DYADIC INTERNATIONAL, INC.

A Delaware Corporation

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Corporate Website:
www.dyadic.com

SIC Code: 2836
Federal EIN: 45-0486747

Quarterly Report

For the three and six months ended June 30, 2018

ISSUER'S EQUITY SECURITIES

COMMON STOCK

$0.001 Par Value Per Share
100,000,000 Shares Authorized

38,936,988 Shares Issued as of June 30, 2018
28,060,811 Shares Outstanding as of June 30, 2018

Indicate by check mark whether the company is a shell company (as defined in Rule 405 of the Securities Act of 1933 and Rule 12b-2 of the Exchange Act of 1934)
Yes: ☐ No: ☒

Indicate by check mark whether the company's shell status has changed since the previous reporting period:
Yes: ☐ No: ☒

Indicate by check mark whether a change in control of the company has occurred over this reporting period:
Yes: ☐ No: ☒

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 many risks and uncertainties that could cause our actual results to differ materially from those reflected in the forward-looking statements. Forward-looking statements generally can be identified by use of the words "expect," "should," "intend," "anticipate," "will," "project," "may," "might," "potential," or "continue" and other similar terms or variations of them or similar terminology. Such forward-looking statements are included under Item 4 "Management's discussion and analysis of financial condition and results of operations". Dyadic International, Inc., and its subsidiaries caution 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 many 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 generate the required productivity, stability, purity, performance, cost, safety and other data necessary 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 third-party and related party research organizations, customers and collaborators; (8) the pharmaceutical and biotech industry, governmental regulatory and other agencies' willingness to adopt, utilize and approve the use of the C1 gene expression platform; and (9) 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 discussed in Dyadic's publicly available filings, including information set forth under the caption "Risk Factors" in this Quarterly Report, our December 31, 2017 Annual Report filed with the OTC Markets on March 27, 2018 and our March 31, 2018 Quarterly Report filed with the OTC Markets on May 10, 2018. 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, considering 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" and elsewhere in this Quarterly Report which could have a material adverse effect on our business, results of operations and financial condition and set forth under the caption "Risk Factors" in our December 31, 2017 Annual Report filed with the OTC Markets on March 27, 2018 and our March 31, 2018 Quarterly Report filed with the OTC Markets on May 10, 2018.

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 our forward-looking statements by these cautionary statements. In addition, with respect to all 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.

These reports, as well as additional information regarding Dyadic and its plans for its biopharmaceutical business, are available on Dyadic's website at www.dyadic.com.

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 the Company and our products and services. The information contained on or accessible from such websites shall not be deemed incorporated by reference herein.
Investor relations contact:	Mark A. Emalfarb Chief Executive Officer 140 Intracoastal Pointe Drive, Suite 404 Jupiter, Florida 33477 Telephone: (561) 743-8333 Facsimile: (561) 743-8343 Email: memalfarb@dyadic.com

Item 2 Shares outstanding

As of June 30, 2018, 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 June 30, 2018:

(i)	Number of shares authorized	100,000,000
(ii)	Number of shares issued	38,936,988
(iii)	Number of shares outstanding	28,060,811
(iv)	Number of shares held in treasury	10,876,177
(v)	Number of shares freely tradable (public float) (1)	19,889,847
(vi)	Total number of holders of record	69

There are greater than 1,690 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 June 30, 2018:

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

Item 3 Unaudited interim consolidated financial statements

Financial Statements

DYADIC INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Assets		
Current assets:		
Cash and cash equivalents	$ 3,218,820	$ 5,786,348
Short-term investment securities	41,111,207	41,898,754
Interest receivable	459,481	489,841
Accounts receivable	6,128	271,029
Current portion of prepaid research and development	615,314	1,015,194
Prepaid expenses and other current assets	170,741	154,608
Total current assets	45,581,691	49,615,774
Non-current assets:		
Long-term investment securities	1,031,502	922,648
Non-current portion of prepaid research and development	103,340	152,245
Other assets	53,449	53,492
Total assets	$ 46,769,982	$ 50,744,159
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 232,181	$ 520,261
Accrued expenses	192,450	147,959
Deferred research and development obligations	41,815	—
Income taxes payable	—	100,675
Total current liabilities	466,446	768,895
Commitments and contingencies (See Note 4)		
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 - 38,936,988 and 38,936,988, outstanding shares - 28,060,811 and 28,327,811 as of June 30, 2018 and December 31, 2017, respectively	38,937	38,937
Additional paid-in capital	94,256,578	93,913,557
Treasury stock, shares held at cost - 10,876,177 and 10,609,177 shares, as of June 30, 2018 and December 31, 2017, respectively	(17,000,693)	(16,625,873)
Accumulated deficit	(30,991,286)	(27,351,357)
Total stockholders' equity	46,303,536	49,975,264
Total liabilities and stockholders' equity	$ 46,769,982	$ 50,744,159

The accompanying notes are an integral part of these unaudited consolidated financial statements

DYADIC INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	**2017**	**2018**	**2017**
Revenues:				
Research and development revenue	$ 161,286	$ 207,402	$ 345,616	$ 328,929
Costs and expenses:				
Costs of research and development revenue	129,116	199,794	275,925	321,322
Provision for contract losses	—	10,175	—	220,715
Research and development	601,199	419,750	1,178,083	739,274
Research and development - related party	340,849	—	733,398	—
General and administrative	921,542	1,233,801	2,214,539	3,024,092
Foreign currency exchange gain, net	(15,198)	(178,277)	(10,358)	(206,113)
Total costs and expenses	1,977,508	1,685,243	4,391,587	4,099,290
Loss from operations	(1,816,222)	(1,477,841)	(4,045,971)	(3,770,361)
Other income:				
Settlement of litigation, net	—	—	—	4,358,223
Interest income, net	219,585	130,236	406,042	246,429
Total other income	219,585	130,236	406,042	4,604,652
(Loss) income before income taxes	(1,596,637)	(1,347,605)	(3,639,929)	834,291
Provision for income taxes	—	1,901	—	87,457
Net (loss) income	$ (1,596,637)	$ (1,349,506)	$ (3,639,929)	$ 746,834
Net (loss) income per common share				
Basic	$ (0.06)	$ (0.05)	$ (0.13)	$ 0.03
Diluted	$ (0.06)	$ (0.05)	$ (0.13)	$ 0.03
Weighted-average common shares outstanding				
Basic	28,060,811	28,707,289	28,109,756	29,159,363
Diluted	28,060,811	28,707,289	28,109,756	29,220,108

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, 2017	38,936,988	$ 38,937	(10,609,177)	$ (16,625,873)	$ 93,913,557	$ (27,351,357)	$ 49,975,264
Stock-based compensation	—	—	—	—	343,021	—	343,021
Repurchases of common stock	—	—	(267,000)	(374,820)	—	—	(374,820)
Net loss	—	—	—	—	—	(3,639,929)	(3,639,929)
Balance at June 30, 2018	38,936,988	$ 38,937	(10,876,177)	$ (17,000,693)	$ 94,256,578	$ (30,991,286)	$ 46,303,536

The accompanying notes are an integral part of these unaudited consolidated financial statements

DYADIC INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOW

(Unaudited)

	Six Months Ended June 30,	
	2018	**2017**
Cash flows from operating activities		
Net (loss) income	$ (3,639,929)	$ 746,834
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Stock-based compensation expense	343,021	479,046
Amortization of premium on held-to-maturity securities	492,398	511,343
Provision for contract losses	—	(140,165)
Foreign currency exchange gain, net	(10,358)	(206,113)
Changes in operating assets and liabilities:		
Interest receivable	30,360	42,608
Accounts receivable	265,121	510,316
Prepaid research and development	448,785	(1,124,420)
Prepaid expenses and other current assets	(14,973)	(11,667)
Accounts payable	(275,745)	20,334
Accrued expenses	44,491	206,258
Deferred research and development obligations	41,815	(122,222)
Income taxes payable	(102,000)	251,192
Net cash (used in) provided by operating activities	**(2,377,014)**	**1,163,344**
Cash flows from investing activities		
Purchases of held-to-maturity securities, including premium	(30,320,705)	(28,581,018)
Proceeds from maturities of investment securities	30,507,000	30,628,000
Net cash provided by investing activities	**186,295**	**2,046,982**
Cash flows from financing activities		
Repurchases of common stock	(374,820)	(5,686,306)
Proceeds from exercise of options	—	1,437
Net cash used in financing activities	**(374,820)**	**(5,684,869)**
Effect of exchange rate changes on cash	(1,989)	199,698
Net decrease in cash, cash equivalents and restricted cash	**(2,567,528)**	**(2,274,845)**
Cash, cash equivalents and restricted cash at beginning of period	5,786,348	14,254,216
Cash, cash equivalents and restricted cash at end of period	**$ 3,218,820**	**$ 11,979,371**
Supplemental cash flow information		
Cash paid for (refund received from) income taxes	$ 102,000	$ (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 platform company based in Jupiter, Florida with operations in the United States, the Netherlands and third-party lab-collaborations in Finland and Spain. Over the past two decades, the Company has developed a gene expression platform for producing commercial quantities of industrial enzymes and other proteins, and has previously licensed this technology to third parties, such as Abengoa Bioenergy, BASF, Codexis and others, for use in industrial (non-pharmaceutical) applications. This technology is based on the *Myceliophthora thermophila* fungus, which the Company named C1. The C1 technology is a robust and versatile fungal expression system for 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"). As part of the DuPont Transaction, DuPont granted back 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 licensors of DuPont, depending upon whether Dyadic elects to utilize certain patents either owned by DuPont or licensed in by DuPont.

After the DuPont Transaction, the Company has been focused on the biopharmaceutical industry, specifically in further improving and applying the proprietary C1 technology into a safe and efficient gene expression platform to help speed up the development, lower production costs and improve the performance of biologic vaccines and drugs at flexible commercial scales. We believe that the C1 technology could be beneficial in the development and manufacturing of human and animal vaccines (such as virus-like particles (VLPs) and antigens), monoclonal antibodies (mAbs), Bi-Specific antibodies, Fab antibody fragments, FC-Fusion proteins, biosimilars and/or biobetters, as well as other therapeutic enzymes and proteins. Additionally, in early 2018, we began to conduct certain funded research activities to further understand if, or how the C1 technology can be applied for use in developing and manufacturing metabolites.

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 Company has reclassified certain 2017 amounts previously reported to conform to the 2018 consolidated financial statement presentation.

The accompanying unaudited interim consolidated financial statements for the Company and its subsidiaries 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 the Company'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, 2017, which was posted to the OTC Markets website on March 27, 2018.

Since concluding the DuPont Transaction, the Company has conducted 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 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.

Concentrations

The Company's financial instruments that are potentially subject to concentrations of credit risk consist primarily of cash and cash equivalents, and investment securities. At times, the Company has cash, cash equivalents, and investment securities 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 in such accounts.

For both the three months ended June 30, 2018 and 2017, the Company's revenue was generated from two and three customers respectively. For both the six months ended June 30, 2018 and 2017, the Company's revenue was generated from three customers. At June 30, 2018, and December 31, 2017, the Company's account receivable was from one customer and three customers, respectively. The loss of business from one or a combination of the Company's customers could adversely affect its revenues.

For the three and six months ended June 30, 2018, all of the Company revenue and accounts receivable were from United States customers. For the three and six months ended June 30, 2017, there was one European customer that accounted for approximately 37.9% and 35.9% of total revenue, respectively and 100% of total accounts receivable.

Cash and Cash Equivalents

We treat highly liquid investments with original maturities of three months or less when purchased as cash equivalents, including money market funds, which are unrestricted for withdrawal or use.

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, both the face value of the debt and premium amount are reflected as investing outflow. Other-than-temporary impairment charges, if incurred, will be 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 June 30, 2018 and December 31, 2017, all of 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 June 30, 2018 and December 31, 2017.

Accounts Receivable

Accounts receivable consist of billed receivables currently due from customers and unbilled receivables. Unbilled receivables represent the excess of contract revenue (or amounts reimbursable under contracts) over billings to date. Such amounts become billable in accordance with the contract terms, which usually consider the passage of time, achievement of certain milestones or completion of the project.

Outstanding account balances are reviewed individually for collectability. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. Substantially all of our accounts receivable were current and include unbilled amounts that will be billed and collected over the next twelve months. There was no allowance for doubtful accounts as of June 30, 2018 and December 31, 2017.

The following table summarizes billed and unbilled receivables as of June 30, 2018 and December 31, 2017:

	June 30, 2018	December 31, 2017
	(Unaudited)	(Audited)
Billed receivable	$ —	$ 208,475
Unbilled receivable	6,128	62,554
	$ 6,128	$ 271,029

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following:

	June 30, 2018	December 31, 2017
	(Unaudited)	(Audited)
Prepaid expenses - various	$ 23,143	$ 63,678
Prepaid insurance	145,204	89,760
Prepaid taxes	2,394	1,170
	$ 170,741	$ 154,608

Accounts Payable

Accounts payable consist of the following:

	June 30, 2018	December 31, 2017
	(Unaudited)	(Audited)
Research and development expenses	$ 194,008	$ 459,141
Legal expenses	26,404	6,865
Other	11,769	54,255
	$ 232,181	$ 520,261

Accrued Expenses

Accrued expenses consist of the following:

	June 30, 2018	December 31, 2017
	(Unaudited)	(Audited)
Employee wages and benefits	$ 96,348	$ 83,674
Research and development expenses	79,436	60,188
Other	16,666	4,097
	$ 192,450	$ 147,959

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, and costs 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. R&D costs are related to the Company's internally funded pharmaceutical programs and other governmental and commercial projects.

Research and development costs consist of personnel-related costs, facilities, research-related overhead, services from independent contract research organizations, and other external costs. Research and development costs during the three and six months ended June 30, 2018 and 2017 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Outside contracted services	$ 481,335	$ 313,351	$ 950,892	$ 504,239
Contracted services - related party	340,849	—	733,398	—
Personnel related costs	95,558	90,975	190,548	199,412
Facilities, overhead and other	24,306	15,424	36,643	35,623
	$ 942,048	$ 419,750	$ 1,911,481	$ 739,274

Income Taxes

The Tax Cuts and Jobs Act (the "TCJA") was enacted on December 22, 2017 and is effective January 1, 2018. The new legislation includes, among other things a reduction of the U.S. corporate income tax rate from 35% to 21%, and a change to alternative minimum taxes.

As of June 30, 2018, the Company did not record any provisional estimate related to changes to alternative minimum taxes. The staff of the SEC recognized the complexity of determining the impact of the TCJA, and on December 22, 2017 issued guidance in Staff Accounting Bulletin 118 ("SAB 118"). SAB 118 allows us to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. The Company will continue to analyze the TCJA and related accounting guidance and interpretations in order to finalize any impact within the measurement period. We currently anticipate finalizing and recording any resulting adjustments by the end of 2018.

For the three and six months ended June 30, 2018, the Company did not record any current income tax provisions. There were no unrecognized tax benefits as of June 30, 2018 and December 31, 2017.

Deferred tax assets as of June 30, 2018 and December 31, 2017 were approximately $6.0 million and $3.9 million, respectively. Due to the Company's history of operating losses and the uncertainty regarding our ability to generate taxable income in the future, the Company has established a 100% valuation allowance against deferred tax assets as of June 30, 2018 and December 31, 2017.

Net Loss (Income) Per Share

Basic net loss (income) per share is computed by dividing net loss (income) available to common shareholders by the weighted average number of common shares outstanding during the reporting period. Diluted net loss (income) 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.

For the three months ended June 30, 2018 and 2017, the effect of the potential exercise of options to purchase 3,441,890 and 2,476,890 shares of common stock were excluded from the computation of diluted net loss (income) per share, respectively, as their effect would have been anti-dilutive.

For the six months ended June 30, 2018 and 2017, the effect of the potential exercise of options to purchase 3,441,890 and 2,366,890 shares of common stock were excluded from the computation of diluted net loss (income) per share, respectively, as their effect would have been anti-dilutive.

Recent Accounting Pronouncements Not Adopted as of June 30, 2018

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 on its consolidated financial statements and related disclosures.

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 this newly issued guidance.

In March 2017, the FASB issued ASU 2017-08, Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. The amendments in this ASU shorten the amortization period for certain callable debt securities held at a premium. The amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The amendments will be effective for the Company beginning in the first quarter of 2019. The Company is still evaluating the impact, if any, of this guidance.

In February 2018, the FASB issued ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The new guidance allows a reclassification from accumulated other comprehensive income to retained earnings for any stranded tax effects resulting from the Tax Cuts and Jobs Act that was enacted on December 22, 2017. The new guidance will be effective for the Company beginning in the first quarter of 2019. The Company is currently evaluating the impact, if any, of this newly issued guidance.

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 Pronouncements

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. The Company adopted this ASU effective January 1, 2018. The impact of adopting of this ASU on our consolidated financial statements was not material.

In May 2017, the FASB issued ASU 2017-09, Compensation - Stock Compensation (Topic 718): Scope and Modification Accounting. An entity may change the terms or conditions of a share-based payment award for many different reasons, and the nature and effect of the change can vary significantly. Modification is currently defined as "a change in any of the terms or conditions of a share-based payment award." The amendments in this ASU provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in accordance with Topic 718. The Company adopted this ASU effective January 1, 2018. The impact of adopting of this ASU on our consolidated financial statements was not material.

Revenue Recognition

On January 1, 2018, we adopted Accounting Standards Codification, or ASC, Topic 606, "Revenue from Contracts with Customers", and all related amendments, using the full retrospective transition method. This standard applies to all contracts with customers, except for contracts that are within the scope of other standards, such as leases, insurance, collaboration arrangements and financial instruments. Topic 606 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most prior revenue recognition guidance. This new standard requires an entity to recognize revenue for the transfer of promised goods or

services to a customer in an amount that reflects the consideration that the entity expects to receive and consistent with the delivery of the performance obligation described in the underlying contract with the customer.

We have determined that the impact of adopting this new standard is not material to our revenue recognition model, and therefore, no adjustment was made to our previously reported consolidated financial statements. As a result of the adoption of Topic 606, the Company's accounting policy for revenue recognition is as follows:

The Company has 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 payments for licenses or options to obtain a license, payment for research and development services and milestone payments.

The Company typically performs research and development services as specified in each respective agreement on a best efforts basis, and recognizes revenue from research funding under collaboration agreements in accordance with the 5-step process outlined in Topic 606: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. We recognize revenue when we satisfy a performance obligation by transferring control of the service to a customer in an amount that reflects the consideration that we expect to receive. Since the performance obligation under our collaboration agreements is generally satisfied over time, we elected to use the input method under Topic 606 to measure the progress toward complete satisfaction of a performance obligation.

Under the input methods, revenue will be recognized on the basis of the entity's efforts or inputs to the satisfaction of a performance obligation (e.g., resources consumed, labor hours expended, costs incurred, or time elapsed) relative to the total expected inputs to the satisfaction of that performance obligation. The Company believes that the cost-based input method is the best measure of progress to reflect how the Company transfers its performance obligation to a customer. In applying the cost-based input method of revenue recognition, the Company uses actual costs incurred relative to budgeted costs to fulfill the performance obligation. These costs consist primarily of full-time equivalent effort and third-party contract costs. Revenue will be recognized based on actual costs incurred as a percentage of total budgeted costs as the Company completes its performance obligations.

A cost-based input method of revenue recognition requires management to make estimates of costs to complete the Company's performance obligations. In making such estimates, significant judgment is required to evaluate assumptions related to cost estimates. The cumulative effect of revisions to estimated costs to complete the Company's performance obligations will be recorded in the period in which changes are identified and amounts can be reasonably estimated. A significant change in these assumptions and estimates could have a material impact on the timing and amount of revenue recognized in future periods.

We invoice customers based on our contractual arrangements with each customer, which may not be consistent with the period that revenues are recognized. When there is a timing difference between when we invoice customers and when revenues are recognized, we record either a contract asset (unbilled accounts receivable) or a contract liability (deferred research and development obligations), as appropriate.

The Company adopted the following practical expedients and exemptions: We generally expense sales commissions when incurred because the amortization period would be one year or less. We do not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which we recognize revenue at the amount to which we have the right to invoice for services performed.

Statement of Cash Flows

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash," which modifies the presentation of the statement of cash flows and requires reconciliation of the overall change in the total of cash, cash equivalents, restricted cash and restricted cash equivalents. As a result, the statement of cash flows will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents. The ASU is effective for annual reporting periods, and interim periods within those annual periods, beginning after December 15, 2017. The Company early adopted this ASU effective July 1, 2017. The adoption of this ASU impacted the Company's presentation of its statement of cash flows, but did not have a material impact on the Company's consolidated balance sheet or consolidated statement of operations. Accordingly, the Company has retrospectively adjusted the presentation of its consolidated statement of cash flows for all periods presented.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments," which made eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. The ASU further clarified how the predominance principle should be applied to cash receipts and payments relating to more than one class of cash flows. The Company adopted this ASU effective January 1, 2018. In accordance with this ASU, the Company retrospectively adjusted the presentation of its consolidated statement of cash flows for all periods presented by reclassifying the cash outflows of premium on held-to-maturity securities from operating cash flows to investing cash flows.

The following table summarizes, by financial statement line item, the adjusted presentation upon the adoption of ASU 2016-18 and ASU 2016-15, in the Company's condensed consolidated statement of cash flows as of June 30, 2017:

	As Filed June 30, 2017	Adjustments	Adjusted June 30, 2017
Operating Activities			
Amortization of premium on held-to-maturity securities	$ 49,325	$ 462,018	511,343
Net cash provided by operating activities	$ 701,326	$ 462,018	$ 1,163,344
Investing activities:			
Purchase of held-to-maturity securities, including premiums	$ (28,119,000)	$ (462,018)	(28,581,018)
Restricted cash	$ (2,703)	$ 2,703	—
Net cash provided by (used in) investing activities	$ 2,506,297	$ (459,315)	$ 2,046,982
Net decrease in cash, cash equivalents and restricted cash	$ (2,277,548)	$ 2,703	(2,274,845)
Cash, cash equivalents and restricted cash at beginning of period	$ 6,889,357	$ 7,364,859	14,254,216
Cash, cash equivalents and restricted cash at end of period	$ 4,611,809	$ 7,367,562	11,979,371

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, money market funds, and short-term and long-term investment securities by major security type as of June 30, 2018 and December 31, 2017:

		June 30, 2018 (Unaudited)			
	Level (1)	**Fair Value**	**Gross Unrealized Holding Gains**	**Gross Unrealized Holding Losses**	**Adjusted Cost**
Cash and Cash Equivalents					
Cash		$ 357,603	$ —	$ —	$ 357,603
Money Market Funds	1	2,861,217	—	—	2,861,217
Subtotal		3,218,820	—	—	3,218,820
Short-Term Investment Securities (2)					
Corporate Bonds (4)	2	41,011,019	—	(100,188)	41,111,207
Long-Term Investment Securities (3)					
Corporate Bonds (4)	2	1,027,230	—	(4,272)	1,031,502
Total		$ 45,257,069	$ —	$ (104,460)	$ 45,361,529

	December 31, 2017 (Audited)				
	Level (1)	Fair Value	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Adjusted Cost
Cash and Cash Equivalents					
Cash		$ 838,110	$ —	$ —	$ 838,110
Money Market Funds	1	4,948,238	—	—	4,948,238
Subtotal		5,786,348			5,786,348
Short-Term Investment Securities (2)					
Corporate Bonds (4)	2	41,811,273	—	(87,481)	41,898,754
Long-Term Investment Securities (3)					
Corporate Bonds (4)	2	911,698	—	(10,950)	922,648
Total		$ 48,509,319	$ —	$ (98,431)	$ 48,607,750

(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, from the applicable reporting date.

(3) Long-term investment securities will mature between 12 and 18 months, from the applicable reporting date.

(4) The premium paid to purchase held-to-maturity investment securities was $26,014 and $361,469 for the three months ended June 30, 2018 and 2017, respectively. The premium paid to purchase held-to-maturity investment securities was $313,705 and $462,018 for the six months ended June 30, 2018 and 2017, respectively. The premium paid to purchase held-to-maturity investment securities was $915,084 for the year ended December 31, 2017.

The Company considers the declines in market value of its investment portfolio to be temporary in nature. The Company's investment policy requires investment securities to be investment grade and held to maturity with the primary objective to maintain a high degree of liquidity while maximizing yield. When evaluating an investment for other-than-temporary impairment, the Company reviews factors such as the length of time and extent to which fair value has been below its cost basis, the financial condition of the issuer and any changes thereto, changes in market interest rates, and whether it is more likely than not the Company will be required to sell the investment before recovery of the investment's cost basis. As of June 30, 2018, the Company does not consider any of its investments to be other-than-temporarily impaired.

Note 3: Research and Collaboration Agreement

On June 30, 2017, the Company entered into a strategic Research Services Agreement (the "RSA") with Biotechnology Developments for Industry in Pharmaceuticals, S.L.U. ("BDI Pharma"), and a Service Framework Agreement (the "SFA", and together with the RSA, the "R&D Agreements"), with VLP The Vaccines Company, S.L.U. ("VLPbio"), both of which companies are subsidiaries of Biotechnology Developments for Industry, S.L., a Spanish biotechnology company ("BDI Holdings" and together with BDI Pharma and VLPbio, "BDI").

The R&D Agreements provide a framework under which the parties will engage in a research and development collaboration encompassing several different projects over approximately a two-year period, with a focus on advancing Dyadic's proprietary C1 technology in the development of next generation biological vaccines and drugs. Dyadic expects to leverage the BDI team's previous C1 gene expression and industrial fermentation scale-up and commercialization experience with yeast and filamentous fungi processes to further advance Dyadic's proprietary C1 technology with the potential to commercialize certain biopharmaceutical product(s). All the data and any products developed from the funded research projects will be owned by Dyadic.

Upon closing of the BDI transaction, the Company paid EUR €1 million in cash to engage BDI to develop designated C1 based product candidates and further improve the C1 manufacturing process, in consideration of which Dyadic also received a 16.1% equity interest in BDI Holdings and a 3.3% equity interest in VLPbio. BDI is obligated to spend a minimum amount of EUR €936,000 over two years in the conduct of the research and development project under the RSA. If the research and development activities produce a product that is selected for additional development and commercialization, then Dyadic expects to share with BDI a range of between 50% and 75% of the net income from such selected product, depending upon the amount of BDI's aggregate spend in the development of the selected product, with a minimum aggregate spend by BDI of EUR €1 million for a 50% share and EUR €8 million for a 75% share. If BDI does not enter into an agreement with Dyadic for such additional development and commercialization of the selected product, then Dyadic will pay to BDI EUR €1.5 million of the net income from Dyadic's commercialization, if any, of the selected product. In addition, under the SFA, Dyadic agreed to purchase from BDI at least USD $1 million in contract research services specified by Dyadic over the next two years.

The Company has concluded that BDI is not a Variable Interest Entity ("VIE"), because BDI has sufficient equity to finance its activities without additional subordinated financial support and its at-risk equity holders have the characteristics of a controlling financial interest. Additionally, Dyadic is not the primary beneficiary of BDI, because Dyadic does not have the power to control or direct the activities of BDI or its operations. As a result, the Company does not consolidate its investments in BDI, and the financial results of BDI are not included in the Company's consolidated financial results.

The Company performed a valuation analysis of the components of the transaction and allocated the consideration based on the relative fair value of each component. As the fair value of BDI equity interest was considered immaterial, the initial payment of approximately USD $1.1 million (EUR €1.0 million) was accounted for as a prepaid research and development collaboration payment on our consolidated balance sheet, and both the collaboration payment and the remaining USD $1 million commitment to be paid by Dyadic under the SFA will be expensed as the related research services are performed by BDI. As of June 30, 2018, there were three collaboration projects in progress under the SFA for a total of approximately EUR €0.7 million.

At June 30, 2018, the prepaid research and development collaboration payment of approximately USD $0.7 million is included in our consolidated balance sheet and has been allocated between the current and noncurrent positions based on whether it is expected to be used over the next 12-month period or beyond. For the three and six months ended June 30, 2018, the research and development expenses related to the BDI R&D Agreements were recorded in research and development - related party in our consolidated statements of operations in the amount of approximately $0.3 million and $0.7 million, respectively.

Note 4: Commitments and Contingencies

Leases

Jupiter, Florida Headquarters

The Company's corporate headquarters are located in Jupiter, Florida. The Company occupies approximately 4,900 square feet with a monthly rental rate and common area maintenance charges of approximately $9,400. The lease expires on June 30, 2019, 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, 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.

Employment Agreements

In connection with Ping Rawson's appointment as the Company's Chief Accounting Officer, the Company's Board of Directors approved compensation for Ms. Rawson as follows: Ms. Rawson will be entitled to an annual base salary of $210,000 and she is eligible for a discretionary annual performance bonus up to 100,000 stock options priced at the grant date. In addition, the Company granted Ms. Rawson a sign-on award of 50,000 stock options that will vest annually in equal installments over four years, and a conditional award of 50,000 stock options that will vest upon the Company's becoming an SEC reporting entity. Such options will automatically vest, if for any reason the Board determines not to pursue SEC registration or in the event of a change of control. Ms. Rawson will be eligible for six months of severance benefits, if her services are no longer required due to a change of control or any reason other than for cause. Such severance benefits will increase to twelve months, one year from the effective date of the agreement or upon the Company becoming an SEC reporting entity, whichever occurs first.

Purchase Obligations

As of June 30, 2018, there have been no material changes to the Company's purchase obligations outside the ordinary course of business as compared to December 31, 2017.

Legal Proceedings

On March 1, 2017, Dyadic and the Company's former outside legal counsel consisting of the law firms of Greenberg Traurig, LLP, and Greenberg Traurig, P.A. reached a confidential settlement regarding its professional liability litigation before the case went to the jury. On April 14, 2017, the Company received the full settlement payment in the amount of $4.5 million, net of legal fees and expenses. In connection with a settlement agreement dated October 22, 2013 between Mark A. Emalfarb ("MAE"), and Dyadic, Dyadic agreed to pay MAE 5% of any net settlement proceeds up to $25 million, and 8% in excess of $25 million provided that the maximum amount payable under the agreement be limited to $6 million. In the second quarter of 2017, the Company made a payment of $141,777 to MAE to satisfy this prior contractual obligation. The net litigation settlement gain of $4,358,223 was reported in the Company's consolidated statement of operations, in other income, in the first quarter of 2017.

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 case. Litigation is inherently unpredictable and costly.

Any litigations, claims or investigations against the Company could have a material adverse effect on the Company's consolidated financial position, cash flows or results of operations.

Note 5: 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 have been 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 reserved for issuance.

As of June 30, 2018, the Company had 3,441,890 stock options outstanding and an additional 1,277,211 shares of common stock available for grant under the 2011 Plan. As of December 31, 2017, the Company had 2,712,390 stock options outstanding and an additional 2,006,711shares 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. Vesting is determined by the Board of Directors at the time of grant. The term of any stock option awards under the Company's 2011 Plan is no more than ten years except for options granted to 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. 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 calculated based on the Company's own volatility since the DuPont Transaction. During the Company's annual review of its volatility assumption in 2018, the Company determined that it would be appropriate to use the Company's historical volatilities since 2016, as the DuPont Transaction had significant changes in the Company's business and capital structure. The change in assumption is effective January 1, 2018 and only has impact on new options granted in 2018.

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. The Company determined 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 (except for the CEO which is 5 years).

Discount for lack of marketability. The Company applies a discount to reflect the lack of marketability due to the holding period restriction of its shares under Rule 144.

The assumptions used in the Black-Scholes option pricing model for stock options granted during the six months ended June 30, 2018 are as follows:

Risk-Free interest rate	2.24% - 2.65%
Expected dividend yield	—%
Expected stock price volatility	28.24%
Expected life of option	5 - 6.25 years
Discount for lack of marketability	9.35%

The following table summarizes the stock option activity for the six months ended June 30, 2018:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2017	2,712,390	$1.62	6.1	$69,090
Granted (1)	979,500	1.40		
Exercised	—	—		
Expired	—	—		
Canceled (2)	(250,000)	1.69		
Outstanding at June 30, 2018	3,441,890	$1.55	5.3	$204,840
Exercisable at June 30, 2018	2,148,098	$1.55	4.2	$149,252

(1) Represents the following stock options granted:

- Annual share-based compensation awards on January 2, 2018, including: (a) 492,000 stock options with an exercise price of $1.39 granted to executives and key personnel, vesting upon grant or one year anniversary, (b) 250,000 stock options with an exercise price of $1.39 granted to Board of Directors, vesting 25% upon grant and the remaining 75% will vest annually in equal installments over four years, and (c) 87,500 stock options with an exercise price of $1.39 granted to employees, vesting annually in equal installments over four years.
- One-time awards on March 18, 2018, including: (a) 50,000 stock options with an exercise price of $1.44 granted to key personnel, vesting upon one year anniversary, (b) a sign-on award of 50,000 stock options and a conditional award of 50,000 stock options with an exercise price of $1.44 to the newly appointed Chief Accounting Officer. The sign-on options will vest annually in equal installments over four years, and the conditional award will vest once certain conditions are met.

(2) Represents the cancellation of performance-based stock options granted to the Company's former Chief Financial Officer, who separated from the Company on March 22, 2018. In addition, the Compensation Committee approved an extension of the exercise period of his vested stock options to June 30, 2019. The incremental cost of such modification, which approximated $39,000, was recognized immediately.

Compensation Expenses

We recognize all share-based payments to employees and our board of directors, as non-cash compensation expense, in research and development expenses or general and administrative expenses in the consolidated statement of operations, and these charges had no impact on the Company's reported cash flows. Stock-based compensation expense is calculated on the grant date fair values of such awards, and recognized each period based on the value of the portion of share-based payment awards that is ultimately expected to vest during the period. Forfeitures are recorded as they occur.

Total non-cash stock option compensation expense was allocated among the following expense categories:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
General and administrative	$ 54,896	$ 109,549	$ 304,138	$ 411,650
Research and development	18,529	32,322	38,883	67,396
	$ 73,425	$ 141,871	$ 343,021	$ 479,046

Note 6: Shareholders' Equity

Share Repurchases and Buybacks

Privately Negotiated Share Buyback Transactions

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 were treated by Dyadic as treasury stock. The repurchase of shares from Pinnacle was in addition to Dyadic's 2016 Stock Repurchase Program discussed below.

Stock Repurchase Programs

On February 16, 2016, the Board of Directors authorized a one-year stock repurchase program, under which the Company was authorized to repurchase up to $15 million of its outstanding common stock (the "2016 Stock Repurchase Program"). The 2016 Stock Repurchase Program ended on February 15, 2017.

On August 16, 2017, the Board of Directors authorized a new one-year stock repurchase program, under which the Company may repurchase up to $5 million of its outstanding common stock (the "2017 Stock Repurchase Program").

Under the 2017 Stock Repurchase Program, the Company is 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 repurchases its shares, and the timing of such repurchases, is 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 expects to finance the program from its existing cash resources. All repurchased shares are held in treasury.

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

Period	Total Number of Shares Purchased	Average Price Paid 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
Privately Negotiated Transactions:					
January 12, 2016 - Abengoa 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
					$ 15,000,000
2016 Stock Repurchase Program (1):					
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
2017 Stock Repurchase Program:					$ 5,000,000
September through December 2017	381,607	1.41	537,661	381,607	$ 4,462,339
January 2018	165,000	1.40	231,000	165,000	$ 4,231,339
February 2018	—	—	—	—	$ 4,231,339
March 2018	102,000	1.41	143,820	102,000	$ 4,087,519
Total open market and privately negotiated purchases	**13,012,929**	**$ 1.53**	**$ 19,885,308**	**10,876,177**	

(1) The 2016 Stock Repurchase Program ended on February 15, 2017.

Treasury Stock

As of June 30, 2018, there were 10,876,177 shares of common stock held in treasury, at a cost of approximately $17.0 million, representing the purchase price on the date the shares were surrendered to the Company. As of December 31, 2017, there were 10,609,177 shares held in treasury, at a cost of approximately $16.6 million.

Note 7: Subsequent Events

The Company has reviewed subsequent events through August 9, 2018, the date these unaudited consolidated financial statements were available to be issued. Except as discussed in these quarterly financial statements and below, management is not aware of any material events that have occurred after the balance sheet date that would require adjustment to, or disclosure in the unaudited consolidated financial statements.

On August 6, 2018, the Company's Board of Directors authorized an extension of the Company's existing stock repurchase program through August 15, 2019. Under the existing stock repurchase program, Dyadic may repurchase up to $5 million of the Company's common stock 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 Dyadic repurchases its stock, and the timing of such repurchases, will depend upon a variety of factors, including market conditions, regulatory requirements and other corporate considerations, as determined by Dyadic's management. The repurchase program may be extended, suspended or discontinued at any time. Since August 2017, the Company has repurchased approximately $0.9 million of its common stock under this program, leaving it with additional authorization

of up to approximately $4.1 million under the program as a result of this extension. The Company expects to finance the program from existing cash resources.

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 many 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 because 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, 2017 which was filed with the OTC Markets on March 27, 2018 and our March 31, 2018 Quarterly Report filed with the OTC Markets on May 10, 2018. See also the "Special Cautionary Note 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, 2017 which was filed with the OTC Markets on March 27, 2018.

OVERVIEW

Description of Business

Dyadic International, Inc. ("Dyadic", "we", or the "Company") is a global biotechnology platform company based in Jupiter, Florida with operations in the United States, the Netherlands and third-party lab-collaborations in Finland and Spain. Over the past two decades, the Company has developed a gene expression platform for producing commercial quantities of industrial enzymes and other proteins, and has previously licensed this technology to third parties, such as Abengoa Bioenergy, BASF, Codexis and others, for use in industrial (non-pharmaceutical) applications. This technology is based on the *Myceliophthora thermophila* fungus, which the Company named C1. The C1 technology is a robust and versatile fungal expression system for 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"). As part of the DuPont Transaction, DuPont granted back 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 licensors of DuPont, depending upon whether Dyadic elects to utilize certain patents either owned by DuPont or licensed in by DuPont.

After the DuPont Transaction, the Company has been focused on the biopharmaceutical industry, specifically in further improving and applying the proprietary C1 technology into a safe and efficient gene expression platform to help speed up the development, lower production costs and improve the performance of biologic vaccines and drugs at flexible commercial scales. We believe that the C1 technology could be beneficial in the development and manufacturing of human and animal vaccines (such as virus-like particles (VLPs) and antigens), monoclonal antibodies (mAbs), Bi-Specific antibodies, Fab antibody fragments, FC-Fusion proteins, biosimilars and/or biobetters, as well as other therapeutic enzymes and proteins. Additionally, in early 2018, we began to conduct certain funded research activities to further understand if, or how the C1 technology can be applied for use in developing and manufacturing metabolites.

Our Technology

The C1 cell line is a scientific anomaly compared to traditional filamentous fungal cells, and the Company believes that the C1 gene expression platform has the potential to be used in the development and manufacturing of biologic medicines and vaccines, given its anticipated competitive advantages compared to other leading pharmaceutical expression systems, such as CHO ("Chinese Hamster Ovary") cells. Specifically, the C1 cell line has:

- A unique morphology which translates into better growth conditions and very high secreted protein yield and has been used in industrial production for 20 years at up to 500,000-liter scale.
- Several significant potential operational advantages include:
    - High productivity
    - Lower cost synthetic media for the upstream fermentation steps
    - Potential for greater retention of protein through downstream processing steps
    - High purity of secreted proteins
    - No virus carryover from production cells which eliminates two purification steps typical for CHO production; low pH viral inactivation and virus Nano filtration
- Wide pH and temperature operating conditions which has the potential to translate into more reliable and robust production processes.
- Shorter production cycle times than CHO which translates into the following savings:
    - Reduction of nearly 10-14 days vs CHO for the process of seed flask to fermenter
    - Fermentation cycle time of 5-7 days which is 1/2 to 1/3rd the typical fermentation production time of CHO.

C1's characteristics lead the Company and other industry experts to believe that the C1 technology has the potential to become an alternative gene expression platform to CHO, E.coli, yeast and other organisms for developing and manufacturing protein-based biologics because of its speed of development and low production costs.

Our Industry and Market

Our research collaborations and ongoing discussions with leading pharmaceutical and biotech companies continue to support the Company's belief that the biopharmaceutical market is an attractive opportunity to apply the C1 technology. The Company is focused on penetrating the biologics market in the following segments:

- Recombinant vaccines market
- New innovative biologic therapeutics
- Biosimilars / Biobetters non-Glycosylated protein market
- Biosimilars / Biobetters Glycosylated protein market

The use of biologic medicines, such as antibodies, is growing significantly. However, biologic medicines are very expensive treatments to both patients and the health care systems, and the Company believes that such high cost is in part the result of the following bottlenecks in the development and manufacture of biologic medicines:

- Low yielding gene expression systems currently used by the biopharmaceutical industry
- Previous underfunded development efforts for a more efficient next generation gene expression system
- The biopharmaceutical industry's reluctance in the past to utilize certain advances in science, such as synthetic biology and genomics to develop next generation gene expression systems for bio manufacturing, such as glycoengineering potentially more productive microorganisms

The Company believes that the biopharmaceutical industry needs a next generation expression platform that is safe, reliable, productive and cost effective to produce more affordable biologic medicines in larger volumes using smaller fermentation vessels. The Company also believes that by further engineering our C1 technology it will have the potential to be an alternative to CHO and other expression systems for certain biologic vaccines and drugs.

Our Business Development Efforts

The Company continues to raise the commercial, scientific and technical profile of its C1 technology through the following targeted business development efforts:

- Regularly attending and making presentations at various biopharmaceutical and industry conferences;
- Business development meetings with key decision makers and industry thought leaders around the world;
- Scientific meetings with interested parties within academia, industry and governmental agencies in Europe, North America and elsewhere;
- Updated Company's website, media interviews and renewed marketing presentation materials.

In order to develop C1 into a leading next generation protein expression and production system for use in speeding up the development and lowering the cost of manufacturing biopharmaceuticals, the Company strategically determined to utilize a portion of the proceeds from the DuPont Transaction in combination with additional funding sought from industry and government programs to generate sufficient research data to demonstrate C1's potential operational benefits and reduced capital requirements in developing and manufacturing biologic vaccines and drugs. Since the closing of the DuPont Transaction in December 2015, the Company has achieved the following in its business development initiatives:

- Retained two new board members who previously worked with Merck and Pfizer and have strong scientific background and extensive business experience in the biopharmaceutical industry;
- Entered into three funded feasibility and expression projects with three of the top tier pharmaceutical companies, including Mitsubishi Tanabe Pharma;
- Two funded proof of concept research collaborations with two different biotechnology companies to test the feasibility of producing an important active moiety and seven different molecular biology enzymes respectively;
- Signed a research and development collaboration with The Israel Institute for Biological Research ("IIBR") and having ongoing discussions with other governmental agencies, such as BARDA;
- Hired several experienced consultants with relationships within the biopharmaceutical industry and governmental agencies to expand the C1 network and reach out to potential research and business partners.

Potential Opportunity to Use C1 in Drug Discovery and Early Development Process

While our focus has been and remains on developing stable C1 cell lines for use in speeding up the development and manufacturing of biologics at lower cost, we have identified a new area where C1 may add value based on our discussions with various pharmaceutical and biotech companies. This new area is the biologics drug discovery and early development process, which requires sufficient levels of protein to be expressed as quickly as possible in order to identify new drug candidates within a limited time, and HEK 293 cells (human embryonic kidney cells) are commonly used for this application.

Since C1 cells have the capability to express and produce comparable and even larger quantities of protein than HEK 293 cells, we believe that C1 has the potential to help overcome certain protein expression challenges in the biologics drug discovery and development stages. To capitalize on this opportunity, we will need to spend additional resources to modify our C1 technology for this application. We are in discussions with interested third parties, including our existing collaborators, to determine our next steps and potential funding.

The Company believes that the unique attributes of C1, together with our platform research and development programs, will create attractive research, licensing, partnering/collaboration and other revenue and funding opportunities in the animal and human biopharmaceutical industries. The funded research projects mentioned above and others that we are actively seeking may help defray some of our research expenses, as we continue to develop and demonstrate the potential of our C1 technology. The Company will continue seeking research collaboration opportunities and partners to potentially commercialize C1-based products.

Our Research Partners and Contract Research Organizations (CROs)

After the closing of DuPont Transaction, we initially conducted our 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"). On September 30, 2017, the Company concluded the research services provided by DuPont, and successfully transitioned the C1 platform research programs to the following two contract research organizations:

(1) Research and Development Agreement with Our Prime CRO

In September 2016, the Company entered into a multi-year research and development agreement with a third-party Contract Research Organization, (the "Prime CRO") to begin to further modify and improve the Company's C1 technology to be a safe and efficient expression system for use in speeding up development and lowering the cost of manufacturing pharmaceutical products and processes. Our Prime CRO is one of the leading research and technology organizations in Europe, and it has conducted research and development on fungi and other microorganisms for more than three decades. We believe that our Prime CRO has the required skills and experience in fungal strain development to help us further develop our C1 technology and achieve our goal and objectives.

(2) Collaboration Agreement with BDI

On June 30, 2017, the Company entered into a strategic Research Services Agreement (the "RSA") with Biotechnology Developments for Industry in Pharmaceuticals, S.L.U. ("BDI Pharma"), and a Service Framework Agreement (the "SFA", and together with the RSA, the "R&D Agreements"), with VLP The Vaccines Company, S.L.U. ("VLPbio"), both of which companies are subsidiaries of Biotechnology Developments for Industry, S.L., a Spanish biotechnology company ("BDI Holdings" and together with BDI Pharma and VLPbio, "BDI").

The R&D Agreements provide a framework under which the parties will engage in a research and development collaboration encompassing several different projects over approximately a two-year period, with a focus on advancing Dyadic's proprietary C1 technology in the development of next generation biological vaccines and drugs. Dyadic expects to leverage the BDI team's previous C1 gene expression and industrial fermentation scale-up and commercialization experience with yeast and filamentous fungi processes to further advance Dyadic's proprietary C1 technology with the potential to commercialize certain biopharmaceutical product(s). All the data and any products developed from the funded research projects will be owned by Dyadic. We anticipate that BDI will conduct gene expression work and cGMP media development coupled with fermentation optimization work, with a goal of improving the C1 technology's production process for manufacturing vaccines, antibodies, enzymes and other therapeutic proteins. Additionally, BDI is conducting research and development on our behalf to express and produce a variety of C1-based biologic products to demonstrate C1's capabilities and to identify potential animal and human pharmaceutical products which may be out licensed to third parties for commercialization. Those proteins include mAbs, FC-fusion, Bi-specific antibodies, Fabs, VLP and others that may be used for human and animal health applications.

Upon closing of the BDI transaction, the Company paid EUR €1 million in cash to engage BDI to develop designated C1 based product candidates and further improve the C1 manufacturing process, in consideration of which Dyadic also received a 16.1% equity interest in BDI Holdings and a 3.3% equity interest in VLPbio. BDI is obligated to spend a minimum amount of EUR €936,000 over two years in the conduct of the research and development project under the RSA. If the research and development activities produce a product that is selected for additional development and commercialization, then Dyadic expects to share with BDI a range of between 50% and 75% of the net income from such selected product, depending upon the amount of BDI's aggregate spend in the development of the selected product, with a minimum aggregate spend by BDI of EUR €1 million for a 50% share and EUR €8 million for a 75% share. If BDI does not enter into an agreement with Dyadic for such additional development and commercialization of the selected product, then Dyadic will pay to BDI EUR €1.5 million of the net income from Dyadic's commercialization, if any, of the selected product. In addition, under the SFA, Dyadic agreed to purchase from BDI at least USD $1 million in contract research services specified by Dyadic over the next two years. Other shareholders of BDI include the founders of BDI and Inveready, an independent Spanish venture capital firm specializing in biotechnology.

Our Research and Development ("R&D") Programs

The Company's current research and development activities are focused on the following biopharmaceutical programs:

(1) Ongoing Research Programs

C1 Production Host Improvement Programs

The Company has contracted our Prime CRO 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 vaccines and drugs to market faster, in greater volumes, at lower cost, and with new properties to drug developers and manufacturers. 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, (iv) developing C1 strains where one or more specific integration sites are being used to increase productivity and to what we expect will help with future regulatory approvals, and (v) modify the glycosylation pathway of C1 cells in order for C1 to express certain mAbs and other proteins with mammalian like glycosylation structures.

We have made improvements to our C1 technology platform through our collaborations with the Prime CRO, and the data generated up to date confirms our belief that C1 may be used to speed up the development and lower the production costs of certain biologics.

- Data demonstrating C1's capability to express a variety of types of vaccines and therapeutic proteins including monoclonal antibodies (mAbs), Fab antibody fragments, FC-Fusion proteins, and difficult-to-express genes such as virus-like particles (VLPs), Bi-Specific antibodies, and antigens, at a higher productivity level than other gene expression platforms.
- Data demonstrating that the binding kinetics of mAbs produced from C1 are virtually indistinguishable to the binding kinetics of the mAbs tested which were produced from CHO cells.
- Generated C1 strains that have lower background protease activity, which remain healthy and viable. Created C1 protease expression library to quickly identify and eliminate protease genes to improve protein stability and productivity.
- Developed and used a variety of novel genetic elements, molecular tools that can be used in biologics drug development.
- Improved C1 fed batch fermentation process with low cost defined media, as compared to the expensive growth media being used with CHO. Continue optimizing both the media and the fermentation process to further increase mAb yields and productivity.

Glycosylated Therapeutic Programs

The Company's longer-term objective, which will require substantially more time and additional capital to apply the C1 technology for the large therapeutic glycoprotein market. 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 C1 fungal cell line is a promising candidate to further engineer glycosylation pathways: (i) to produce therapeutic proteins having human types of defined glycoforms structures such as G0, G1, G2, G0F, G1F and G2F and (ii) to create potentially improved immunogenicity in the case of vaccines.

The initial steps to develop C1 strains that produce mAbs with mammalian-like glycosylation are progressing well at the Prime CRO, and we are actively working on additional steps. The remaining work according to the research plan is anticipated to last through year end 2020 with a goal of reaching G1F and G2F glycan structures. Based on research results we had to date, the Company believes that our C1 technology has the potential to become a useful platform for the development and production of therapeutic glycoproteins with human-like or potentially even superior glycan structures. We expect that, if successful, the glycoengineering of C1 cells may help to position the C1 technology to be an important production platform for developing and manufacturing glycosylated antibodies and other glycoproteins.

Although we have made good progress working with our Prime CRO since September 2016, there remains additional work and data needed to develop our C1 technology into a potentially safe and efficient expression system for use in speeding up the development and lowering the cost of animal and human biologic vaccines and drugs.

(2) 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 partial 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.

As we previously reported, one of the Company's C1 expressed antigens was tested in a very small mice study within the ZAPI project and 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 and safety testing will be conducted within the ZAPI project in the months and years ahead.

Our current efforts are focused on demonstrating C1's ability to express antigens at target levels set by the ZAPI consortium. This requires further C1 strain and process optimization, which is currently being carried out at our Prime CRO at our cost. For now, we have been asked to focus on expressing a specific antigen and the data obtained so far has indicated promising expression levels of this antigen which we anticipate will be transferred to other groups within ZAPI who may carry out additional animal trials. If the animal trials are successful, we would anticipate the ZAPI consortium will make a regulatory filing incorporating an antigen that is produced from C1.

(3) Israel Institute for Biological Research (IIBR)

In the first quarter of 2018, we entered into a research and development collaboration with the Israel Institute for Biological Research ("IIBR") to further advance our C1 expression platform for the development and manufacture of recombinant vaccines and neutralizing agents comprising targeted antigens and monoclonal antibodies (biologics)**,** to combat emerging diseases and threats.

This project provides us with an opportunity to work with a renowned organization, aiming to integrate our C1 gene expression platform into an end to end product development and manufacturing capability to produce biologics, and if possible, to get some of these biologics through the regulatory approval process. Substantially, all of the work will be performed at IIBR's laboratories using their in-house resources.

(4) Biologic Drug Programs

(i) Monoclonal antibodies (mAbs), FC-Fusion, and Fab

The Company has a number of internally and externally funded research programs to express different types of therapeutic proteins including monoclonal antibodies (mAbs), Bi-Specific antibodies, Fab antibody fragments, and FC-Fusion proteins using our C1 technology. So far, we have been able to demonstrate C1's ability to express an igG mAb at 9 grams per liter (g/l) in 90 hours which equates to 2.4 grams per liter per day (g/l/d), a Fab antibody fragment at 1.9 g/l/d, a FC-Fusion protein at 1.35 g/l/d as well as other proteins at various expression levels. The Company and others within the pharmaceutical and biotech industry believe that such results are very promising and show much greater productivity potential of C1 compared to the average expression yields of CHO cells which is the predominant production system used by the pharmaceutical and biotech industry to manufacture glycosylated mAbs.

In December 2016 and May 2017, the Company entered into two funded feasibility and expression research projects with two of the world's largest pharmaceutical companies, respectively. The first project was successfully completed in the last quarter of 2017, and the second one was successfully completed in the second quarter of 2018. We believe that the data generated to date from these collaborations, and otherwise, continues to demonstrate the potential of the C1 technology to produce high levels of glycosylated mAbs and other therapeutic proteins faster, with higher productivity and at a much lower cost than that can be achieved using CHO cells. However, in order to potentially commercialize or capitalize on C1's potential in producing glycoproteins we will need to complete the glycoengineering of C1 to be able to demonstrate a variety of biological and analytical data related to performance, stability and safety.

(ii) Mitsubishi Tanabe Program

In the first quarter of 2018, we entered into a collaboration with Mitsubishi Tanabe Pharma Corp. to express two of its important therapeutic compounds using our C1 production platform. This research and development program is aiming to help Mitsubishi Tanabe overcome specific gene expression challenges and to further demonstrate the potential of C1 to become a platform of choice for manufacturing protein-based biologics because of its speed of development and low production costs. If this challenging gene expression program is successful, we expect this project to generate additional data and to increase the diversity of the types of proteins that our C1 platform can potentially produce at higher yields and with lower cost.

(iii) Potential Commercialization Program at BDI

Under our collaboration program with BDI, we have begun to evaluate a Virus Like Particle (VLP) and a basket of therapeutic proteins that are commonly used in the animal and human health markets either glycosylated or non-glycosylated proteins (including mAbs, Fabs, and bi-specific mAbs, etc.) to determine which, if any, of these proteins might be potential candidates for future commercialization.

We were able to demonstrate that C1 is capable of expressing certain types of antibodies at high levels as well as the ability to express other difficult-to-express therapeutic proteins by other cell lines. In particular:

- A Secreted Virus Like Particle (VLP) monomers was expressed by C1 and appears to have been properly assembled to form a 60-mers protein structure. Transmission Electronic Microscopy (TEM) analysis confirmed the correct structure of the VLP.

- Our first and initial attempt to express Blinatumomab, a bi-specific drug, was successful as the initial unoptimized expression level was 0.6 g/l (0.12 g/l/d). Blinatumomab is a new type of treatment for leukemia, developed by Amgen, with a rapidly growing market. The initial expression level of Blinatumomab is a start in generating data that we believe will help us to demonstrate the potential of C1 to be used as a production host for expressing more complex and difficult to express drugs such as bi-specific antibodies.

- We have reached the expression level of the antibody fragment Certolizumab using C1 as high as 9.12 g/l (1.9 g/l/d). Certolizumab is the drug substance of Cimzia Pegol, which is a recombinant, humanized Fab' antibody fragment. We will continue the development work on increasing the productivity of Certolizumab to a higher level. In addition, we expect to conduct a variety of comparability and quality analytics with the C1 expressed Certolizumab together with our partnership with BDI.

(iv) Potential Additional Market Opportunities

In January 2018, the Company entered into a funded proof of concept research collaboration to explore the potential of its C1 technology to produce an important active moiety with an integrated, global biotech company.

In this research collaboration, the Company will be using metabolic modeling, synthetic biology and genome engineering techniques to demonstrate the benefits of using C1 as a primary metabolite-producing host organism. Importantly, we believe the knowledge and data generated in this program is expected to enhance our understanding

of C1's metabolic characteristics and help us advancing our ongoing C1 biologic vaccine and drug research and development programs.

In June 2018, the Company entered into another funded proof of concept research collaboration to test the feasibility of using C1 technology to produce seven different molecular biology enzymes as pharmaceutical products which are used as reagents to catalyze a chemical reaction to detect, measure, or be used as a process intermediate to produce a nucleic acid as a therapeutic or diagnostic agent.

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 consolidated 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

The Company has 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 payments for licenses or options to obtain a license, payment for research and development services and milestone payments.

The Company typically performs research and development services as specified in each respective agreement on a best efforts basis, and recognizes revenue from research funding under collaboration agreements in accordance with the 5-step process outlined in Topic 606: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. We recognize revenue when we satisfy a performance obligation by transferring control of the service to a customer in an amount that reflects the consideration that we expect to receive. Since the performance obligation under our collaboration agreements is generally satisfied over time, we elected to use the input method under Topic 606 to measure the progress toward complete satisfaction of a performance obligation.

Under the input methods, revenue will be recognized on the basis of the entity's efforts or inputs to the satisfaction of a performance obligation (e.g., resources consumed, labor hours expended, costs incurred, or time elapsed) relative to the total expected inputs to the satisfaction of that performance obligation. The Company believes that the cost-based input method is the best measure of progress to reflect how the Company transfers its performance obligation to a customer. In applying the cost-based input method of revenue recognition, the Company uses actual costs incurred relative to budgeted costs to fulfill the performance obligation. These costs consist primarily of full-time equivalent effort and third-party contract costs. Revenue will be recognized based on actual costs incurred as a percentage of total budgeted costs as the Company completes its performance obligations.

A cost-based input method of revenue recognition requires management to make estimates of costs to complete the Company's performance obligations. In making such estimates, significant judgment is required to evaluate assumptions related to cost estimates. The cumulative effect of revisions to estimated costs to complete the Company's performance obligations will be recorded in the period in which changes are identified and amounts can be reasonably estimated. A significant change in these assumptions and estimates could have a material impact on the timing and

amount of revenue recognized in future periods.

We invoice customers based on our contractual arrangements with each customer, which may not be consistent with the period that revenues are recognized. When there is a timing difference between when we invoice customers and when revenues are recognized, we record either a contract asset (unbilled accounts receivable) or a contract liability (deferred research and development obligations), as appropriate.

The Company adopted the following practical expedients and exemptions: We generally expense sales commissions when incurred because the amortization period would be one year or less. We do not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which we recognize revenue at the amount to which we have the right to invoice for services performed.

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 order to properly record services that have been rendered but not yet billed to the Company, we review open contracts and purchase orders, communicate with our personnel and we estimate 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 consolidated 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 considers 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 and applied a discount to reflect the lack of marketability due to the holding period restriction of its shares under Rule 144. We also used the weighted-average vesting period and contractual term of the option as the best estimate of the expected life of a new option (except for the CEO which is 5 years). The Company performs review on assumptions used in the Black-Scholes option-pricing model on an annual basis. During the Company's annual review of its volatility assumption in 2018, the Company determined that it would be appropriate to use the Company's historical volatilities since 2016, as the DuPont Transaction had significant changes in the Company's business and capital structure. The change in assumption is effective January 1, 2018 and only impacts new options granted in 2018.

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.

In connection with board member and employee terminations, the Company may modify certain terms to outstanding share-based awards. We have recorded charges related to these modifications based on the estimated fair value of the share-based options immediately prior to and immediately after the modification occurs, with any incremental value being charged to expense. We have used the Black-Scholes pricing model in this valuation process, and this requires management to use various assumptions and estimates. Future modifications to share-based compensation transactions may result in significant expenses being recorded in our consolidated financial statements.

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 /(benefit) is recognized for: (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 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 represents a company's potential future obligation to the taxing authority for a tax position that was not recognized because of applying the provision of ASC 740.

The Tax Cuts and Jobs Act (the "TCJA") was enacted on December 22, 2017 and is effective January 1, 2018. The new legislation includes, among other things a reduction of the U.S. corporate income tax rate from 35% to 21%, and a change to alternative minimum taxes.

As of June 30, 2018, the Company did not record any provisional estimate related to changes to alternative minimum taxes. The staff of the SEC recognized the complexity of determining the impact of the TCJA, and on December 22, 2017 issued guidance in Staff Accounting Bulletin 118 ("SAB 118"). SAB 118 allows us to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. The Company will continue to analyze the TCJA and related accounting guidance and interpretations in order to finalize any impact within the measurement period. We currently anticipate finalizing and recording any resulting adjustments by the end of 2018.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Recent Accounting Pronouncements

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

Results of Operations

Three and Six Months Ended June 30, 2018 Compared to the Same Periods in 2017

Revenue, Cost of Revenue, and Provision for Contract Losses

The following table summarizes the Company's revenue, cost of research and development revenue and provision for contract losses for the three and six months ended June 30, 2018 and 2017:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenue	$ 161,286	$ 207,402	$ 345,616	$ 328,929
Cost of research and development revenue	$ 129,116	$ 199,794	$ 275,925	$ 321,322
Provision for contract losses	$ —	$ 10,175	$ —	$ 220,715

The changes in revenue and cost of research and development revenue reflects different research collaborations completed in 2017 and new research collaborations started in 2018. The provision for contract losses recorded in 2017 was associated with the Company's extended involvement in the ZAPI program and another research collaboration completed in 2017.

Research and Development

Research and development expenses for the three months ended June 30, 2018 was approximately $601,000 compared to $420,000 for the same period a year ago. The increase of $181,000 primarily reflects the costs of additional internal research activities with third-party contract research organizations and personnel related costs.

Research and development expenses for the six months ended June 30, 2018 was approximately $1,178,000 compared to $739,000 for the same period a year ago. The increase of $439,000 primarily reflects the costs of additional internal research activities with third-party contract research organizations and personnel related costs.

Research and development expenses - related party, for the three months ended June 30, 2018, increased to approximately $341,000 compared to $0 for the same period a year ago. The increase reflects the research and development costs related to the Company's R&D Agreements with BDI, which started in July 2017.

Research and development expenses - related party, for the six months ended June 30, 2018, increased to approximately $733,000 compared to $0 for the same period a year ago. The increase reflects the research and development costs related to the Company's R&D Agreements with BDI, which started in July 2017.

General and Administrative Expenses

General and administrative expenses for the three months ended June 30, 2018, decreased 25.3% to approximately $922,000 compared to $1,234,000 for the same period a year ago. The decrease primarily reflects reductions in legal and litigation costs of $137,000, compensation costs associated with our former CFO of $86,000,

share-based compensation expenses related to stock options granted in 2018 of $55,000, and other cost reductions of $34,000.

General and administrative expenses for the six months ended June 30, 2018, decreased 26.8% to approximately $2,215,000 compared to $3,024,000 for the same period a year ago. The decrease primarily reflects reductions in legal and litigation costs of $699,000, share-based compensation expenses related to stock options granted in 2018 of $146,000, and other cost reductions of $29,000, offset by increases in business development costs of $54,000 and separation costs (including stock option modification costs), net of compensation cost reduction, associated with our former CFO of $11,000.

Foreign Currency Exchange Gain

Foreign currency exchange gain for the three months ended June 30, 2018, was approximately $15,000 compared to $178,000 for the same period a year ago. The change reflects the reduction in cash balance carried in Euro and the currency fluctuation of the Euro in comparison to the U.S. dollar.

Foreign currency exchange gain for the six months ended June 30, 2018, was approximately $10,000 compared to $206,000 for the same period a year ago. The change reflects the reduction in cash balance carried in Euro and the currency fluctuation of the Euro in comparison to the U.S. dollar.

Interest Income

Interest income for the three months ended June 30, 2018, increased 69.2% to approximately $220,000 compared to $130,000 for the same period a year ago. The increase in interest income reflects the higher yield on the Company's investment grade securities, which are classified as held-to-maturity.

Interest income for the six months ended June 30, 2018, increased 65.0% to approximately $406,000 compared to $246,000 for the same period a year ago. The increase in interest income reflects the higher yield on the Company's investment grade securities, which are classified as held-to-maturity.

Net Loss

Net loss for the three months ended June 30, 2018 was approximately $1.6 million compared to $1.3 million for the same period a year ago. The increase in net loss was primarily due to the higher research and development expenses in 2018.

Net loss for the six months ended June 30, 2018 was approximately $3.6 million compared to a net income of $0.7 million for the same period a year ago. Net income in the six months ended June 30, 2017 was primarily due to the receipt of a litigation settlement of $4.4 million.

LIQUIDITY AND CAPITAL RESOURCES

Our primary source of cash has been the cash received from the DuPont Transaction in December 2015, investment income, and funding from our research collaboration agreements. In 2017, the Company's liquidity was further improved with the receipt of a litigation settlement of approximately $4.4 million, net of legal fees and other expenses, and the release of escrowed funds from the DuPont Transaction of approximately $7.4 million. The Company completed its 2016 Stock Repurchase Program in February 2017, and on August 16, 2017, the Board of Directors authorized the 2017 Stock Repurchase Program, under which the Company may repurchase up to $5 million of its outstanding common stock. The Company expects to finance the 2017 Stock Repurchase Program from its existing cash on hand.

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

for general operating activities and research and development expenses. We believe our existing cash position and investments in investment grade securities will be adequate to meet our operational, business, and other liquidity requirements for the next twelve months.

At June 30, 2018, cash and cash equivalents were approximately $3.2 million compared to $5.8 million at December 31, 2017. The carrying value of investment grade securities, including accrued interest at June 30, 2018 was $42.6 million compared to $43.3 million at December 31, 2017.

Net cash used in operating activities for the six months ended June 30, 2018 of approximately $2.4 million resulted from $3.6 million of net loss, offset by share-based compensation expense of $0.3 million, amortization of premium on held-to-maturity securities of $0.5 million, and changes in operating assets and liabilities of $0.4 million.

Net cash provided by operating activities for the six months ended June 30, 2017 of approximately $1.2 million resulted from $0.7 million of net income, share-based compensation expense of $0.5 million, amortization of premium on held-to-maturity security of $0.5 million, and changes in operating assets and liabilities of $0.9 million, offset by upfront collaboration payment of $1.1 million, foreign currency exchange gain of $0.2 million, and amortization of contract losses of $0.1 million.

Net cash provided by investing activities for the six months ended June 30, 2018 was approximately $0.2 million compared to $2.0 million for the same period a year ago. Cash flows provided by investing activities in 2018 and 2017 were primarily related to net proceeds from maturities of investment grade securities.

Net cash used in financing activities for the six months ended June 30, 2018 was approximately $0.4 million compared to $5.7 million for the same period a year ago. Cash flows used in financing activities in 2018 and 2017 were primarily related to repurchases of common stock.

Item 5. Legal proceedings

Professional Liability Lawsuits

The Company is 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 case. Litigation is inherently unpredictable and costly. Any litigation, 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 June 30, 2018, 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 June 30, 2018 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 the matters described in this Quarterly Report for the three and six months ended June 30, 2018 and the "risk factors" included in our December 31, 2017 Annual Report filed with the OTC Markets on March 27, 2018, and our March 31, 2018 Quarterly Report filed with the OTC Markets on May 10, 2018, which are 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 a material adverse effect on 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 that we currently believe are immaterial or unknown to us may also adversely affect our business, operating results or financial performance. Certain statements contained in this Quarterly Report for the three and six months ended June 30, 2018 constitute forward-looking statements. Please refer to the section entitled "Special Cautionary Note Regarding Forward-Looking Statements" appearing on page 3 of this Quarterly Report for important limitations and guidelines regarding reliance on forward-looking statements.

Board of Directors Changes

On January 3, 2018, the Company announced the appointment of Barry Buckland, Ph.D., to its board of directors, effective January 3, 2018.

Science and Technology Committee

On March 14, 2018, our board of directors approved the formation of a Science and Technology Committee to periodically examine management's strategic direction and investments in the Company's biopharmaceutical research and development and technology initiatives. The duties and responsibilities of the Science and Technology Committee are set forth in the Charter of the Science and Technology Committee. A copy of the Charter of the Science and Technology Committee is available on our website located at www.dyadic.com.

Shareholders Approval of Reverse Stock Split

On June 6, 2018 at the annual shareholder meeting, the Company's shareholders approved a proposal to amend Dyadic's Restated Certificate of Incorporation to effect a reverse stock split of the Company's issued and outstanding shares of common stock at a ratio up to 1-for-4 and effective upon a date, in each case, to be determined by the Company's board of directors.

Item 8. Exhibits

None

Item 9. Certifications

Certification

I, Mark A. Emalfarb, certify that:

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

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

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

Dated August 9, 2018

_____/s/ Mark A. Emalfarb_____

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

Certification

I, Ping W. Rawson, certify that:

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

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

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

Dated August 9, 2018

/s/ Ping W. Rawson

By: Ping W. Rawson
Title: Chief Accounting Officer