss) Per Share

Basic net income (loss) per share is computed by dividing net loss available to common shareholders by the weighted average number of common shares outstanding during the reporting period. Diluted net income (loss) per share adjusts the weighted average number of common shares outstanding for the potential dilution that could occur if common stock equivalents, such as stock options, warrants, restricted stock and convertible debt, were exercised or converted into common stock, calculated by applying the treasury stock method.

The following table summarizes the calculation of basic and diluted net income (loss) per share:

	Three Months Ended	
	March 31, 2017	March 31, 2016
Net Income (Loss)	$ 2,096,340	$ (938,080)
Weighted Average Common Shares Outstanding	29,616,461	38,692,948
Adjustment for Restricted Stock - Unissued vested shares	—	98,269
Adjustment for Warrants - Unissued vested shares	—	2,500
Total Basic Weighted Average Shares Outstanding	29,616,461	38,793,717
Adjustment for Dilutive Securities	70,215	—
Total Dilutive Weighted Average Shares Outstanding	29,686,676	38,793,717
Net Income (Loss) Per Share		
Basic	$ 0.07	$ (0.02)
Diluted	$ 0.07	$ (0.02)

Potentially dilutive securities whose effect would have been anti-dilutive are excluded from the calculation of diluted income (loss) per share.

For the three months ended March 31, 2017, the effect of the potential exercise of options to purchase approximately 2,376,890 shares of common stock were excluded from the computation of diluted net income per share, as the effect would have been anti-dilutive.

For the three months ended March 31, 2016, a total of 3,782,526 shares of potentially dilutive securities were excluded from the computation of diluted net loss per share, including 2,635,250 shares of stock options and 1,147,276 shares of warrants outstanding as of March 31, 2016, as the effect would have been anti-dilutive.

Note 7: Subsequent Events

The Company has evaluated these unaudited consolidated financial statements for subsequent events through May 11, 2017, the date these unaudited consolidated financial statements were available to be issued. Except as discussed in this quarterly financial statements and 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 unaudited consolidated financial statements.

See Note 3: *Commitments and Contingencies* - Professional Liability Lawsuit regarding the Company's litigation settlement and payment received on April 14, 2017.

On April 6, 2017, the Company announced that effective June 1, 2017, Mr. Stephen Warner will resign from the Board of Directors and all related Board committees to which he served, which included the audit, compensation and nominating committees of the Board. Mr. Warner served on the board of directors since October 2004.

On May 4, 2017, the Company entered into a small research program with another of the world's largest pharmaceutical companies to demonstrate the potential of the C1 technology to produce therapeutic proteins.

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, 2016 which was filed with the OTC Markets on March 24, 2017. 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, 2016 which was filed with the OTC Markets on March 24, 2017.

OVERVIEW

Description of Business

Dyadic International, Inc. ("Dyadic", "we", or the "Company") is a global biotechnology company based in Jupiter, Florida with operations in the United States and the Netherlands. Over the past two decades, the Company has developed a platform for producing commercial quantities of enzymes and other proteins intended for the industrial (non-pharmaceutical) application; 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 nicknamed C1. The C1 technology is a robust and versatile fungal expression system for the 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 $75.0 million (the "DuPont Transaction"). The DuPont Transaction included $8.0 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. The current escrow amount of approximately $7.4 million in the accompanying balance sheet is net of contractual working capital adjustments already agreed to by the parties and interest earned to date. See details under caption "Escrowed Funds from Sale of Assets" under Note 1 to the Consolidated Financial Statements.

In connection with the DuPont Transaction, DuPont granted Dyadic co-exclusive rights to the C1 technology for use in all human and animal pharmaceutical applications, with the exclusive ability to enter into sub-license agreements. DuPont retained certain rights to utilize the C1 technology in pharmaceutical applications, including the 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 Company is currently focused on the biopharmaceutical industry, specifically in applying the proprietary C1 expression system to help accelerate the development and production of biologic vaccines and drugs at flexible commercial scales. C1 technology is anticipated to be particularly beneficial in the development and manufacturing of human and animal vaccines, monoclonal antibodies, biosimilars and/or biobetters, as well as other therapeutic proteins.

The Company believes that the human and animal health biopharmaceutical markets are attractive opportunities to apply the C1 technology. In particular, as the global population ages, Dyadic's vision and mission is to position the C1 technology as the expression system of choice to improve the speed and efficiency of biopharmaceutical research

and development, and manufacturing while reducing the costs at which biologic vaccines and drugs are brought to market. We believe this could improve access by lowering costs for patients and the health-care system, and most importantly, save lives.

The Company expects to continue utilizing a portion of the proceeds from the DuPont Transaction in combination with additional potential funding that is being sought from industry and government programs to further develop and optimize the C1 technology to become a safe and efficient expression system that may help speed up the development, production and performance of biologic vaccines and drugs.

The Company is conducting research to generate sufficient data in order to demonstrate C1's potential operational benefits and reduced capital requirements for biologic vaccine and drug manufacturers. The Company believes that the unique attributes of C1 is likely to create attractive research, licensing, partnering/collaboration and other revenue and funding opportunities in the biopharmaceutical industry.

The Company is conducting marketing and business development initiatives to introduce and educate the biopharmaceutical industry, academia and governmental agencies about the platform advantages of the C1 technology. The Company is also pursuing a strategy to promote its C1 technology to various international biopharmaceutical, government and academic audiences in order to highlight the potential benefits of applying the industrially proven C1 technology in the development and large scale manufacture of low cost human and animal health biopharmaceutical proteins.

The Company continues to raise its profile and that of its C1 technology by regularly attending and making presentations to the biopharmaceutical industry at various conferences. The Company regularly holds business development and scientific meetings with interested parties within industry and government. In these meetings, we continue to highlight the vast potential to further develop our C1 technology into a safe and efficient expression system that may help speed up the development, production and performance of biologic vaccines and drugs at flexible commercial scales, including strain and cell media development.

The Company has updated its website, renewed marketing materials and presentations and secured at least 30 Confidential Disclosure Agreements ("CDAs") since the closing of the DuPont Transaction, which has led to several collaboration and Full Time Equivalent ("FTE") funded research deal discussions with a number of the top global biopharmaceutical companies. Additionally, we have retained an experienced biopharma board member and have hired consultants with both the experience and relationships within the biopharmaceutical industry and governmental agencies to help us with these efforts. The Company has also secured a partially funded feasibility and expression project with one of the largest pharmaceutical companies and has a number of ongoing research and development discussions with other major pharmaceutical companies which are at various stages of discussion.

Additionally, the Company continues to perform the expression-development research with several therapeutic proteins and recombinant vaccines with and without industry and government support and collaborations with biopharmaceutical companies.

Specifically, the Company's research and development ("R&D") activities are focused on the following biopharmaceutical programs:

Ongoing C1 Production Host R&D Programs

Building upon our commercial success in applying the C1 technology for use in developing and producing high levels of industrial enzymes, the Company is now focused on further improving and applying the patented and proprietary C1 expression system to help speed up the development and production of biologic vaccines and drugs at flexible commercial scales.

As part of these efforts in September 2016, the Company entered into a multi-year research and development agreement with a new third party Contract Research Organization (the "New CRO") to begin to further modify and improve the Company’s C1 technology for use in developing and manufacturing biologic vaccines and drugs.

The goal of this research agreement is to further improve the C1 technology to become an even more robust, versatile and efficient therapeutic protein production platform which may be used to help bring biologic drugs to market faster, in greater volumes, at lower cost, and with new properties to drug developers and manufacturers and, hopefully, improve access and lower cost to patients and the healthcare system, but most importantly saving lives. This includes: (i) improving the genome sequence-accuracy for the application of system biology tools, (ii) improving the C1 genetic tools, (iii) further reducing the background protease(s) levels by identifying and deleting certain protease genes and/or modifying C1 fermentation processes, and (iv) developing C1 strains where site specific integration can be used to increase productivity and to what we expect will help with future regulatory approvals. Furthermore, glycoengineering work is expected to be applied to the improved C1 production strains to positively modify the C1 glycosylation pathway to produce proteins that resemble human glycoforms. The first two milestones were reached slightly ahead of schedule and we continue making our efforts to successfully accomplish the next project milestones.

Additionally, we are currently conducting research and development work on C1 at DuPont's research center in Wageningen, The Netherland's, Dyadic's former C1 research and development center that was acquired by DuPont in the DuPont Transaction on December 31, 2015 ("DuPont Research Center"). We continue to evaluate our current research and business relationships versus other alternative options that may better meet our needs.

We are evaluating, and are likely to enter into a research and development agreement by the end of the second quarter of 2017, by making a commitment in funding contract research with another research group whose scientists, and business development personnel have extensive prior experience working on the C1 technology. This research group also has experience in the development and commercialization of vaccines, as well as both in previously handling C1 recombinant DNA manipulation and fermentation development work. Additional work we anticipate to be carried out by this research group will include cGMP media development coupled with fermentation optimization work to further improve the C1 technology's production process for manufacturing vaccines, antibodies, and therapeutic proteins.

The driving rational for this commitment includes the acceleration of certain proof of concept research and data generation, which can be utilized to support our business development and licensing efforts. We anticipate to partner with at least one animal health and/or human biopharmaceutical product candidates through the research carried out with this research group. We also anticipate to potentially license one or more product candidates to third parties either on our own, or in conjunction with this research group. The total commitment with this research group is expected to be approximately €1.9 million EURO over two years.

Those CROs will enable us to develop strong research and development capabilities based on various competencies as direct and random genetic manipulation, OMICs studies (such as genomics, transcriptomics, proteomics, metabolomics and metabolic engineering) and fermentation optimization. Thus, we believe that this effort will enhance Dyadic's capabilities to develop a robust production platform for various types of therapeutic proteins.

Biologic Vaccines Programs

ZAPI

We continue our participation in the ZAPI vaccination program. ZAPI (www.zapi-imi.eu) is a research and development project funded as part of IMI EU program (Zoonoses Anticipation and Preparedness Initiative (ZAPI project; IMI Grant Agreement n°115760)), with the assistance and financial support of IMI and the European Commission, and in-kind contributions from EFPIA partners. This project aims to develop a suitable platform for the rapid development and production of vaccines and protocols to fast-track registration of product developed to combat epidemic Zoonotic diseases that have the potential to affect human and animal populations. Some of the benefits we anticipate coming from a successful outcome, if the C1 antigens are used throughout the ZAPI project, will be additional performance and safety data which we would expect to help us in our efforts to apply the C1 expression system for use in developing and manufacturing vaccines across the broader animal and human health industries.

Our Dutch subsidiary, Dyadic Nederland BV is participating in the ZAPI project by currently using the DuPont Research Center as a CRO. We are continuing to work on developing and expressing sufficient quantities of desired antigens using the C1 expression system to meet the objectives of the ZAPI project. During the fourth quarter of 2016, two expressed antigen samples were sent to other ZAPI participants for further characterization of the C1 antigens, and immunogenicity tests.

One of the Company's C1 expressed antigens was tested in a very small mice study within the ZAPI project. The data indicated that the C1 technology produced antigen generated an immune response in mice that protected the mice, and showed no negative effects on the health of the mice. We anticipate that more immunogenicity testing will be conducted sometime during the next two quarters.

We are encouraged by these results since it reinforced our previous positive immunogenicity results that were reached with an antigen that was developed for Sanofi-Pasteur in a program that was ended in October 2016.

In addition, we are continuing our efforts to develop better expressing C1 strains and more efficient improved stirred fermentation processes, so that the ZAPI antigens will be ready to provide enough yield to meet the objectives set out within the ZAPI project.

Veterinary Vaccine Research Program

In the first quarter of 2017, the Company ended its collaboration with an Israeli company, to develop a veterinary vaccine to protect poultry. Even though the results of this research program showed that veterinary vaccine has been expressed using the C1 technology, the initial expression level was not at a level that would make their commercial partner ready to switch to C1 from their existing expression system without incurring additional costs.

Legacy Sanofi Pasteur S.A. ("Sanofi") Program

Management continues to evaluate how best to leverage the preliminary, but encouraging results, knowledge and experience, along with the meaningful improvements made to the C1 expression system during our prior research collaboration with Sanofi Pasteur (which ended on October 5th, 2016), across a number of biologic vaccine and drug development programs on our own, or in collaboration with other parties. The Company's C1 expressed proteins that were tested in mice studies by Sanofi, produced data indicating that C1 technology produced antigen generated an equal, or better, immune response in mice than the standard antigen selected by Sanofi. The research carried out within 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 relatively high levels, with the potential to improve therapeutic vaccine performance. We consider the experience and knowledge obtained from these research programs invaluable.

We have finalized our termination agreement with Sanofi and received a payment of €306,000 EURO in the first quarter of 2017 along with the rights to utilize the data generated within our joint prior research program with Sanofi.

Biologic Drug Programs

(i) Non-glycosylated Therapeutic Programs

The Company has started its internally funded research programs at (i) DuPont Research Center, the Company's former research center in Wageningen, The Netherlands, and (ii) within the multi-year research and development agreement with the New CRO 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 considering to carry out additional research on internally funded projects and/or funded in whole or in part with third party industry and governmental agencies focus on other potential biomolecules.

Ranibizumab (the antibody that is used in the production of Lucentis)

This research program is aiming to evaluate the use of our C1 technology to develop therapeutic proteins for which specific glycostructures are not needed for their Mode of Action ("MoA").

A recombinant version of Ranibizumab produced from C1 may be able to be used for the treatment of retinal diseases, Lucentis has achieved approximately $4.5 billion in 2014 global sales, according to IMS Health. Since the aging population continues to grow in both developed and undeveloped countries there is a growing need to improve access to these important medicines and therapies to more people around the world faster, in greater volumes and at lower cost. We believe that using the C1 technology to produce biosimilars/biobetters, such as ranibizumab, potentially could be an effective alternative approach in the emerging biosimilar, or bio-better global-markets as they become increasingly competitive.

We have expressed Ranibizumab using different constructs and C1 strains, however we have not yet fully quantified the productivity levels of Ranibizumab. The structure of the C1 Ranibizumab was identified by Mass Spectrometry (“MS”) analysis and the biological activity was evaluated by Enzyme-Linked Immunosorbent Assay ("ELISA") tests. We are continuing our optimization efforts to increase the expression level through additional rounds using strain optimization techniques and by optimizing the stirred tank fermentation process.

Since we have successfully expressed active Humira using C1 as previously reported, this recent ranibizumab result provides additional data that supports our belief that C1 could potentially serve as a powerful technology platform for the development and production of intact and active monoclonal antibodies (mAbs). We believe that glycoengineering C1 strains and further optimizing its fermentation processes have the potential to deliver both desirable product quality attributes and high production levels.

Insulin

We are evaluating whether to continue to carry out our research aimed at successfully expressing insulin with the C1 technology by using different expression constructs and approaches. Unlike Lucentis, we have not yet achieved positive results from our research program. Our recent analysis indicated that the expression of insulin may be affected by proteolytic activity and we are currently in the process of identifying the relevant proteases, and if and when they are identified we need to explore what effort it will require to knock out the protease gene(s) and what direction our insulin research program should proceed in.

According to a market research paper published by MarketsandMarkets, the Global human insulin market is estimated to reach $42 billion by 2019, at a compound annual growth rate of 12.5% from 2014-2019. According to the International Diabetes Federation, an umbrella organization of over 230 national diabetes associations in 170 countries and territories, the insulin market is expected to continue to grow as the number of people diagnosed with diabetes globally is estimated at 387 million and is expected to increase to 592 million by 2035. The underlying causes for the increasing number of diabetes patients worldwide include an aging population that increases the incidence of diabetes, growing obesity due to changing lifestyles, expanded health care intervention, and the expanded use of pen and inhalation devices that deliver human insulin more efficiently and effectively. The insulin market is sizeable, so our focus and interest in in this area remains important. However, there are a variety of scientific and other challenges that we will have to overcome to do so. We recognize the challenges of bringing a low cost, effective insulin product to market has its risks, and we are reviewing whether to continue our insulin program, and if so for how long and what resources to apply to it.

(ii) Glycosylated Therapeutic Programs

The Company’s longer term objective, which will require substantially more time and money to achieve, is to apply the C1 technology for the even larger therapeutic glycoprotein market. We believe that the C1 technology has the potential to become a compatible platform for the development and production of therapeutic glycoproteins with human-like or potentially 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 advancements 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.

Our goal is to conduct the glycoengineering work during the third quarter of 2017 by the New CRO that the Company engaged in September 2016 since it has the scientific knowledge and experience to conduct theses critical research and development tasks. Specifically, the Company and the New CRO will use the best strategies and plan, including implementation of its own past experience and proprietary technology for this development work. The successful accomplishment of this task will facilitate the C1 technology to be an important production platform for developing and manufacturing glycosylated antibodies.

According to the 2016 Global life sciences outlook, development and sales of biosimilars are accelerating, and analysts expect the worldwide biosimilars market to reach $25 billion to $35 billion by 2020. Among them, monoclonal antibodies (mAbs) market, the major segment of oncology and biosimilars, was valued at $105.2 billion in 2016 and is projected to grow at CAGR of 12.5% to reach $341.3 billion by 2026-end (FMI, REP-GB-1330, July 2016). As the biosimilar market grows and becomes more competitive, we hope that we will create a differentiated approach to produce glycosylated biosimilars/biobetters by using the C1 expression system as an effective production platform.

Importantly, in December 2016, the Company has started an initial small research program with one of the world's largest pharmaceutical companies to demonstrate the potential of C1 technology to produce glycosylated therapeutic proteins. This work is being conducted at the New CRO. In the first quarter of 2017, we received an upfront payment of $125,000 for this research project, a future payment of the same amount will help defray some of our research expenses as we continue to develop, and demonstrate the potential of our C1 technology for use in developing and manufacturing biologics. Through this project, we hope that we will be able to develop a more meaningful relationship with this pharmaceutical company, as well as several others.

Additionally, on May 4, 2017 the Company has entered into a small research program with another of the world's largest pharmaceutical companies to demonstrate the potential of the C1 technology to produce therapeutic proteins. This work will be conducted at the New CRO and is anticipated to begin in the second quarter of 2017. This research project is fully funded by the pharmaceutical company and will help defray some of our research expenses as we continue to develop, and demonstrate the potential of our C1 technology for use in developing and manufacturing biologics.

Through these initial research projects, we hope that we will be able to develop a more meaningful relationship with one or both of these pharmaceutical companies, as well as several others.

Based on our academic and commercial collaborations, we believe experts in academia and industry regard Dyadic's C1 technology as among the foremost potential expression systems in the world. We continue to review and evaluate our existing and new opportunities for internal and external pharmaceutical research and development projects and collaborations. 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.

We are optimistic about the potential impact that our C1 technology may have on the development and manufacturing of biologic vaccines and drugs even though we are at the early stages of our research. We continue to believe that the C1 expression system may be the critical differentiator in allowing Dyadic, our collaborators and licensees to compete in these technology-driven markets. Most importantly, we believe that biologics developed without the most productive expression system, such as C1, will face heightened reimbursement challenges.

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.

Since the sale of our industrial technology business to DuPont on December 31, 2015, the Company has devoted substantial resources to the research and development of C1 technology for application in the pharmaceutical industry and development of our intellectual property. We have no pharmaceutical products approved for sale at this point, and all of our revenue to date has been research revenue from third party collaborations and government grants. The Company may generate future revenue from license agreements and collaborative arrangements, which may include upfront payment for licenses or options to obtain license, payment for research and development services and milestone payments.

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 revenue is recognized over the respective contract periods as the services are performed. The Company initially defers revenue for any amounts billed and payments received in advance of related 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. Contract accounting requires judgment relative to assessing risks, estimating the revenue and costs and making assumptions for the length of time to complete the contract. Any changes to these assumptions and estimates could result in further adjustments in the future. Changes in estimated revenues, cost of revenues and the related effect on operating income are recognized in the current period using a cumulative catch-up adjustment to reflect the cumulative effect of the changes on current and prior periods based on a contact's proportional performance completed.

Provision for Contract Losses

The Company assesses the profitability of our collaboration agreements to provide research services to our contracted business partners and identifies those contracts where current operating results or forecasts indicate probable future losses. If the anticipated contract cost exceeds the anticipated contract revenue, a provision for the entire estimated loss on the contract is recorded and then accreted into the statement of operations over the remaining term of the contract. The provision for contract losses is based on judgment and estimates, including revenues and costs, where applicable, the consideration of our business partners' reimbursement, and when such loss is deemed probable to occur and is reasonable to estimate.

Accrued Research and Development Expenses

In preparing our financial statements, we are required to estimate our accrued expenses. This process involves reviewing open contracts and purchase orders, communicating with our personnel to identify services that have been performed on our behalf and estimating the level of service performed and the associated cost incurred for the service when we have not yet been invoiced or otherwise notified of the actual cost. The majority of our service providers invoice us monthly or quarterly in arrears for services performed or when contractual milestones are met. We make estimates of our accrued expenses as of each balance sheet date in our financial statements based on facts and circumstances known to us at that time. We periodically confirm the accuracy of our estimates with the service providers

and make adjustments if necessary. Examples of accrued research and development expenses include amounts owed to contract research organizations, to service providers in connection with commercialization and development activities.

Stock-Based Compensation

We have granted stock options and restricted stock to employees, directors and consultants. The fair 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. For purposes of the calculation, we assumed that no dividends would be paid during the life of the options and restricted stock. The Company performs review on assumptions used in the Black-Scholes option-pricing model on an annual basis. During the 2017 annual review, the Company considered the significant changes in the Company's business and capital structure, and reduction in force subsequent to the DuPont Transaction and determined that it would be appropriate to use historical volatilities of peer companies adjusted for term and leverage as the best estimate of the Company's expected stock price volatility, and to use the weighted-average vesting period and contractual term of the option as the best estimate of the expected life of a new option (with the exception of the CEO which remains 5 years). The Company also determined to apply a discount to reflect the lack of marketability due to the holding period restriction of its shares under Rule 144. The change in assumption is effective January 1, 2017 and only has impact on new options granted in 2017.

The estimates utilized in the Black-Scholes calculation involve inherent uncertainties and the application of management judgment. These estimates are neither predictive nor indicative of the future performance of our stock. As a result, if other assumptions had been used, our recorded share-based compensation expense could have been materially different from that reported. In addition, because some of the options and restricted stock issued to employees, consultants and other third-parties vest upon the achievement of certain milestones, the total expense of share-based compensation is uncertain.

Accounting for Income Taxes

The Company accounts for income taxes under the asset and liability method in accordance with ASC Topic 740, "Income Taxes". Under this method, income tax expense is recognized for the amount of: (i) taxes payable or refundable for the current year and (ii) deferred tax consequences of temporary differences resulting from matters that have been recognized in an entity's financial statements or tax returns. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. A valuation allowance is provided to reduce the deferred tax assets reported if based on the weight of the available positive and negative evidence, it is more likely than not some portion or all of the deferred tax assets will not be realized.

In determining taxable income for the Company's consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process requires the Company to make certain estimates of our actual current tax exposure and assessment of temporary differences between the tax and financial statement recognition of revenue and expense. In evaluating the Company's ability to recover its deferred tax assets, the Company must consider all available positive and negative evidence including its past operating results, the existence of cumulative losses in the most recent years and its forecast of future taxable income. Significant management judgment is required in determining our provision for income taxes, deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets.

The Company is required to evaluate the provisions of ASC 740 related to the accounting for uncertainty in income taxes recognized in a company's financial statements. ASC 740 prescribes a comprehensive model for how a company should recognize, present, and disclose uncertain positions that the company has taken or expects to take in its tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. Differences between tax positions taken or expected to be taken in a tax return and the net benefit recognized and measured pursuant to the interpretation are referred to as "unrecognized benefits." A

liability should be recognized (or amount of net operating loss carry forward or amount of tax refundable is reduced) for unrecognized tax benefit because it representing a company's potential future obligation to the taxing authority for a tax position that was not recognized as a result of applying the provision of ASC 740.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Recent Accounting Pronouncements

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

Results of Operations

Three Months Ended March 31, 2017 Compared to the Same Period in 2016

Revenue, Cost of Revenue, and Provision for Contract Losses

The following table summarizes the Company's revenue, cost of revenue and provision for contract losses for the three months ended March 31, 2017 and 2016:

	Three Months Ended		%
	March 31, 2017	March 31, 2016	Change
Research and Development Revenue	$ 121,527	$ 86,891	39.9%
Cost of Revenue	$ 121,528	$ 85,146	42.7%
Provision for Contract Losses	$ 210,540	$ —	N/A

The increase in research and development revenue, and cost of revenue reflects the activities of the ZAPI project and a confidential biopharmaceutical collaborative research project started in December 2016. The amount of provision for contract losses reflects the increase in the total estimated research costs due to the Company's extended involvement in the ZAPI program.

Research and Development

Research and development expenses for the three months ended March 31, 2017 increased 30.6% to approximately $320,000 compared to approximately $245,000 for the same period a year ago. The increase principally reflects the costs of biopharmaceutical contract research initiatives and personnel related costs.

General and Administrative Expenses

General and administrative expenses for the three months ended March 31, 2017 increased 100.7% to approximately $1,790,000 compared to approximately $892,000 for the same period a year ago. The increase principally reflects new employment agreements for executives of approximately $391,000, litigation costs for trial of approximately $369,000, financial reporting costs of approximately $115,000, and biopharmaceutical business development costs of approximately $99,000. These increases were partially offset by lower board compensation costs of approximately $76,000 due to the formation of the Special Committee of the Board in 2016.

Litigation Settlement

On March 1, 2017, Dyadic and the last remaining defendant law firm Greenberg Traurig, LLP, and Greenberg Traurig, P.A. (collectively, "Greenberg Traurig") reached a confidential settlement in connection with the litigation before the case went to the jury. On April 14, 2017, the Company received the full settlement payment in the amount

of $4,500,000, net of legal fees and expenses. Per the settlement agreement dated October 22, 2013 between Mark A. Emalfarb ("MAE"), and Dyadic, whereby Dyadic agreed to pay MAE 5% of any net company proceeds in connection with the litigation up to $25 million, and 8% of any net company proceeds in excess of $25 million; provided, that the maximum amount payable under the agreement shall be $6 million. In the first quarter of 2017, the Company accrued an amount of $141,777 payable to MAE to satisfy this contractual obligation. The net receivable amount of $4,358,223 from the litigation settlement was reported in the Company's consolidated statement of operations, in other income, for the quarter ended March 31, 2017. See Note 3: *Commitments and Contingencies* - Professional Liability Lawsuit.

Interest Income

Interest income for the three months ended March 31, 2017 increased 78.5% to approximately $116,000 compared to approximately $65,000 for the same period a year ago. The increase in interest income reflects returns earned on the Company's investment grade debt securities, which are classified as held-to-maturity.

LIQUIDITY AND CAPITAL RESOURCES

Prior to the DuPont Transaction, the Company has financed its 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.

Subsequent to the DuPont Transaction, our primary source of cash has been cash proceeds received from the DuPont Transaction in 2015 in addition to interest income from investment securities, and funding received from our collaboration agreements. In April 2017, the Company's liquidity has been further improved upon receipt of litigation settlement of approximately $4.4 million, net of legal fees and other expenses, from the last remaining defendant law firm, Greenberg Traurig, LLP and Greenberg Traurig, P.A., ending our long-standing professional liability litigation. See Note 3: *Commitments and Contingencies* - Professional Liability Lawsuit. The escrowed funds from the DuPont Transaction are expected to be released in July 2017, if no claims are made prior to such release. If released, our cash position will be increased by approximately $7.4 million at that time. The Company has completed its 2016 Stock Repurchase Program in February 2017 (See Note 5, *Shareholders' Equity* to the Consolidated Financial Statements), and the Company may in the future determine to initiate a new repurchase program depending upon a variety of factors, including market conditions, regulatory requirements and other corporate considerations, as determined by Dyadic's Board of Directors and management.

Our ability to achieve profitability depends on a number of factors, including our scientific results and our ability to obtain new sublicense agreements. We may continue to incur substantial operating losses even if we begin to generate revenues from research and development and licensing. Our primary future cash needs are expected to be concentrated on operating activities, including working capital and R&D expenses. We believe our existing cash position and investments in investment grade debt securities will be adequate to meet our operational, business, and other liquidity requirements in the next twelve months.

At March 31, 2017, cash and cash equivalents were approximately $8.0 million compared to approximately $6.9 million at December 31, 2016. Net increase in cash and cash equivalents for the three months ended March 31, 2017 of approximately $1.1 million principally reflects approximately $7.5 million of cash proceeds from maturities of investment grade securities, net of purchases and premium paid, and cash received from interest earned of approximately $0.6 million, partially offset by cash used for the repurchase of common stock of approximately $5.7 million, litigation costs of approximately $0.6 million, and all other cash used in operations of approximately $0.7 million.

Net cash used in operating activities for the three months ended March 31, 2017 of approximately $0.9 million was principally attributable to a net income of approximately $2.1 million, stock based compensation expense of approximately $0.3 million, and net amortization of premium on held-to-maturity securities of approximately $0.2 million, changes in operating assets and liabilities of approximately $0.9 million, partially offset by litigation settlement receivable of approximately $4.4 million.

Net cash used in operating activities for the three months ended March 31, 2016 of approximately $2.1 million was principally attributable to a net loss of approximately $0.9 million, changes in operating assets and liabilities of approximately $1.4 million primarily related to payment of DuPont Transaction related liabilities, partially offset by stock based compensation expense of approximately $0.2 million.

Net cash provided by investing activities for the three months ended March 31, 2017 of approximately $7.6 million was principally attributable to proceeds from maturities of investment grade securities.

Net cash used in investing activities for the three months ended March 31, 2016 was not material.

Net cash used in financing activities for the three months ended March 31, 2017 of approximately $5.7 million was attributable to repurchase of common stock.

Net cash used in financing activities for the three months ended March 31, 2016 of approximately $3.9 million was principally attributable to repurchase of common stock of approximately $4.0 million, partially offset by the issuance of common stock of $0.1 million.

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.

IRS Audit Request

On March 30, 2017, the Company received a letter from the US Internal Revenue Service (the "IRS") informing the Company that its 2015 federal tax return was selected for examination. The Company has provided the IRS with all requested information, and the first meeting with the IRS is scheduled in late May 2017. The IRS audit is in an early stage and the Company has not been informed of any issues or assessment.

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 money market funds and investment-

grade corporate debt in accordance with our investment policy, which we may change from time to time. The securities in which we invest have market risk. This means that a change in prevailing interest rates, and/or credit risk, may cause the fair value of the investment to fluctuate. For example, if we hold a security that was issued with a fixed interest rate at the then-prevailing rate and the prevailing interest rate later rises, the fair value of our investment will probably decline. As of March 31, 2017, our portfolio of financial instruments consists of cash equivalents, short-term and long-term interest bearing securities, including government money market funds and corporate bonds. The average duration of all our held-to-maturity investments held as of March 31, 2017 was less than 12 months. Due to the short-term nature of these financial instruments, we believe there is no material exposure to interest rate risk, and/or credit risk, arising from our portfolio of financial instruments.

Risk Factors

Investing in our common stock involves a high degree of risk. You should carefully consider all of the matters described in this Quarterly Report for the three months ended March 31, 2017 and the "risk factors" included in our December 31, 2016 Annual Report filed with the OTC Markets on March 24, 2017, which is incorporated herein by reference, in evaluating our current business and future performance. We cannot assure you that any of the events discussed in the risk factors will not occur. If we are not able to successfully address any of the risks or difficulties, we could experience significant changes in our business, operations and financial performance. In such circumstances, the trading price of our common stock could decline, and in some cases, such declines could be significant and you could lose part or all of your investment. In addition to the risks, other unforeseeable risks and uncertainties or factors that we currently believe are immaterial may also adversely affect our operating results, and there may be other risks that may arise in the future. Certain statements contained in this Quarterly Report for the three months ended March 31, 2017 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 March 8, 2017, the Special Committee was disbanded as a result of the settlement of the Company's professional liability litigation.

On April 6, 2017, the Company announced that effective June 1, 2017, Mr. Stephen Warner will resign from the Board of Directors and all related Board committees to which he served, which included the audit, compensation and nominating committees of the Board. Mr. Warner served on the board of directors since October 2004.

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 May 11, 2017

_____/s/ Mark A. Emalfarb_____

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

Certification

I, Thomas L. Dubinski, certify that:

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

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

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

Dated May 11, 2017

/s/ Thomas L. Dubinski

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