DYADIC INTERNATIONAL, INC.

A Delaware Corporation

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Jupiter, Florida 33477

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SIC Code: 2860

Federal EIN: 45-0486747

Issuer's Quarterly Report

For the three and nine months ended September 30, 2014

ISSUER'S EQUITY SECURITIES

COMMON STOCK

$0.001 Par Value Per Share
100,000,000 Shares Authorized
34,132,505 Shares Issued and Outstanding as of September 30, 2014
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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Cautionary Note Regarding Forward-Looking Statements

Information (other than historical facts) set forth in this Quarterly Report contains forward-looking statements within the meaning of the Federal Securities Laws, which involve a number of risks and uncertainties that could cause our actual results to differ materially from those reflected in the forward-looking statements. Forward-looking statements generally can be identified by use of the words "expect," "should," "intend," "anticipate," "will," "project," "may," "might," potential" or "continue" and other similar terms or variations of them or similar terminology. Such forward-looking statements are included under Item 4 – "Management's Discussion and Analysis". Dyadic cautions readers that any forward-looking information is not a guarantee of future performance and that actual results could differ materially from those contained in the forward-looking information. Such statements reflect the current views of our management with respect to our operations, results of operations and future financial performance. Forward-looking statements involve a number of risks, uncertainties or other factors within and/or beyond Dyadic's control. These factors include, but are not limited to, our ability to implement our strategic initiatives, our ability to execute and achieve our research and development objectives, our ability to obtain new license agreements, our dependence on our licensees for research and development funding, milestones and royalties for the products and/or processes that utilize licensed rights, our ability to protect our proprietary information, trade secrets and file, maintain and defend our intellectual property, our ability to maintain uninterrupted access to toll manufacturing at the quantities needed and at a competitive cost structure, our ability to hire and maintain, as well as our reliance on qualified employees and professionals, economic, political and market conditions and price fluctuations, government and industry regulation, U.S. and global competition, upgrade financial staffing, implement and monitor internal controls, and comply with financial reporting requirements, and other factors. We caution you that the foregoing list of important factors is not exclusive. The forward-looking statements are based on our beliefs, assumptions and expectations of future performance, taking into account the information currently available to us. These statements are only predictions based upon our current expectations and projections about future events. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward-looking statements. Moreover, we operate in a very competitive and rapidly changing environment. 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 forwardlooking statements we may make. Before investing in our common stock, investors should be aware that the occurrence of the events described under the caption "Risk Factors" in our December 31, 2013 Annual Report filed with OTC Markets on March 31, 2014.

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 forwardlooking 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.

Item 1 The exact name of the issuer and the address and telephone number of the issuer's principal executive offices.

The name of the issuer is Dyadic International, Inc. The address and telephone number of the issuer's principal executive offices are as follow:

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

Item 2 Shares outstanding

As of September 30, 2014, 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 segment of the OTC marketplace. There were no shares of preferred stock outstanding as of the reported period. The trading symbol for Dyadic's common stock assigned by the Financial Industry Regulatory Authority, Inc. is "DYAI."

The CUSIP number for our common stock is 26745T-10-1.

None of Dyadic's common stock has been registered under the Securities Act of 1933, as amended (the "Securities Act") or qualified under any state securities laws, although we are working on plans to register or qualify one, or both classes of our securities. Certain shares of our common stock are currently eligible for resale in the public market pursuant to the exemption from registration offered by Rule 144 under the Securities Act ("Rule 144"). The remaining outstanding shares of our common stock are "restricted securities" within the meaning of Rule 144, and may be eligible for resale in the future.

Common Stock

Dyadic's common stock has a par value of $0.001 per share. The following table shows our common stock share ownership as of September 30, 2014:

		September 30, 2014
(i)	Number of shares authorized	100,000,000
(ii)	Number of shares outstanding	34,043,745
(iii)	Number of shares freely tradable	19,512,656

(iv)	Total number of holders of record	57

There are greater than 100 beneficial shareholders owning at least 100 shares of the Company's Common Stock

Preferred Stock

Dyadic's preferred stock has a par value of $0.0001 per share. The following table shows our Preferred Stock share ownership as of September 30, 2014:

		September 30, 2014
(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 condensed consolidated financial statements

Copies of the unaudited interim condensed consolidated financial statements of Dyadic International, Inc. and Subsidiaries as of September 30, 2014 and for the three and nine month periods ended September 30, 2014 and September 30, 2013, including the Condensed Consolidated Balance Sheet, Condensed Consolidated Statements of Income and Condensed Consolidated Statements of Cash Flows and Notes to the Condensed Consolidated Financial Statements, are attached hereto as Exhibit 3.1 and are hereby incorporated by reference into this Quarterly Report.

The unaudited interim condensed consolidated financial statements have been prepared in accordance with Generally Accepted Accounting Principles in the United States ("U.S. GAAP"). The accompanying unaudited interim condensed consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. These adjustments are of a normal recurring nature. As permitted under U.S. GAAP, certain footnotes or other financial information can be condensed or omitted in the unaudited interim condensed financial statements. These unaudited interim condensed consolidated financial statements should be read in conjunction with the financial statements and related notes included in our Annual Report for the year ended December 31, 2013.

Item 4. Management's discussion and analysis

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our interim condensed consolidated financial statements and related notes included in, or incorporated by reference into, this Quarterly Report. The discussion may contain forward-looking statements based on current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" or in other parts of our Annual Report, which is posted to the OTC Market's website at www.otcmarkets.com. For further description of the Issuer's business, see Note 1 to our Consolidated Financial Statements dated December 31, 2013 and 2012, which are posted to the OTC Markets website entitled Annual Report – 2013 Consolidated Financial Statements (audited) dated March 14, 2014.

Overview

Dyadic International, Inc. is a global biotechnology company based in Jupiter, Florida, that uses its patented and proprietary technologies to conduct research, development and commercial activities for the discovery, development, manufacture and sale of enzymes and other proteins for the bioenergy, bio-based chemical, biopharmaceutical and industrial enzyme industries. Dyadic utilizes an integrated technology platform based on its patented and proprietary

C1 (Myceliopthora thermophila) microorganism, which enables the development and large scale manufacture of low cost enzymes and other proteins for diverse market opportunities. The C1 platform technology can also be used to screen for the discovery of novel genes and proteins. Dyadic uses its Trichoderma and C1 fungal strains in the production of its industrial enzymes. Dyadic manufactures, purchases, and sells liquid and dry enzyme products to global customers for use within the animal feed, pulp and paper, starch and alcohol, food and brewing, textiles and biofuels industries. In addition to the sale of proprietary enzyme products, Dyadic actively pursues licensing arrangements and other commercial opportunities to leverage the value of these technologies by providing its partners and collaborators with the benefits of manufacturing and/or utilizing the enzymes and other proteins which these technologies help produce.

We sell enzyme products to more than 100 industrial customers in approximately 35 countries serving the animal feed, pulp and paper, textile, food and beverage, and biofuel and bio-based chemical end markets. We rely primarily on our direct sales force for distribution of our products and services in the United States and Europe markets and on contracts with exclusive sales agents and distributors for international markets. Direct salespeople are our employees and are paid a salary plus commissions on sales they make within their assigned territories. Contracted sales agents are paid a base rate of compensation plus commissions on sales they make within their assigned territories. We rely on distributors to purchase products and formulations from us and resell our products and services to third parties, either as-is or in combination with their products. We work with small companies as well with large multinational corporations who incorporate our product as part of their formulations and who also re-label our products under their labels.

Strategy

Enzymes for industrial applications represent our oldest and largest business segment. Already a $5 billion global market in 2013, we believe enzymes will continue to replace existing technologies due to the precision that these biocatalysts demonstrate relative to existing chemical approaches. We currently operate a small, but growing, business selling proprietary products including enzymes for the animal feed, pulp and paper, starch and alcohol, food and brewing, and textiles industries. Our Industrial Enzyme Business focuses on leveraging our C1 Platform Technology to enable the development and manufacture of low cost enzymes and other proteins for diverse market opportunities. Our expectation is that growth, coupled with relatively few technology-driven competitors in the market, will allow us and our licensees to achieve significant growth over time.

We are also devoting significant time and resources towards the development of high quality enzyme products for the biofuels and bio-based chemicals industry. Our advanced enzyme technology is a critical element in the conversion of natural fibers into sugars, which are subsequently fermented into ethanol. Moreover, our C1 Platform Technology enables researchers to identify, select and analyze novel enzymes best suited to convert biomass materials into biofuels. Our current product offering, the CMAX product line, is a market leader in both performance and cost. In addition to our marketed CMAX product, our technology is being used in Abengoa's new 25 million gallon advanced biofuel plant in Hugoton, Kansas.

Dyadic is also expanding its biopharmaceutical business through strategic partnerships with companies that we believe have proven experience and ability in the area of new drug therapy commercialization. We believe that our industrially established C1 platform technology cannot only simplify the development process, but also produce a safer product at reduced overall expense.

We expect to generate revenues from these efforts by: (i) collecting R&D revenues from third parties; (ii) entering into collaborative business arrangements, joint ventures or profit sharing arrangements; (iii) earning technology access fees, milestone payments, and royalties; (iv) selling products, whether developed internally through our own distribution channels for both current markets and markets we believe will emerge in the future or for customer-collaborators; (v) spinning-off new commercial entities utilizing our technology platform; and/or (vi) obtaining grants from the United States government, foreign governments or other agencies.

Results of Operations

Nine months ended September 30, 2014 Compared to the Nine months ended September 30, 2013

The following table sets forth the Company's operating information for the nine months ended September 30, 2014 and 2013:

	Nine Months Ended September 30,	
Total Revenue by Product:	2014	2013
Product Related Revenue, Net	$ 7,629,019	$ 7,082,214
License Fee	700,000	5,000,000
Research and Development (R&D)	1,503,721	940,810
Total Revenue	$ 9,832,740	$ 13,023,024

Revenue

Revenue

Total revenue for the nine months decreased $3.2 million to $9.8 million compared to $13.0 million for the same period last year. The decrease in total revenue is primarily due to licensing revenue of $700,000 versus $5.0 million in the first nine months of 2013 reflecting the BASF upfront license fee. The remaining $1.0 million BASF license payment of the total $6.0 million was received in the fourth quarter of 2013. This decrease was partially offset by growth in product related revenues of $547,000, or 8%, and an increase in research and development revenue of $563,000, or 60%, for the nine months ended September 30, 2014.

Net product related revenue for the nine month period increased 8% to $7.6 million from $7.1 million for the same period a year ago. The increase in sales for the period was driven by growth in the animal nutrition, brewing, starch and alcohol markets.

License fee revenue for the nine months decreased $4.3 million primarily due to licensing revenue of $700,000 versus $5.0 million in the first nine months of 2013 reflecting the BASF upfront licensing fee. The $700,000 received in the third quarter of 2014 represents a license payment of $500,000 from Abengoa for the opening of their new facility and a $200,000 payment from BASF for achieving a significant milestone.

Research and development revenue for the nine months increased 60% to $1.5 million compared to $941,000 for the first nine months of 2013. The increase was due to a higher number of externally funded projects performed at our expanded laboratory. Additionally, a number of other projects accounted for on the completed contract basis, met their technological milestones and deliverables.

Gross Profit

Gross profit for the nine months decreased to $3.5 million compared to $6.4 million for the same period a year ago. The decrease is primarily due to reduction in 100% margin of licensing revenue of $4.3 million. Partially offsetting the effect of the decrease in license fee revenues, gross profit of the product related and research and development businesses increased $1.4 million for the nine months ended September 30, 2014. The increase reflects higher fermentation and recovery yields, and lower raw material costs for our enzyme products, and meeting certain project milestones on a number of our research and development projects.

Operating Expenses

General and Administrative Expenses

General and administrative expenses were $4.7 million for the nine months ended September 30, 2014 as compared to $3.5 million for the period last year, reflecting an increase of 33%. Litigation costs are flat year-over-year at $1.2 million. Excluding litigation costs, G&A has increased $1.2 million, or 49%, reflecting staff additions to strengthen our leadership team and related costs for a new Chief Operating Officer, Chief Financial Officer, and Vice President Business Development in Europe of approximately $600,000, SEC Registration and related costs of approximately $300,000 and the impact of a 2013 bad debt recovery of $300,000.

Sales and Marketing

Sales and Marketing expenses for the nine months ended September 30, 2014 rose 32% to $899,000. The increase is due to the addition of a Sales Director in Europe to strengthen our sales leadership team including staff additions and related costs for a new Director of Sales in Europe and a new salesperson in the USA.

Research and Development

Research and Development for the nine month period ending September 30, 2014 was up 29% to $1.6 million. The increase reflects our continued investment in product and strain development, and fermentation optimization to enhance our product pipeline.

Operating Expenses

As a result of the above discussion, overall operating expenses for the nine months ended September 30, 2014 increased 35% to $7.3 million compared to $5.4 million for the same period last year.

Net Income (Loss)

Net loss for the nine months was $4.3 million, or ($0.13) per basic and diluted share, compared to a net income of $121,000, or $0.00 per basic and $0.00 per diluted share, for the same period a year ago.

Financial Position and Cash Flow Analysis

At September 30, 2014, cash and cash equivalents were $3.4 million compared to $8.9 million at December 31, 2013. During the nine months ended September 30, 2014, the Company used approximately $5.5 million in cash and cash equivalents versus generating $4.5 million for the same period in 2013. The use of cash and cash equivalents for the

nine month period ended September 30, 2014 reflects the following funding needs; (i) our operating losses of $2.2 million; (ii) changes in working capital of $2.0 million, primarily an increase in inventory and a reduction in accounts payable; and (iii) litigation costs against our outside former legal counsel of $1.2 million.

Extension of Convertible Subordinated Debt (Subsequent Event)

As reported in our press release on October 30, 2014, the Company entered into agreements with the holders of all of its outstanding 2010 and 2011 8% convertible subordinated notes (the "Convertible Debt") to extend their maturity dates to January 1, 2016. The 2010 and 2011 8% Convertible Debt, represents $6.7 million and may be prepaid by Dyadic at anytime, in whole or in part, after March 31, 2015 with 30 days' notice. The extended Convertible Debt includes a warrant provision in the event Dyadic elects to call the Convertible Debt early, in whole or in part, after March 31, 2015 and prior to the January 1, 2016 maturity date. Should the Convertible Debt holder(s), upon such call notice, elect not to convert their notes into common shares, Dyadic will pay the Convertible Debt holders' their current outstanding Convertible Debt balance, and issue warrants to purchase common stock equal to 25% of the redeemed Convertible Debt balance at $1.48 per common share. If such warrants are issued, the warrants will have a three year term. In addition, in connection with the extension of the 2010 Convertible Debt, the share conversion price has been reduced from $1.82 to $1.48. The share conversion price of the 2011 Convertible Debt remains unchanged. All other terms and conditions of the 2010 and 2011 Convertible Debt remain unchanged.

Cash Flow From Operating Activities

As reflected in our condensed consolidated financial statements, we incurred a loss of approximately $4.3 million and a profit of $120,647 for the nine months ended September 30, 2014 and 2013, respectively. Net cash used in operating activities was approximately $4.5 million for the nine months ended September 30, 2014. Net cash provided by operating activities for the nine months ended September 30, 2013 was $5.4 million. The net cash provided by operating activities in 2013 is a result of the receipt of $5.0 million of proceed from the BASF License Agreement and $1.0 million payment due from Abengoa under its Amended Abengoa License Agreement (see *Revenue,* above*)*. The Abengoa payment was recorded as license fee revenue in the consolidated statement of operations in 2012, yet the license fee was paid out over approximately two years. The $5.0 million BASF upfront fee was recognized and received during the nine month period ended September 30, 2013. The remaining $1.0 million was received in Q4 2013.

From Investing Activities

For the nine months ended September 30, 2014, our net cash used in investing activities was approximately $197,000 as compared to approximately $220,000 for the nine months ended September 30, 2013. This decrease of approximately $32,000 is mainly due to the decrease in our capital expenditures at our research center in The Netherlands which was expanded in late 2013 in support of our new product development initiatives. The expansion of the lab was completed in January 2014.

From Financing Activities

For the nine months ended September 30, 2014, net cash provided by financing activities was $56,000. This amount was received as a repayment of a stock subscription receivable under our 2013 Employee Loan Program (the "Loan Program"), in connection with their exercise of stock options to purchase 20,500 shares of common stock. Amounts borrowed under the Loan Program bear interest at 3% per annum and are payable within 24 months from the date of the loan agreement. The loans are collateralized by the shares of common stock issued in connection with the exercise of the stock options and warrants. At September 30, 2014, advances to employees under the Loan Program were approximately $131,000 and are included in Stockholders' Equity in the September 30, 2014 condensed consolidated balance sheet. During the nine months ended September 30, 2013, our net cash provided by financing activities was approximately $218,000. This amount is primarily due to cash received from proceeds from the exercises of warrants and stock options, granted under our equity plans, with exercise prices ranging from $0.15 to $1.21 per share.

Stockholders Equity and Accumulated Deficit

Our history of operating losses has resulted in an accumulated deficit of approximately $82.8 million and total negative stockholders' equity of approximately $892,000 as of September 30, 2014. Total stockholders' equity was approximately $2.6 million as of December 31, 2013. The decrease of approximately $3.6 million was primarily due to compensation expense on stock option grants offset by the net loss of $4.3 million incurred for the nine months ended September 30, 2014.

Operating Leases

Jupiter, Florida Headquarters

The Company's corporate headquarters are located in Jupiter, Florida. The Company occupies approximately 4,900 square feet with a monthly rental rate and common area maintenance charges of approximately $8,400. The lease expires on December 31, 2015.

Jupiter, Florida Laboratory

The Company leases a laboratory facility in Jupiter, Florida which consists of approximately 3,500 square feet with a monthly rental rate of approximately $4,000. The lease is currently on a month-to-month basis.

The Netherlands Office and Laboratory

Dyadic NL leases office and laboratory space in Wageningen, The Netherlands, which consists of approximately 9,375 square feet with a monthly rental rate of approximately $21,000. The lease expires on December 31, 2018. The lease is secured by Restricted Cash of approximately $159,000 and $200,000 at September 30, 2014 and December 31, 2013, respectively.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Item 5. Legal Proceedings.

Professional Liability Lawsuit

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

On April 14, 2009, the Company amended the complaint (the "Amended Complaint") by naming as additional defendants the Company's former outside legal counsel consisting of the law firms of Greenberg Traurig, LLP, Greenberg Traurig, P.A. (collectively, "Greenberg Traurig"), Jenkens & Gilchrist, P.C. ("Jenkens & Gilchrist") and Bilzin Sumberg Baena Price & Axelrod LLP ("Bilzin Sumberg") as well as attorney Robert I. Schwimmer who previously represented the Company while an attorney at Jenkens & Gilchrist and later at Greenberg Traurig. Jenkens & Gilchrist went out of business in 2007 and is in the process of winding up its business and affairs. The Company also named as defendants the law firm of Moscowitz & Moscowitz, P.A. and its attorneys Norman A. Moscowitz and Jane W. Moscowitz (collectively, the "Moscowitz Defendants") who conducted the investigation and authored the investigative report requested by the Company's Audit Committee following the discovery of alleged improprieties at the Company's Asian subsidiaries. The claims against the Company's former outside legal counsel are for breach of fiduciary duty and professional negligence. In addition to these claims, the Amended Complaint contains a claim of civil conspiracy against Ernst & Young LLP, Greenberg Traurig and Mr. Schwimmer.

The claims against Ernst & Young LLP and Ernst & Young-Hong Kong, L.P. were subsequently stayed in the Circuit Court action and submitted to binding arbitration. A final hearing before the arbitration tribunal was

completed on May 27, 2011. On February 29, 2012, the arbitration tribunal issued a Final Award which found no auditor negligence, denied the Company any recovery against Ernst & Young LLP and Ernst & Young Hong Kong L.P., and further provided that each party shall bear its own attorneys' fees and costs.

On July 11, 2011, defendants Jenkens & Gilchrist, Bilzin Sumberg and the Moscowitz Defendants filed a counterclaim in the Circuit Court against the Company and a Third Party Complaint against its President and Chief Executive Officer, Mark Emalfarb, individually, for abuse of process. The counterclaim and Third Party Complaint filed by Jenkens & Gilchrist and Bilzin Sumberg also included claims for common law indemnity against the Company and Mr. Emalfarb. In addition, Jenkens & Gilchrist made a claim against the Company for breach of the implied covenant of good faith and fair dealing. On July 18, 2011, the Moscowitz Defendants filed a motion for summary judgment which the Circuit Court denied in its entirety. On September 9, 2011, Jenkens & Gilchrist and Bilzin Sumberg amended their counterclaim and Third Party Complaint which dropped their claims for abuse of process but retained their claims for common law indemnity against the Company and Mr. Emalfarb. Bilzin Sumberg also added claims against the Company and Mr. Emalfarb for breach of its retainer agreements and for declaratory relief. Also on September 9, 2011, the Moscowitz Defendants dropped their claims for abuse of process against the Company and Mr. Emalfarb.

On December 8, 2011, the Circuit Court dismissed without prejudice all counterclaims against the Company and all third party claims against Mr. Emalfarb.

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

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

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

On November 26, 2013, the Court entered a Case Management Order. Pursuant to the Order, all pretrial motions and other litigation activities are to be concluded by the end of 2014. The Court ordered mediation is to occur no later than September 30, 2014. The Court has not yet set a trial date for 2015.

On April 9, 2014, the Court amended its Case Management Order by requiring that all summary judgment motions be served on or before April 30, 2014.

The parties to the suit have completed written discovery. With the exception of one witness, depositions of fact witnesses are complete. The parties are presently engaged in deposing opposing expert witnesses.

Claims against the remaining defendants are still pending and we are seeking monetary damages. On September 23, 2014, the court entered orders denying all defense motions for summary judgment that had been heard by the court by that date and granting our motion for partial summary judgment to not allow the defendants to claim a particular affirmative defense to our claims. The court ordered mediation is currently scheduled for November 10th and 11th, 2014. The court has not yet set a trial date for 2015. If the case is not settled, we anticipate it will go to trial in 2015.

Other

In addition to the matters noted above, from time to time, the Company is subject to legal proceedings, asserted claims and investigations in the ordinary course of business, including commercial claims, employment and other matters, which management considers immaterial, individually and in the aggregate.

The Company makes a provision for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed at least quarterly and adjusted to reflect the impact of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular case. Litigation is inherently unpredictable and costly. While the Company believes that it has valid defenses with respect to the legal matters pending against it, protracted litigation and/or an unfavorable resolution of one or more of such proceedings, claims or investigations against the Company could have a material adverse effect on the Company's consolidated financial position, cash flows or results of operations.

Item 6. Defaults Upon Senior Securities

None.

Item 7. Other Information

None.

Item 8. Exhibits

Exhibit 3.1 Unaudited interim condensed consolidated financial statements

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 November 13, 2014

/s/ Mark A. Emalfarb

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

Certification

I, Thomas L. Dubinski, certify that:

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

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

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

Dated November 13, 2014

/s/ Thomas L. Dubinski

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

Certification

I, Michael J. Faby, certify that:

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

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

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

Dated November 13, 2014

/s/ Michael J. Faby

By: Michael J. Faby
Title: Vice President, Finance

Exhibit 3.1 Unaudited interim condensed consolidated financial statements



DYADIC INTERNATIONAL, INC.
AND SUBSIDIARIES

Condensed Consolidated Financial Statements

September 30, 2014

DYADIC INTERNATIONAL, INC. AND SUBSIDIARIES
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September 30, 2014

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DYADIC INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2014 (unaudited)	December 31, 2013
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 3,399,063	$ 8,892,396
Restricted Cash	159,276	200,378
Accounts Receivable, Net	1,885,162	1,677,338
License Fee Receivable	-	110,693
Inventory, Net	3,449,921	2,800,090
Prepaid Expenses and Other Current Assets	213,272	171,601
Total Current Assets	9,106,694	13,852,496
Fixed Assets, Net	527,780	504,781
Intangible Assets, Net	586,787	566,867
Other Assets	35,221	16,173
	$ 10,256,482	$ 14,940,317
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current Liabilities:		
Accounts Payable	$ 1,648,495	$ 2,573,106
Accrued Expenses	655,362	469,681
Accrued Interest Payable	170,875	171,601
Note Payable to Stockholder	1,424,941	-
Deferred Research and Development Obligation	537,715	914,769
Total Current Liabilities	4,437,388	4,129,157
Note Payable to Stockholder	-	1,424,941
Convertible Subordinated Debt	6,710,787	6,818,000
	11,148,175	12,372,098
COMMITMENTS AND CONTINGENCIES		
Stockholders' Equity (Deficit):		
Preferred Stock, $.0001 Par Value: Authorized Shares – 5,000,000; None Issued and Outstanding	-	-
Common Stock, $.001 par value, Authorized Shares – 100,000,000; Issued and Outstanding – 34,132,505 and 34,028,245, Respectively	34,133	34,028
Additional Paid-in Capital	81,960,256	81,209,585
Stock Subscriptions Receivable	(131,375)	(182,838)
Stock to be Issued	61,062	27,769
Accumulated Deficit	(82,815,769)	(78,520,325)
	(891,693)	2,568,219
	$ 10,256,482	$ 14,940,317

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

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

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2014	2013	2014	2013
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue:				
Product Related Revenue, Net	$ 7,629,019	$ 7,082,214	$ 2,712,295	$ 3,244,856
License Fee Revenue	700,000	5,000,000	700,000	-
Research and Development Revenue	1,503,721	940,810	373,730	215,562
Total Revenue	9,832,740	13,023,024	3,786,025	3,460,418
Cost of Goods Sold:	6,373,378	6,667,064	2,235,242	2,769,066
Gross Profit	3,459,362	6,355,960	1,550,783	691,352
Expenses:				
General and Administrative	4,692,844	3,532,323	1,435,528	1,421,138
Sales and Marketing	899,090	660,798	316,120	241,186
Research and Development	1,585,721	1,232,114	560,110	368,062
Gain on Sale of Fixed Assets	(19,755)	-	-	-
Foreign Currency Exchange Loss (Gain), Net	108,234	(47,310)	120,234	(80,360)
Total Expenses	7,266,134	5,377,925	2,431,992	1,950,026
Income (Loss) from Operations	(3,806,772)	978,035	(881,209)	(1,258,674)
Other Income (Expense)				
Interest Income	23,052	6,647	6,519	3,631
Interest Expense	(511,724)	(512,892)	(172,902)	(173,251)
Gain (Loss) on Settlement of Litigation	-	(313,143)	-	(313,143)
Total Other Income (Expense)	(488,672)	(819,388)	(166,383)	(482,763)
Income (Loss) Before Provision for Income Taxes	(4,295,444)	158,647	(1,047,592)	(1,741,437)
Provision for Income Taxes	-	(38,000)	-	-
Net Income (Loss)	$ (4,295,444)	$ 120,647	$ (1,047,592)	$ (1,741,437)
Net Income (Loss) per Common Share				
Basic	$ (0.13)	$ 0.00	$ (0.03)	$ (0.05)
Diluted	$ (0.13)	$ 0.00	$ (0.03)	$ (0.05)
Weighted Average Common Shares Used in Calculating Net Income (Loss) Per Share:				
Basic	34,051,071	32,507,980	34,056,410	33,240,745
Diluted	34,051,071	34,019,670	34,056,410	33,240,745

DYADIC INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)

	Common Stock		Additional	Stock	Stock to Be	Accumulated	
	Shares	Amount	Paid In Capital	Subscriptions	Issued	Deficit	Total
Balance at December 31, 2013	34,028,245	$ 34,028	$ 81,209,585	$ (182,838)	$ 27,769	$ (78,520,325)	$ 2,568,219
Amortization of Deferred Compensation on Employee and Nonemployee Stock Options	-	-	639,288	-	-	-	639,288
Issuance of Stock for Subordinated Debt Conversion	83,760	84	107,129	-	-	-	107,213
Issuance of Stock for Stock Options Exercised	20,500	21	4,254	(3,125)	-	-	1,150
Stock to Be Issued for Restricted Stock Units	-	-	-	-	33,293	-	33,293
Proceeds from Repayment of Stock Subscriptions	-	-	-	54,588	-	-	54,588
Net (Loss)	-	-	-	-	-	(4,295,444)	(4,295,444)
Balance at September 31, 2014 (Unaudited)	34,132,505	$ 34,133	$ 81,960,256	$ (131,375)	$ 61,062	$ (82,815,769)	$ (891,693)

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

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

	Nine Months Ended September 30,	
	2014	2013
	(Unaudited)	(Unaudited)
Operating Activities		
Net Income (Loss)	$ (4,295,444)	$ 120,647
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided By (Used In) Operating Activities:		
Depreciation and Amortization of Fixed Assets	168,162	145,404
Amortization of Intangible and Other Assets	46,524	38,181
Gain on Sale of Fixed Assets	(19,755)	-
Increase (Decrease) in Allowance for Doubtful Accounts	30,072	(315,567)
Increase in Inventory Reserve	7,652	80,000
Compensation Expense on Stock Option Grants	672,581	562,375
Changes in Operating Assets and Liabilities:		
Accounts Receivable	(237,896)	(312,015)
License Fee Receivable	110,693	2,708,750
Inventory	(657,483)	1,006,326
Prepaid Expenses and Other Current Assets	(60,719)	53,924
Accounts Payable	(924,611)	92,769
Accrued Expenses	185,681	373,129
Accrued Interest Payable	(726)	169,856
Income Taxes Payable	-	38,000
Deferred Research and Development Obligation	(377,054)	(252,612)
Net Cash Provided By (Used In) Operating Activities	(5,352,323)	4,509,167
Investing Activities		
Purchases of Fixed Assets	(191,161)	(147,986)
Proceeds from the Sale of Fixed Assets	19,755	-
Cost of Patents	(66,444)	(68,013)
Restricted Cash	41,102	(4,441)
Net Cash (Used In) Investing Activities	(196,748)	(220,440)
Financing Activities		
Proceeds from Warrant Exercises	-	159,044
Proceeds from Stock Option Exercises	1,150	58,500
Proceeds from Repayment of Stock Subscriptions Receivable	54,588	-
Net Cash Provided by Financing Activities	55,738	217,544
Net Increase (Decrease) in Cash and Cash Equivalents	(5,493,333)	4,506,271
Cash and Cash Equivalents at Beginning of Period	8,892,396	3,990,062
Cash and Cash Equivalents at End of Period	$ 3,399,063	$ 8,496,333
Supplemental Cash Flow Information:		
Cash Paid for Interest	$ 509,208	$ 340,409
Non-Cash Item:		
Conversion of Convertible Debt into Shares of Common Stock	$ 107,213	$ 182,000
Non-Cash Advances to Employees for Stock Option and Stock Warrant Exercises	$ 3,125	$ 206,980

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

Note 1: Basis of Presentation

General

The accompanying unaudited interim condensed consolidated financial statements for Dyadic International, Inc. and Subsidiaries (collectively, "Dyadic" or the "Company") have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial reporting. Accordingly, certain information and footnote disclosures normally included in annual consolidated financial statements have been condensed or omitted. In the opinion of management, the accompanying unaudited interim condensed consolidated financial statements reflect all adjustments (consisting of only normal recurring adjustments and the elimination of intra-entity accounts) considered necessary for a fair statement of all periods presented. The results of Dyadic's operations for any interim periods are not necessarily indicative of the results of operations for any other interim period or for a full fiscal year. These unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes for the year ended December 31, 2013.

Liquidity

As of September 30, 2014, the Company has liabilities that exceed its assets and cash flow deficiencies. In order to address these indicators, the Company's management is exploring several value-creating transactions, including, but not limited to, licensing its C1 technologies to new collaborators, expanding applicable technical or geographical constraints, raising additional debt or equity financing, and extending the maturity dates of its note payable to stockholder. As discussed in Note 10, the maturity date of the Company's convertible subordinated debt, which amounted to approximately $6.7 million at September 30, 2014, was extended to January 1, 2016 with certain provisions. In addition, the Company plans to further reduce its professional fee expenditures and further draw down inventory, targeting a $500,000 reduction from the September 30, 2014 inventory levels.

However, there is no assurance that the Company will be successful in obtaining the necessary funding to meet its business objectives or reduce its operating costs to a level sufficient to provide positive cash flow. In addition, the Company's ability to extend the maturity dates of its note payable to stockholder cannot be assured and represents a future unknown contingency. The financial statements do not include any adjustments to reflect future effects on the recoverability and classification of assets or amounts and classification of liabilities that may result if the Company's plans are unsuccessful.

Net Income (Loss) Per Common Share

Basic income (loss) per share excludes any dilution. It is based upon the weighted average number of common shares outstanding during the period. Diluted income per share includes the potential dilution that would occur if securities or other contracts to issue common stock were exercised or converted into common stock. During both of the three and nine months periods ended September 30, 2014, 8,562,179 common stock equivalents related to stock options and convertible debt were not included in computing diluted earnings per share because their effects were anti-dilutive.

Note 1: Basis of Presentation (continued)

Research and Development Revenue Recognition

The Company applies a proportional-performance model using the percentage-of-completion method of revenue recognition associated with activities performed under certain research and development agreements. Since the expected cost to perform the activities can be reasonably estimated, the Company believes a proportional-performance methodology of revenue recognition is appropriate. Under this method, revenue in any period is recognized as a percentage of the total actual cost expended relative to the total estimated costs required to satisfy the performance obligations under the research and development arrangements. Revenue recognized is limited to the amounts that are non-refundable and that the other party to the agreement is contractually obligated to pay to the Company. A change in the period of time expected to complete the activities is accounted for as a change in estimate on a prospective basis.

Deferred Research and Development Obligation

The deferred research and development obligation represents payments received or receivable for certain research and development activities which are deferred until revenue can be recognized under the Company's revenue recognition policy. Deferred revenue is classified as current if management believes the Company will be able to recognize the deferred amount as revenue within 12 months of the balance sheet date. As of September 30, 2014 and December 31, 2013, the deferred research and development obligation totaled approximately $538,000 and $915,000, respectively.

Multiple Deliverable Arrangements Revenue Recognition

Revenues derived from license agreements typically consist of multiple deliverables including upfront fees, milestone payments, research and development revenues and/or royalties. The Company evaluates multiple deliverable arrangements contained in its collaboration and license agreements to determine whether the delivered elements that are the obligation of the Company have value to other parties to the agreement on a stand-alone basis and whether objective reliable evidence of fair value of the undelivered items exists. Deliverables that meet these criteria are considered a separate unit of accounting. Deliverables that do not meet these criteria are combined and accounted for as a single unit of accounting. The appropriate recognition of revenue is then applied to each unit of accounting. The Company recognizes revenue based on the terms of each respective license agreement. Upfront and milestone payments received are recognized as revenue when products are delivered, services rendered over the requisite service period and/or performance criteria are met. The Company recognized milestone payments of $700,000 during the three and nine months ended September 30, 2014, which are included in license fee revenue in the condensed consolidated statements of operations. For the nine month ended September 30, 2013, the Company recognized license fee revenue of $5,000,000 from the BASF contract.

The Company recognizes milestone payments when earned, as evidenced by written acknowledgement from the collaborator, provided that (i) the milestone event is substantive and its achievability was not reasonably assured at the inception of the agreement, (ii) the milestone represents the culmination of an earnings process, (iii) the milestone payment is non-refundable and (iv) the Company's past research and development services, as well as its ongoing commitment to provide research and development services under the collaboration, are charged at fees that are comparable to the fees that the Company customarily charges for similar research and development services.

Note 1: Basis of Presentation (Continued)

Multiple Deliverable Arrangements Revenue Recognition (Continued)

On May 6, 2013, the Company entered into a non-exclusive worldwide research, development and license agreement with BASF SE ("BASF"). Under the terms of the agreement, BASF will be able to use Dyadic's patented and proprietary C1 Platform Technology to develop, produce, distribute and sell industrial enzymes in certain fields for a variety of applications. BASF will fund research and development at Dyadic's research lab in The Netherlands. In addition to this funding, BASF agreed to pay Dyadic a non-refundable upfront license fee of $6,000,000, as well as certain research and commercial milestone fees and royalties upon commercialization. On January 6, 2014, the Company received approximately $111,000 of the remaining upfront license fee.

Recent Accounting Pronouncements

In May 2014, amended guidance was issued to clarify the principles used to recognize revenue for all entities. The guidance is based on the principle that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard also requires more detailed disclosures and provides additional guidance for transactions that were not comprehensively addressed in the prior accounting guidance. This guidance must be applied using one of two retrospective application methods and will be effective for the Company's interim and annual reporting periods beginning after December 15, 2016. Early adoption is not permitted. The Company is currently evaluating the impact of the adoption of this newly issued guidance on its consolidated financial statements.

In August 2014, guidance was issued requiring management to evaluate, at each annual and interim reporting period, whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date the financial statements are issued and provide related disclosures. This guidance will be effective for the Company's annual reporting period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early adoption is permitted. The Company is currently evaluating the impact of the adoption of this newly issued guidance on its consolidated financial statements.

Reclassifications

Certain amounts previously reported have been reclassified to conform to the 2014 presentation.

Note 2: Accounts Receivable

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

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

Note 2: Accounts Receivable (Continued)

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

Accounts receivable consisted of the following:

	September 30, 2014	December 31, 2013
	(Unaudited)	
Accounts receivable	$ 1,949,544	$ 1,711,648
Less: allowance for doubtful accounts	(64,382)	(34,310)
	$ 1,885,162	$ 1,677,338

Note 3: Inventory

Inventory consists of raw materials and finished goods including industrial enzymes used in the industrial, chemical, and agricultural markets, and are stated at the lower of cost or market using the average cost method. The value of finished goods is comprised of raw materials and manufacturing costs, substantially all of which are incurred pursuant to agreements with independent manufacturers. Provisions have been made to reduce excess or obsolete inventory to net realizable value.

Inventory consisted of the following:

	September 30, 2014	December 31, 2013
	(Unaudited)	
Finished goods	$ 3,671,573	$ 3,014,090
Less: reserve for obsolescence	(221,652)	(214,000)
	$ 3,449,921	$ 2,800,090

Note 4: Notes Payable and Subsequent Events

Note Payable to Stockholder

The Amended and Restated Note dated November 14, 2008 (the "Note") payable to the Mark A. Emalfarb Trust under agreement dated October 1, 1987, as amended (the "MAE Trust"), matured on January 1, 2009. On January 12, 2009, the Company repaid $1.0 million of principal of the Note leaving an outstanding principal amount of approximately $1.4 million. As of January 1, 2010, the MAE Trust and the Company agreed to reduce the interest rate on the outstanding principal balance of the Note from 14% to 9.5% per annum. On October 11, 2013, the maturity date of the Note was extended to January 1, 2015. All other provisions remain unchanged. Pursuant to a divorce decree dated March 18, 2014, the $1.4 million note was transferred to Lisa K. Emalfarb, a stockholder, on April 1, 2014.

Note 4: Notes Payable and Subsequent Events *(Continued)*

Note Payable to Stockholder (Continued)

Under certain conditions, Mr. Emalfarb has the right to assume the Note at maturity should Lisa K. Emalfarb be unwilling or unable to extend the maturity date of the Note, if requested by the Company.

Interest expense on the Note amounted to approximately $34,000 and $101,000 for both the three and nine months ended September 30, 2014 and 2013, respectively.

Convertible Subordinated Debt

On August 23, 2010, the Company completed the private placement of $4,000,000 aggregate principal of convertible subordinated secured promissory notes (the "2010 Notes") with ten investors. The 2010 Notes pay interest quarterly at 8% per annum and are convertible at the holder's option after January 1, 2011 into unregistered shares of the Company's common stock at a conversion price of $1.82 per share. The Company will not effect any conversion of the 2010 Notes, to the extent that after giving effect to such conversion, any holder would beneficially own in excess of 4.9% of the Company's outstanding common stock (the "Beneficial Ownership Limitation"). The Beneficial Ownership Limitation may be waived by the holder upon not less than 61 days prior notice.

The 2010 Notes are subordinated to the Note and collateralized by the assets of the Company. Effective October 14, 2014, the maturity date of the 2010 Notes was extended to January 1, 2016 *(Note 10)*.

One of the Company's third party note holders converted $182,000 of the 2010 Notes during the nine months ended September 30, 2013 into an aggregate of 100,000 shares of the Company's common stock at a conversion price of $1.82 per share. As a result of this conversion, the outstanding principal balance of the 2010 Notes was $3,818,000 at September 30, 2014 *(Note 6)*.

In October 2011, the Company completed the private placement of $3,000,000 aggregate principal of convertible subordinated secured promissory notes (the "2011 Notes") with five investors. The 2011 Notes pay interest quarterly at 8% per annum and are convertible at the holder's option into unregistered shares of the Company's common stock at a conversion price equal to $1.28 per share. The Company will not effect any conversion of the 2011 Notes, to the extent that after giving effect to such conversion, any holder would beneficially own in excess of 4.9% of the Company's outstanding common stock. The Beneficial Ownership Limitation may be waived by the holder upon not less than 61 days prior notice.

The 2011 Notes are subordinated to the Note and the 2010 Notes and collateralized by the assets of the Company. Effective October 14, 2014, the maturity date of the 2011 Notes was extended to January 1, 2016 *(Note 10)*.

One of the Company's third party note holders converted $107,213 of the 2011 Notes during the nine months ended September 30, 2014 into an aggregate of 83,760 shares of the Company's common stock at a conversion price of $1.28 per share. As a result of this conversion, the outstanding principal balance of the 2011 Notes was $2,892,787 at September 30, 2014 *(Note 6)*.

Note 4: Notes Payable and Subsequent Events *(Continued)*

Convertible Subordinated Debt (Continued)

Approximately $1,900,000 of the 2010 Notes and 2011 Notes are held by four related party interests which includes members of management and the Board of Directors, as well as another related party. Interest expense on the convertible subordinated debt for the three months ended September 30, 2014 and 2013, was approximately $136,000. Interest expense on the convertible debt for the nine months ended September 30, 2014 and 2013, was approximately $408,000 and $410,000, respectively.

Note 5: Commitments and Contingencies

Manufacturing Commitment

The Company manufactures its enzymes with a third party manufacturer which the Company believes is sufficient to meet its current needs. In order to grow its business, the Company will require additional manufacturing capacity. There is no assurance that the Company will be able to maintain its current manufacturing capacity or be able to secure additional capacity on acceptable terms and conditions as and when needed by the Company. Any interruption in or failure to secure such manufacturing capacity could have a material adverse effect on the Company's results of operations.

Litigation, Claims and Assessments

Pending Actions

Professional Liability Lawsuit

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

On April 14, 2009, the Company amended the complaint (the "Amended Complaint") by naming as additional defendants the Company's former outside legal counsel consisting of the law firms of Greenberg Traurig, LLP, Greenberg Traurig, P.A. (collectively, "Greenberg Traurig"), Jenkens & Gilchrist, P.C. ("Jenkens & Gilchrist") and Bilzin Sumberg Baena Price & Axelrod LLP ("Bilzin Sumberg") as well as attorney Robert I. Schwimmer who previously represented the Company while an attorney at Jenkens & Gilchrist and later at Greenberg Traurig. Jenkens & Gilchrist went out of business in 2007 and is in the process of winding up its business and affairs. The Company also named as defendants the law firm of Moscowitz & Moscowitz, P.A. and its attorneys Norman A. Moscowitz and Jane W. Moscowitz (collectively, the "Moscowitz Defendants") who conducted the investigation and authored the investigative report requested by the Company's Audit Committee following the discovery of alleged improprieties at the Company's Asian subsidiaries. The claims against the Company's former outside legal counsel are for breach of fiduciary duty and professional negligence. In addition to these claims, the Amended Complaint contains a claim of civil conspiracy against Ernst & Young LLP, Greenberg Traurig and Mr. Schwimmer.

Note 5: Commitments and Contingencies (Continued)

Litigation, Claims and Assessments (Continued)

Pending Actions (Continued)

Professional Liability Lawsuit (Continued)

The claims against Ernst & Young LLP and Ernst & Young-Hong Kong, L.P. were subsequently stayed in the Circuit Court action and submitted to binding arbitration. A final hearing before the arbitration tribunal was completed on May 27, 2011. On February 29, 2012, the arbitration tribunal issued a Final Award which found no auditor negligence, denied the Company any recovery against Ernst & Young LLP and Ernst & Young Hong Kong L.P., and further provided that each party shall bear its own attorneys' fees and costs.

On July 11, 2011, defendants Jenkens & Gilchrist, Bilzin Sumberg and the Moscowitz Defendants filed a counterclaim in the Circuit Court against the Company and a Third Party Complaint against its President and Chief Executive Officer, Mark Emalfarb, individually, for abuse of process. The counterclaim and Third Party Complaint filed by Jenkens & Gilchrist and Bilzin Sumberg also included claims for common law indemnity against the Company and Mr. Emalfarb. In addition, Jenkens & Gilchrist made a claim against the Company for breach of the implied covenant of good faith and fair dealing. On July 18, 2011, the Moscowitz Defendants filed a motion for summary judgment which the Circuit Court denied in its entirety. On September 9, 2011, Jenkens & Gilchrist and Bilzin Sumberg amended their counterclaim and Third Party Complaint which dropped their claims for abuse of process but retained their claims for common law indemnity against the Company and Mr. Emalfarb. Bilzin Sumberg also added claims against the Company and Mr. Emalfarb for breach of its retainer agreements and for declaratory relief. Also on September 9, 2011, the Moscowitz Defendants dropped their claims for abuse of process against the Company and Mr. Emalfarb.

On December 8, 2011, the Circuit Court dismissed without prejudice all counterclaims against the Company and all third party claims against Mr. Emalfarb.

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

On August 8, 2012, the Company, Jenkens & Gilchrist and Mr. Schwimmer entered into a Settlement Agreement and General Releases (the "J&G Settlement Agreement") whereby Jenkens & Gilchrist paid the Company $525,000 for the mutual release and discharge of (1) all causes of action between the Company and Jenkens & Gilchrist, and (2) causes of action between the Company and Mr. Schwimmer including, but not limited to, those in the professional liability lawsuit, but only those which occurred while Mr. Schwimmer served as an attorney at Jenkens & Gilchrist and not while he served as an attorney at Greenberg Traurig or any other time.

Pursuant to the J&G Settlement Agreement, the Company, Jenkens & Gilchrist and Mr. Schwimmer have filed a Stipulation of Settlement with the Court to enforce the terms of the J&G Settlement Agreement including, but not limited to, the dismissal of Counts I and II of the Second Amended Complaint against Jenkens & Gilchrist and Mr. Schwimmer with prejudice.

Note 5: Commitments and Contingencies (Continued)

Litigation, Claims and Assessments (Continued)

Pending Actions (Continued)

Professional Liability Lawsuit (Continued)

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

On November 26, 2013, the Court entered a Case Management Order. Pursuant to the Order, all pretrial motions and other litigation activities are to be concluded by the end of 2014.

On April 9, 2014, the Court amended its Case Management Order by requiring that all summary judgment motions be served on or before April 30, 2014.

The parties to the suit have completed written discovery. With the exception of one witness, depositions of fact witnesses are complete. The parties are presently engaged in deposing opposing expert witnesses.

Claims against the remaining defendants are still pending and we are seeking monetary damages. On September 23, 2014, the Court entered orders denying all defense motions for summary judgment that had been heard by the Court by that date and granting the Company's motion for partial summary judgment to not allow the defendants to claim a particular affirmative defense to the Company's claims. The Court ordered mediation is currently scheduled for November 10th and 11th, 2014. The Court has not yet set a trial date for 2015. If the case is not settled, the Company anticipates this matter will go to trial in 2015.

Other

In addition to the matters noted above, from time to time, the Company is subject to legal proceedings, asserted claims and investigations in the ordinary course of business, including commercial claims, employment and other matters, which management considers immaterial, individually and in the aggregate.

The Company makes a provision for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed at least quarterly and adjusted to reflect the impact of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular case. Litigation is inherently unpredictable and costly. While the Company believes that it has valid defenses with respect to the legal matters pending against it, protracted litigation and/or an unfavorable resolution of one or more of such proceedings, claims or investigations against the Company could have a material adverse effect on the Company's consolidated financial position, cash flows or results of operations.

Note 6: Common Stock

Issuances of Common Stock

During the nine months ended September 30, 2014, stock options to purchase 20,500 shares of common stock were exercised at exercise prices ranging from $0.15 to $0.23 per share. Employees exercised 15,500 options under the Company's 2013 Employee Loan Program (the Loan Program). The Company received $1,150 in cash during the nine months ended September 30, 2014 for additional options exercised.

As of September 30, 2014, there were no outstanding warrants to purchase any shares of common stock. At September 30, 2014, 12,500 shares of common stock from warrant exercises had not yet been issued.

During the nine months ended September 30, 2014, the Company advanced certain employees $3,125 under the Loan Program, in connection with their exercise of stock options to purchase 15,500 shares of common stock. In addition, $54,588 of amounts previously advanced under the Loan Program was repaid. Amounts borrowed under the Loan Program bear interest at 3% per annum and are payable within 24 months from the date of the loan agreement. The loans are collateralized by the shares of common stock issued in connection with the exercise of the stock options and warrants. As of September 30, 2014 and December 31, 2013, advances to employees under the Loan Program were approximately $131,000 and $183,000, respectively, and are included in stockholders' equity in the accompanying condensed consolidated balance sheets.

Conversion of Convertible Subordinated Debt

A third party debt holder converted a portion of their 2010 Notes during the nine months ended September 30, 2013 into an aggregate of 100,000 shares of common stock at a conversion price of $1.82. During the nine months ended September 30, 2014, this third party debt holder converted a portion of their 2011 Notes in an aggregate of 83,760 shares of common stock at a conversion price of $1.28.

Note 7: Share-Based Compensation

On March 3, 2014, the Company granted to its employees and non-employee directors stock options to purchase 310,000 shares of the Company's common stock at an exercise price of $1.76 per share. The stock options vest over four years and expire on March 2, 2024. The fair market value of such stock options was $1.24 per stock option based on the Black-Scholes valuation model. Assumptions used in the Black-Scholes valuation model for options granted were as follows:

Average Risk-Free Interest Rate	2.60%
Dividend Yield	0.00%
Average Volatility Factor	78.412%
Average Option Life	6.5 years

On April 14, 2014, the Company granted to its employees stock options to purchase 75,000 shares of the Company's common stock at exercise prices ranging from $1.55 to $1.71 per share. The stock options vest over four years and expire on various dates through April 13, 2024. The fair market value of such stock options was $1.10 and $1.09 per stock option based on the Black-Scholes valuation model.

Note 7: Share-Based Compensation (Continued)

Assumptions used in the Black-Scholes valuation model for options granted were as follows:

Average Risk-Free Interest Rate	2.65%
Dividend Yield	0.00%
Average Volatility Factor	78.027%
Average Option Life	5-6.5 years

On April 24, 2014, the Company granted to an employee stock options to purchase 50,000 shares of the Company's common stock at an exercise price of $1.53 per share. The stock options vest over four years and expire on April 24, 2024. The fair market value of such stock options was $1.08 per stock option based on the Black-Scholes valuation model. Assumptions used in the Black-Scholes valuation model for options granted were as follows:

Average Risk-Free Interest Rate	2.70%
Dividend Yield	0.00%
Average Volatility Factor	77.78%
Average Option Life	6.5 years

On May 1, 2014, the Company granted to a consultant options to purchase 100,000 shares of the Company's common stock at an exercise price of $1.41 per share. The stock options vest over four years and expire on May 1, 2024. The fair market value of such stock options was $0.99 per stock option based on the Black-Scholes valuation model. Assumptions used in the Black-Scholes valuation model for options granted were as follows:

Average Risk-Free Interest Rate	2.63%
Dividend Yield	0.00%
Average Volatility Factor	77.794%
Average Option Life	6.5 years

On June 12, 2014, the Company granted to its non-employee director stock options to purchase 30,000 shares of the Company's common stock at an exercise price of $1.36 per share. The stock options vest over four years and expire on September 11, 2024. The fair market value of such stock options was $0.95 per stock option based on the Black-Scholes valuation model. Assumptions used in the Black-Scholes valuation model for options granted were as follows:

Average Risk-Free Interest Rate	2.58%
Dividend Yield	0.00%
Average Volatility Factor	77.385%
Average Option Life	6.5 years

On July 9, 2014, the Company granted to an advisor stock options to purchase 60,000 shares of the Company's common stock at an exercise price of $1.66 per share. The stock options vest over twelve months and expire on July 8, 2024. The fair market value of such stock options was $1.16 per stock option based on the Black-Scholes valuation model.

Note 7: Share-Based Compensation (Continued)

Assumptions used in the Black-Scholes valuation model for options granted were as follows:

Average Risk-Free Interest Rate	2.57%
Dividend Yield	0.00%
Average Volatility Factor	77.006%
Average Option Life	6.5 years

On August 1, 2014, the Company granted to an employee stock options to purchase 200,000 shares of the Company's common stock at an exercise price of $1.66 per share. The stock options vest over four years and expire on July 31, 2024. The fair market value of such stock options was $1.16 per stock option based on the Black-Scholes valuation model. Assumptions used in the Black-Scholes valuation model for options granted were as follows:

Average Risk-Free Interest Rate	2.52%
Dividend Yield	0.00%
Average Volatility Factor	76.484%
Average Option Life	6.5 years

No stock options expired or were cancelled during the nine months ended September 30, 2014. There were 325,000 stock options that expired or were cancelled during the nine months ended September 30, 2013. As of September 30, 2014, there were stock options outstanding under the Company's equity plans to purchase 4,113,625 shares of common stock.

On May 6, 2013, the Company granted 69,000 Restricted Stock Units ("RSU's") to an officer pursuant to the Company's 2011 Equity Incentive Award Plan. The value of the award per share was $1.93. The RSU's vest in equal monthly amounts over a three year period. During the three and nine month periods ended September 30, 2014, the Company recognized approximately $11,000 and $33,000, respectively, in non-cash share-based compensation expense related to these RSU's. The Company will recognize approximately $52,000 in additional non-cash share-based compensation expense related to the RSU's over the remaining vesting period.

The Company recognized non-cash share-based compensation expense for its share-based awards of approximately $277,000 and $244,000 for the three months ended September 30, 2014 and 2013, respectively, and approximately $673,000 and $562,000 for the nine months ended September 30, 2014 and 2013, respectively. These charges had no impact on the Company's reported cash flows.

Total non-cash share-based compensation expense was allocated among the following expense categories:

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2014	2013	2014	2013
General and administrative	$ 527,816	$ 369,009	$ 226,400	178,080
Research and development	26,556	74,844	8,853	24,948
Cost of goods sold	45,988	56,579	15,545	18,813
Sales and marketing	72,221	61,943	26,662	21,907
	$ 672,581	$ 562,375	$ 277,460	$ 243,748

Note 8: Income Taxes

As of September 30, 2014, the Company had significant net operating loss carryforwards remaining that expire beginning in 2022. The Company has determined that a full valuation allowance against its net deferred taxes is necessary as of September 30, 2014.

The Company is subject to income taxes in the U.S. federal jurisdiction, various state jurisdictions and certain other international jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. The Company is not subject to U.S. federal, state and local tax examinations by tax authorities for the years before 2010.

If the Company were to subsequently record an unrecognized tax benefit, associated penalties and tax related interest expense would be reported as a component of income tax expense.

The provision for income taxes for both the three and nine month periods ended September 30, 2013 was calculated based on the estimated annual effective rate for the full 2013 calendar year, adjusted for an income tax benefit from the expected utilization of net operating loss carryforwards.

Note 9: Segment Data Information

Summarized financial information for the Company's segments are as follows:

	Nine Months Ended September 30, 2014			
	U.S. Operating Segment	Netherlands Operating Segment	Eliminations	Total
Net Revenue	$ 8,329,019	$ 3,569,518	$ (2,065,797)	$ 9,832,740
Income (Loss) from Operations	(4,577,685)	770,913	-	(3,806,722)
Interest Income	21,695	1,357	-	23,052
Interest Expense	(511,724)	-	-	(511,724)
Share-Based Compensation	(605,334)	(67,247)	-	(672,581)
Capital Expenditures	(24,273)	(166,888)	-	(191,161)
Depreciation and Amortization	(61,514)	(153,172)	-	(214,686)
Total Assets	8,843,391	1,413,091	-	10,256,482

	Nine Months Ended September 30, 2013			
	U.S. Operating Segment	Netherlands Operating Segment	Eliminations	Total
Net Revenue	$ 12,082,214	$ 1,653,608	$ (712,797)	$ 13,023,024
Income (Loss) from Operations	1,310,134	(332,099)	-	978,035
Interest Income	4,541	2,106	-	6,647
Interest Expense	(512,892)	-	-	(512,892)
Share-Based Compensation	(446,241)	(116,134)	-	(562,375)
Depreciation and Amortization	(60,304)	(123,281)	-	(183,585)
Capital Expenditures	-	(147,986)	-	(147,986)
Total Assets	13,457,050	858,446	-	14,315,496

Note 9: Segment Data Information (Continued)

	Three Months Ended September 30, 2014			
	U.S. Operating Segment	Netherlands Operating Segment	Eliminations	Total
Net Revenue	$ 3,412,295	$ 1,063,726	$ (689,996)	$ 3,786,025
Income (Loss) from Operations	(972,225)	91,016	-	(881,209)
Interest Income	6,135	384	-	6,519
Interest Expense	(172,902)	-	-	(172,902)
Share-Based Compensation	(250,239)	(27,221)	-	(277,460)
Capital Expenditures	(21,069)	(3,242)	-	(24,311)
Depreciation and Amortization	(18,149)	(51,205)	-	(69,354)

	Three Months Ended September 30, 2013			
	U.S. Operating Segment	Netherlands Operating Segment	Eliminations	Total
Net Revenue	$ 3,244,856	$ 512,870	$ (297,308)	$ 3,460,418
(Loss) from Operations	(1,185,449)	(73,225)	-	(1,258,674)
Interest Income	3,037	594	-	3,631
Interest Expense	(173,251)	-	-	(173,251)
Share-Based Compensation	(208,042)	(38,706)	-	(243,748)
Capital Expenditures	-	(47,909)	-	(47,909)
Depreciation and Amortization	(20,436)	(42,216)	-	(62,652)

Note 10: Subsequent Events

During October 2014, the maturity date of the 2010 and 2011 Notes was extended to January 1, 2016. Consequently, the outstanding principal balance of the 2010 and 2011 Notes has been reflected as a long-term liability in the accompanying September 30, 2014 consolidated balance sheet.

In connection with these maturity date extensions, the conversion price of the 2010 Notes was reduced to $1.48 per share, which represented the average trading price of the Company's common stock on the effective date of the agreement. In addition, the Company may upon 30 days prior written notice, prepay any or all of such notes, in whole or in part, without penalty, but is subject to a provision whereby the Company would be obligated to grant each note holder 25% warrant coverage at $1.48. If issued, the warrants would have a three year life.

The Company has evaluated these unaudited condensed consolidated financial statements for subsequent events through November 12, 2014, the date of issuance of these unaudited condensed consolidated financial statements. Except as discussed above, management is not aware of any material events that have occurred subsequent to the balance sheet date that would require adjustment to, or disclosure in the unaudited condensed consolidated financial statements.