DYADIC INTERNATIONAL, INC.
AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2014 and 2013

DYADIC INTERNATIONAL, INC. AND SUBSIDIARIES
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DECEMBER 31, 2014 AND 2013

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders

DYADIC INTERNATIONAL, INC. AND SUBSIDIARIES

We have audited the accompanying consolidated financial statements of Dyadic International, Inc. and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations, changes in stockholders' equity (deficit) and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America as established by the Auditing Standards Board (United States) and in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Dyadic International, Inc. and Subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Mayer Hoffman McCann P.C.

Boca Raton, Florida
March 11, 2015

DYADIC INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2014	December 31, 2013
ASSETS		
Current Assets:		
Cash	$ 2,495,455	$ 8,892,396
Restricted Cash	122,459	200,378
Accounts Receivable, Net	1,044,990	1,677,338
License Fee Receivable	-	110,693
Inventory, Net	3,607,062	2,800,090
Prepaid Expenses and Other Current Assets	271,291	171,601
Total Current Assets	7,541,257	13,852,496
Fixed Assets, Net	539,902	504,781
Intangible Assets, Net	418,973	566,867
Other Assets	35,221	16,173
	$ 8,535,353	$ 14,940,317
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current Liabilities:		
Accounts Payable	$ 1,504,313	$ 2,573,106
Accrued Expenses	559,433	469,681
Accrued Interest Payable	169,838	171,601
Deferred Research and Development Obligation	430,803	914,769
Total Current Liabilities	2,664,387	4,129,157
Note Payable to Stockholder	1,424,941	1,424,941
Convertible Subordinated Debt	6,710,787	6,818,000
Total Liabilities	10,800,115	12,372,098
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 – 34,142,505 and 34,028,245, Respectively	34,143	34,028
Additional Paid-In Capital	82,262,225	81,209,585
Stock Subscriptions Receivable	(131,375)	(182,838)
Stock to be Issued	70,659	27,769
Accumulated Deficit	(84,500,414)	(78,520,325)
Total Stockholders' Equity (Deftcit)	(2,264,762)	2,568,219
	$ 8,535,353	$ 14,940,317

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

DYADIC INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31, 2014	Year Ended December 31, 2013
Revenue:		
Product Related Revenue, Net	$ 9,779,232	$ 9,800,767
License Fee Revenue	700,000	6,000,000
Research and Development Revenue	2,044,166	1,333,974
Total Revenue	12,523,398	17,134,741
Cost of Goods Sold	8,175,927	9,723,648
Gross Profit	4,347,471	7,411,093
Expenses:		
General and Administrative	6,113,658	4,992,688
Sales and Marketing	1,243,801	944,121
Research and Development	2,187,559	1,001,094
Gain on Sale of Fixed Assets	(19,755)	-
Foreign Currency Exchange Losses (Gains), Net	147,145	(83,312)
Total Expenses	9,672,408	6,854,591
Income (Loss) from Operations	(5,324,937)	556,502
Other Income (Expense)		
Interest Income	28,055	14,613
Interest Expense	(683,207)	(686,022)
Loss on Settlement of Litigation	-	(313,143)
Total Other Expense	(655,152)	(984,552)
Loss before Provision for Income Taxes	(5,980,089)	(428,050)
Provision for Income Taxes	-	-
Net Loss	$ (5,980,089)	$ (428,050)
Net Loss per Common Share:		
Basic and Diluted	$ (0.18)	$ (0.01)
Weighted Average Common Shares Used in Calculating Net Income (Loss) per Share:		
Basic and Diluted	34,073,457	32,797,253

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

DYADIC INTERNATIONAL, INC. AND SUBSIDIARIES
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, 2012	31,656,245	$ 31,656	$ 79,847,761	$ -	$ -	$ (78,092,275)	$ 1,787,142
Amortization of Deferred Compensation on Employee and Nonemployee Stock Options	-	-	780,662	-	-	-	780,662
Issuance of Stock for Subordinated Debt Conversion	100,000	100	181,900	-	-	-	182,000
Issuance of Stock for Stock Options Exercised	1,288,750	1,289	242,924	(182,838)	-	-	61,375
Issuance of Stock for Warrants Exercised	983,250	983	156,337	-	1,875	-	159,195
Stock to Be Issued for Restricted Stock Units	-	-	-	-	25,894	-	25,894
Net (Loss)	-	-	-	-	-	(428,050)	(428,050)
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	-	-	939,767	-	-	-	939,767
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
Issuance of Stock for Warrants Exercised	10,000	10	1,490	-	(1,500)	-	-
Stock to Be Issued for Restricted Stock Units	-	-	-	-	44,390	-	44,390
Proceeds from Repayment of Stock Subscriptions	-	-	-	54,588	-	-	54,588
Net (Loss)	-	-	-	-	-	(5,980,089)	(5,980,089)
Balance at December 31, 2014	34,142,505	$ 34,143	$ 82,262,225	$ (131,375)	$ 70,659	$ (84,500,414)	$ (2,264,762)

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

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

	Year Ended December 31, 2014	Year Ended December 31, 2013
Operating Activities		
Net (Loss)	$ (5,980,089)	$ (428,050)
Adjustments to Reconcile Net (Loss) to Net Cash (Used In) Provided By Operating Activities:		
Depreciation and Amortization of Fixed Assets	223,685	201,224
Amortization of Intangible and Other Assets	47,443	52,279
Gain on Sale of Fixed Assets	(19,755)	-
Write-off of Abandoned Patents	137,566	-
Increase (Decrease) in Allowance for Doubtful Accounts	30,072	(380,507)
Increase (Decrease) in Inventory Reserve	23,782	(81,000)
Compensation Expense on Stock Option Grants and Restricted Stock	984,157	806,557
Change in Operating Assets and Liabilities		
Accounts Receivable	602,275	(36,033)
License Fee Receivable	110,693	3,389,307
Inventory	(830,754)	46,097
Prepaid Expenses and Other Current Assets	(118,735)	65,788
Accounts Payable	(1,013,990)	885,929
Accrued Expenses	89,312	57,198
Accrued Interest Payable	(1,763)	169,696
Deferred Research and Development Obligation	(483,966)	347,369
Net Cash (Used In) Provided by Operating Activities	(6,200,067)	5,095,854
Investing Activities		
Purchases of Fixed Assets	(258,809)	(312,145)
Proceeds from the Sale of Fixed Assets	19,755	-
Patent Costs	(91,477)	(93,922)
Restricted Cash	77,919	(8,023)
Net Cash (Used In) Investing Activities	(252,612)	(414,090)
Financing Activities		
Proceeds from Stock Warrant Exercises	-	159,195
Proceeds from Stock Option Exercises	1,150	61,375
Proceeds from Repayment of Stock Subscriptions Receivable	54,588	-
Net Cash Provided by Financing Activities	55,738	220,570
Net Increase/(Decrease) in Cash	(6,396,941)	4,902,334
Cash at Beginning of Year	8,892,396	3,990,062
Cash at End of Year	$ 2,495,455	$ 8,892,396
Supplement Cash Flow Information:		
Cash Paid for Interest	$ 679,684	$ 516,326
Non-Cash Items:		
Conversion of Subordinated Debt into Share of Common Stock	$ 107,213	$ 182,000
Stock for Warrants Previously Exercised	$ 1,500	$ -
Non-Cash Advances to Employees for Stock Options and Stock Warrant Exercises	$ 3,125	$ 182,838
Write-off of Patent Liability	$ 54,363	$ -

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

DYADIC INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Organization and Operations and Subsequent Event

General

Dyadic International, Inc. (the "Company" or "Dyadic") is a global biotechnology company headquartered in Jupiter, Florida with operations in the United States ("U.S.") and The Netherlands. Dyadic has 57 employees, 38 of which are dedicated to research and development ("R&D") activities at the Company's laboratories in Florida and The Netherlands.

Dyadic uses its patented and proprietary technologies to conduct R&D and commercial activities for the discovery, development, manufacture and sale of enzymes and other proteins for the bioenergy, bio-based chemicals, biopharmaceuticals, and industrial enzymes industries. Dyadic recognizes substantially all of its revenues from (1) licensing activity related to its patented and proprietary technologies; (2) selling its proprietary enzymes; and (3) conducting R&D activities for third parties.

Dyadic's R&D activities mainly focus on its patented and proprietary fungal strains and associated technologies. In particular, Dyadic uses its *Trichoderma* and C1 fungal strains in the production of its industrial enzymes. Dyadic manufactures 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.

Dyadic also utilizes an integrated technology platform based on its patented and proprietary C1 fungus *Myceliophthora thermophila* (the "C1 Platform Technology") 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 and expression of novel genes and proteins. 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 developing, manufacturing and/or utilizing the enzymes and other proteins, for which these technologies are used to help produce.

In the biofuels and bio-based chemicals industries, Dyadic's primary focus is to continuously improve its C1 Platform Technology for the development of novel enzymes that will efficiently convert biomass into the maximum quantity of fermentable sugars at the lowest cost. These fermentable sugars, derived from agricultural residues and energy crops, can be used to produce biofuels such as cellulosic ethanol and butanol as well as bio-based chemicals including polymers and plastics and may provide a renewable cost-effective and more environmentally friendly alternative to petroleum and petroleum-based products in a variety of industries.

In addition to facilitating the research, development and production of enzymes and other proteins, the C1 Platform Technology also has the potential of developing and producing other biological products such as antibodies, vaccines, proteins and polypeptides for the biopharmaceutical industry. By utilizing a proprietary host organism, the C1 Platform Technology may be used as a "one-stop shop" to discover, develop, and express the genes of complex living organisms which can be manufactured for commercial applications.

The Company's current patent portfolio consists of 16 U.S. and 31 foreign patents, 24 pending U.S. and foreign patent applications as well as numerous U.S. and foreign publications, including, but not limited to, five international patent cooperation treaty publications. The Company, as it deems appropriate based on a cost-benefit and other analysis and as it has done in the past, may periodically decide to abandon or forego pursuing certain patent applications.

Note 1: Organization and Operations and Subsequent Event (Continued)

General (Continued)

In addition, the Company has developed an extensive body of technical know-how regarding R&D of various fermentation technologies from scale-up to large-scale commercialization which the Company protects through confidentiality and other agreements which contain restrictive covenants.

Dyadic anticipates that its products and technologies will become more widely accepted and utilized as awareness grows of the financial, operational, environmental and other advantages of applying enzymes and other biological solutions to improve manufacturing processes.

Organizational History

The Company was incorporated in the State of Delaware in September 2002 under its former name, CCP Worldwide, Inc. The Company is a holding company that holds all of the outstanding stock of Dyadic International (USA), Inc., a Florida corporation ("Dyadic-Florida"). Dyadic-Florida owns all of the outstanding stock of Geneva Investment Holdings Limited, a company organized under the laws of the British Virgin Islands, Dyadic Nederland BV, a company organized under the laws of the Netherlands ("Dyadic NL") and Dyadic International Sp. z o.o., a company organized under the laws of Poland ("Dyadic-Poland").

In April 2001, Dyadic-Florida formed Dyadic-Poland for the purpose of managing and coordinating the Company's contract manufacturing of industrial enzymes in Poland and to assist in the marketing and distribution of those products. Dyadic-Poland ceased operations in 2010 and is now a dormant company under Polish law.

In January 2003, Dyadic-Florida formed Dyadic NL for the research, development use and marketing of the C1 Platform Technology.

Historical Results of Operations

The Company incurred a net loss for the year ended December 31, 2014 of $5,980,089, or ($0.18) basic and fully diluted loss per share. The Company generated a net loss during the year ended December 31, 2013 of $428,050 or ($0.01) per basic and fully-diluted loss per share. The Company attributes the majority of its net loss during the year ended December 31, 2014 to decreased license fee revenues, relatively flat product sales, increased R&D spending activities and certain legal expenses related to its lawsuit against its former outside legal counsel. The Company attributes the majority of its net loss during the year ended December 31, 2013 to increased licensing activities related to the C1 Platform Technology which were offset by increased legal and expert testimony related costs to the lawsuit against its former outside legal counsel. These costs were partially offset by increased R&D related revenues and project related margins. The Company has incurred losses from operations which have resulted in an accumulated deficit of $84,500,414 as of December 31, 2014. In order to advance its technologies and to develop new products, the Company has continued to incur discretionary R&D expenditures which the Company believes will continue in 2015 and beyond, however, at lower levels due to capital constraints.

Note 2: Summary of Significant Accounting Policies

Principles of Consolidation and Reclassification

The accompanying 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 2013 cost amounts previously reported to conform to the 2014 consolidated financial statement presentation.

Use of Estimates

The preparation of the consolidated financial statements that is in conformity with accounting principles generally accepted in United States of America ("GAAP") require management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosures of contingent assets and liabilities, at the date of and for the period of the consolidated financial statements. Estimates and assumptions are based on management's knowledge and actual results could differ from those estimates, and those differences could be material. Significant estimates include the allowance for doubtful accounts, inventories, intangibles, income and other tax accruals, stock-based compensation, the realization of long-lived assets, contingencies and litigation, and revenue, cost of revenue and gross profit on research and development projects.

Cash and Cash Equivalents

The Company considers all interest-bearing deposits or investments with original maturities of three months or less to be cash equivalents. The Company had cash equivalents of $2,495,455 and $8,892,396 as of December 31, 2014 or 2013, respectively.

Restricted Cash

The Company had restricted cash of approximately $122,000 and $200,000 at December 31, 2014 and 2013, respectively, which was used as security for the build-out of the Company's laboratory in the Netherlands *(Note 5)*. Twenty percent of the outstanding restricted cash balance is refunded to the Company each year on the lease anniversary date through its expiration. The five year lease term expires on December 31, 2019.

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: Summary of Significant Accounting Policies (Continued)

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 at December 31:

	2014	2013
Accounts receivable	$ 1,109,372	$ 1,711,648
Less: allowance for doubtful accounts	(64,382)	(34,310)
	$ 1,044,990	$ 1,677,338

Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk include cash and uncollateralized accounts receivable *(Note 9)*. The Company invests its excess cash in money market funds.

Inventory

Inventory consists of 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 weighted average cost method. The value of finished goods is comprised of raw materials and manufacturing costs, substantially all of which are incurred pursuant to oral agreements with our independent enzyme manufacturer. Provisions have been made to reduce excess or obsolete inventory to net realizable value.

Inventory consisted of the following at December 31:

	2014	2013
Finished goods	$ 3,844,844	$ 3,014,090
Less: reserve for obsolescence	(237,782)	(214,000)
	$ 3,607,062	$ 2,800,090

Fixed Assets

Fixed assets are recorded at historical cost and depreciated and amortized using the straight-line method over their estimated useful lives, which range from three to ten years. Leasehold improvements are amortized over the lesser of their useful lives or the lease terms. Upon sale or retirement, the cost and related accumulated depreciation and amortization are eliminated from their respective accounts, and the resulting gain or loss is included in the results of operations. Repairs and maintenance charges, which do not increase the useful lives of the assets, are charged to operations as incurred.

Note 2: Summary of Significant Accounting Policies (Continued)

Fixed Assets (Continued)

Fixed assets consisted of the following at December 31:

	Estimated Useful Life (Years)		2014		2013
Lab and manufacturing equipment	3 – 10	$	2,845,997	$	2,963,620
Furniture and fixtures	3 – 7		202,600		150,564
Leasehold improvements	5		87,094		97,752
			3,135,691		3,211,936
Less: accumulated depreciation and amortization			(2,595,789)		(2,707,155)
		$	539,902	$	504,781

Depreciation and amortization expense of fixed assets for the years ended December 31, 2014 and 2013 was approximately $224,000 and $201,000, respectively, of which approximately $213,000 and $192,000, respectively, was included in cost of goods sold and approximately $11,000 and $9,000, respectively, was included in general and administrative costs in the accompanying consolidated statements of operations.

During the year end December 31, 2014, the Company closed its North Carolina research facility *(Note 5)* and wrote-off and sold approximately $335,000 in fixed assets and accumulated depreciation. All equipment was fully depreciated. The Company recognized a gain on the sale of approximately $20,000, which is included in the 2014 consolidated statement of operations.

Intangible Assets

Intangible assets include patent and technology acquisition costs which are being amortized using the straight-line method over the estimated useful lives of the patents, determined to be twelve years. Capitalized patent and technology costs during the years ended December 31, 2014 and 2013 were approximately $91,000 and $94,000, respectively. Amortization expense for the years ended December 31, 2014 and 2013 was approximately $47,000 and $52,000, respectively.

Intangible assets consisted of the following at December 31:

		2014		2013
Patents	$	1,129,172	$	1,291,592
Less: accumulated amortization		(710,199)		(724,725)
	$	418,973	$	566,867

During the year ended December 31, 2014, the Company wrote-off approximately $138,000 of costs related to patents that were abandoned by the Company based on their future commercial viability. Additionally, the Company wrote-off certain prior year patent liabilities of approximately $54,000. These costs are included in general and administrative expenses in the 2014 consolidated statement of operations. Estimated annual amortization expense for each of the next five years is approximately $66,000.

Note 2: Summary of Significant Accounting Policies (Continued)

Long-Lived Assets

The Company reviews its long-lived assets for impairment, including fixed assets that are held and used in its operations, whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If such an event or change in circumstances occurs, the Company will estimate the undiscounted future net cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the undiscounted future cash flows is less than the carrying amount of the related assets, the Company will recognize an impairment loss if the carrying value exceeds the fair value. Assets to be disposed of are reclassified as assets held for sale at the lower of their carrying amount or fair value less costs to sell. Write-downs to fair value less disposal costs are reported as a part of loss from operations.

Other than previously mentioned, the Company does not believe that there were any events or changes in circumstances which indicate that the carrying amounts of its long-lived assets may not be recoverable as of December 31, 2014 and 2013, respectively.

Accrued Expenses

Accrued expenses consisted of the following at December 31:

	2014	2013
Accrued bonuses, wages, and benefits	$ 319,090	$ 187,685
Accrued expenses relating to vendors and others	240,343	281,996
	$ 559,433	$ 469,681

Fair Value of Financial Instruments

The carrying amounts of the Company's financial instruments, including cash, restricted cash, accounts receivable, license fee receivable, inventory, accounts payable, accrued expenses, deferred research and development obligation and accrued interest payable, approximate their fair values due to the short-term nature of these assets and liabilities. The note payable to stockholder and convertible subordinated debt approximate fair value based upon their short maturities and current rates available to the Company for loans with similar maturities.

Revenue Recognition

Revenue is recognized when (1) persuasive evidence of an arrangement exists; (2) services have been rendered or product has been delivered; (3) price to the customer is fixed and determinable; and (4) collection of the underlying receivable is reasonably assured.

The Company recognizes revenue on product sales when title passes to the customer based upon the specified freight terms of the respective sale. Revenues are comprised of gross sales less provisions for expected customer returns, if any. Reserves for estimated returns and inventory credits are established by the Company, if necessary, concurrently with the recognition of revenue. The amounts of reserves are established based upon consideration of a variety of factors including estimates based on historical returns. Amounts billed to customers in sales transactions related to shipping and handling represent revenue earned for the goods provided and are included in net product related revenue in the accompanying consolidated statements of operations. Costs of shipping and handling are included in cost of goods sold.

Note 2: Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

The Company may be subjected to various product liability claims. Although there have been no claims to date against the Company, it is possible that future liability claims could have a material adverse effect on its consolidated financial position, consolidated results of operations and liquidity

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

The Company recognized license fee revenue during the years ended December 31, 2014 and 2013 in the amount of $700,000 and $6,000,000, respectively *(Note 3)*.

The Company recognizes revenue from research funding under collaboration agreements when earned on a "proportional performance" basis as research hours are incurred. The Company typically performs services as specified in each respective agreement on a best efforts basis, and is reimbursed based on labor hours incurred on each contract. The Company initially defers revenue for any amounts billed, or payments received, in advance of any services performed, and recognizes revenue pursuant to the related pattern of performance based on total labor hours incurred relative to total labor hours estimated under the contract. As of December 31, 2014 and 2013, the deferred research and development obligation totaled approximately $431,000 and $915,000, respectively.

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. The Company recognized research and development revenue during the years ended December 31, 2014 and 2013 in the amount of approximately $2,044,000 and $1,334,000 respectively.

Note 2: Summary of Significant Accounting Policies (Continued)

Research and Development Costs

R&D costs related to both present and future products are charged to operations when incurred.

R&D costs incurred by type of project during the years ended December 31, 2014 and 2013 were as follows:

		2014		2013
Internal R&D	$	2,087,117	$	905,094
Collaborations with third parties		100,442		96,000
	$	2,187,559	$	1,001,094

R&D expense based upon type of cost incurred during the years ended December 31, 2014 and 2013 were as follows:

		2014		2013
Personnel related	$	936,786	$	447,519
Laboratory and supplies		231,415		74,854
Outside services		678,714		320,790
Facilities, overhead and other		340,644		157,931
	$	2,187,559	$	1,001,094

Foreign Currency Translation

The financial statements of the Company's foreign subsidiaries have been translated into U.S. dollars. Assets and liabilities of the Company's foreign subsidiaries are translated at period-end exchange rates, and revenues and expenses are translated at actual prevailing rates on the date of the transactions during the period. Certain accounts receivable from customers are collected and certain accounts payable to vendors are payable in currencies other than the functional currencies of the Company and its subsidiaries. These amounts are adjusted to reflect period-end exchange rates.

Share-based Compensation

The Company values its stock options on the date of grant using the Black-Scholes valuation model. Any stock options with modified terms are re-valued using the Black-Scholes valuation model based on the new terms at the date the modifications are approved by the Company's compensation committee (the "Compensation Committee") of its Board of Directors (the "Board"). Any incremental cost resulting from the revised valuations is charged to results of operations, and the remaining unvested portions of the options are amortized over the modified remaining vesting period.

The Company accounts for equity instruments issued to non-employees by calculating the fair value of the equity instrument using the Black-Scholes valuation model at each reporting period with charges amortized to the results of operations over the instrument's vesting period.

Note 2: Summary of Significant Accounting Policies (Continued)

Income Taxes

The Company accounts for income taxes using the liability method. Under this method, deferred tax assets and liabilities are determined based on the difference between the consolidated financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. A deferred tax asset valuation allowance is established if, in management's opinion, it is more likely than not that all or a portion of the Company's deferred tax assets will not be realized.

GAAP requires that a position taken or expected to be taken in a tax return be recognized in the consolidated financial statements when it is more likely than not (i.e., a likelihood of more than fifty percent) that the position would be sustained upon examination by tax authorities. A recognized tax position is then measured at the largest amount of benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. No such interest or penalties were recognized during the years ended December 31, 2014 or 2013. The Company's management believes it is no longer subject to income tax examinations for years prior to December 31, 2011.

Liquidity

The Company may incur losses over the next few years as it continues to develop its products and technologies. However, there can be no assurance that the Company's efforts with regard to such development will be successful.

There is no assurance that the Company will be able to secure licensing transactions or other collaborations, or the timing of those transactions going forward. This uncertainty may cause revenues to vary significantly from period to period, affecting the comparability of the consolidated financial statements.

As of December 31, 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 convertible debt and note payable to stockholder. As discussed in Note 4, the maturity date of approximately $6.7 million of the Company's convertible subordinated debt was extended to January 1, 2016 with certain provisions to the 2010 and 2011 Notes. In addition, on December 29, 2014, the maturity date of the $1.4 million note payable to stockholder was extended to January 1, 2016. All other provisions of the note remain unchanged. As discussed in Note 11, on March 9, 2015, the Company also completed a private placement of a $2,000,000 convertible subordinated promissory note. In addition, the Company plans to further reduce its professional fee expenditures and further draw down inventory, targeting an approximate $600,000 reduction from the December 31, 2014 inventory levels.

Note 2: Summary of Significant Accounting Policies (Continued)

Liquidity (Continued)

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 notes payable 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 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 (loss) per share reflects the potential dilution that would occur if securities or other contracts to issue common stock were exercised or converted into common stock. During the years ended December 31, 2014 and 2013, 7,369,663 and 7,867,496, respectively, of common stock equivalents related to stock options and convertible debt were not included in computing diluted earnings per share because their effects would be anti-dilutive.

Recent Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") number 2013-11 (Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists), which provides that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except to the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available, in which case the unrecognized tax benefit should be presented in the financial statements as a liability. This update was effective for fiscal years, and interim periods within those years, beginning after December 15, 2013, and did not have a material impact on the Company's consolidated financial statements.

In May 2014, FASB issued ASU number 2014-09 (Revenue from Contracts with Customers (Topic 606)). This 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.

Note 2: Summary of Significant Accounting Policies (Continued)

Recent Accounting Pronouncements (Continued)

In August 2014, FASB issued ASU number 2014-15 (Presentation of Financial Statements-Going Concern (Topic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern). This 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.

Note 3: Significant Agreements

Abengoa Agreement

On February 18, 2009, the Company and Abengoa Bioenergy New Technologies, Inc. ("Abengoa") entered into a non-exclusive license agreement (the "Abengoa License Agreement"). Under the Abengoa License Agreement, the Company granted Abengoa the right to use certain patent rights and know-how owned by the Company relating to the C1 Platform Technology for the large-scale production of enzymes for use in manufacturing biofuels (including cellulosic ethanol and butanol), power and/or chemicals. The Abengoa License Agreement provides for facility fees and royalties to be paid to Dyadic upon the commercialization of biofuels and other products which utilize the Company's materials and technologies.

On April 23, 2012, the Abengoa License Agreement was amended and restated (the "Amended Abengoa License Agreement") to provide Abengoa with additional rights which include, among other things, worldwide rights to use the Company's C1 Platform Technology in the licensed fields. The Amended Abengoa License Agreement also further clarifies Abengoa's rights to sell enzymes produced using the Company's C1 Platform Technology to third parties for use in both first and second generation biorefining processes for the production of fuels, chemicals and/or power. In exchange for entering into the Amended Abengoa License Agreement, Abengoa agreed to pay the Company a non-refundable license fee of $5,500,000. The final payment was received in July 2013. As part of this license agreement, Abengoa also agreed to pay Dyadic a $500,000 licensing payment when it began production of its proprietary C1 enzymes, developed under Abengoa's license agreement with Dyadic, which they used for converting biomass into ethanol for their Hugoton, Kansas 25 million gallon commercial scale cellulosic ethanol production plant. Dyadic received a $500,000 license payment under this agreement in the third quarter of 2014.

BASF Agreement

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. During the year ended December 31, 2013, the Company recognized license fee revenue in the amount of $6,000,000 related to this agreement.

Note 3: Significant Agreements (Continued)

BASF Agreement (Continued)

The Company continues to provide research and development activities for BASF and expects to continue to work closely with BASF in 2015. During 2014 and 2013, the Company recognized approximately $1,117,000 and $101,000 of research and development revenue related to the BASF agreement. During 2014, the Company recognized $200,000 in license fee revenue related to reaching the first milestone under the agreement.

Animal Health and Nutrition License Agreement

The Company entered into a non-exclusive license agreement with a major global provider of animal nutritional solutions, to develop, manufacture and commercialize animal feed enzyme products. As part of this agreement, Dyadic has granted its partner a worldwide license to use the developed C1 fungal strains to manufacture and sell animal feed enzyme products. Dyadic will be eligible to receive additional research, development and commercial milestone payments as well as royalties based on its partners worldwide sales of products, which utilize the C1 Platform Technology.

Under the agreement, Dyadic's partner has continued its research cooperation with Dyadic's R&D arm, Dyadic NL, which utilizes Dyadic's patented and proprietary C1 Platform Technology, to develop fungal strains that will meet the end point goals for expression and cost performance for animal health and nutrition applications. To date, despite achieving higher expression levels, the target performance objectives of our partner have not yet been achieved. Additional animal feed trials are ongoing to determine if these objectives can be met with the current enzyme developer in this research project and we are awaiting these results. It is likely that further research may be needed to be performed before our partner will make a decision regarding whether to proceed with registering a product that meets their performance and cost parameters, continue animal feed trials or possibly even abandon the initiative. If the current feed trials don't meet the licensee's targeted performance and cost parameters, our partner has not informed the Company yet whether or not they will continue funding the necessary additional research and development to achieve their criteria based on new potential strategies. It is still unclear as to the timing of their potential filing to register a product for animal nutrition; however, there is always a risk that they decide to abandon the project or when they do file their registrations that there may be delays of approval and/or non-registration due to unforeseen circumstances.

Note 4: Notes Payable

Note Payable to Stockholder

The Amended and Restated Note dated November 14, 2008 (the "Note") originally payable to the MAE Trust under agreement dated October 1, 1987, as amended, 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 The Note is collateralized by the assets of the Company. On March 18, 2014, the Note was transferred to Lisa K. Emalfarb. On December 29, 2014, the maturity date of the Note was extended to January 1, 2016. All other provisions of the Note remain unchanged. The Note is classified as long-term in the accompanying December 31, 2014 consolidated balance sheet. Interest expense on the Note amounted to approximately $135,000 for both of the years ended December 31, 2014 and 2013.

Note 4: Notes Payable (Continued)

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 were convertible at the holder's option after January 1, 2011, into unregistered shares of the Company's common stock at a price of $1.82 per share, which was equal to 120% of the average closing price of the Company's common stock for the 30-day period preceding August 23, 2010. On October 14, 2014, the Company extended the maturity date of the 2010 Notes to January 1, 2016. In conjunction with the extension of the 2010 Convertible Debt, the share conversion price has been reduced from $1.82 to $1.48. The extended Convertible Debt also 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. The debt extension and the change in the conversion price resulted in extinguishment accounting in accordance with ASC 470-50 as the change in fair market value was in excess of 10% of the original value of the note. The extinguishment accounting had no impact on the financial statements as no discount was recorded on the original issuance. All other terms and conditions of the 2010 Convertible Debt remain unchanged. The Company will not affect 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 are collateralized by substantially all of the assets of the Company.

One of the Company's third party note holders converted $182,000 of its 2010 Notes during the year ended December 31, 2013 into an aggregate of 100,000 shares of the Company's common stock at a conversion price of $1.82 per share. The outstanding principal balance of the 2010 Notes was $3,818,000 at both December 31, 2014 and 2013.

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 price equal to $1.28 per share. The 2011 Notes are subordinated to the Note, and are collateralized by substantially all of the assets of the Company. The Company will not affect 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.

During the year ended December 31, 2014, $107,213 of the 2011 Notes were converted into 83,760 shares of common stock. As a result of these conversions, the outstanding balance of the 2011 Notes was $2,892,787 and $3,000,000 at December 31, 2014 and 2013, respectively. The 2011 Notes have been classified as long-term in the accompanying December 31, 2014 consolidated balance sheet.

Note 4: Notes Payable (Continued)

Convertible Subordinated Debt (Continued)

On October 14, 2014, the Company extended the maturity date of the 2011 Notes to January 1, 2016. The extended convertible debt also 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 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. The $1.48 was the market closing price of Dyadic's stock on the date of the transaction. If such warrants are issued, the warrants will have a three year term. The debt extension resulted in extinguishment accounting in accordance with ASC 470-50 as the change in fair market value was in excess of 10% of the original value of the note. The extinguishment accounting had no impact on the financial statements as no discount was recorded on the original issuance.

Approximately $1,900,000 of the 2010 Notes and the 2011 Notes are held by four related party interests, which include members of management and the Board, as well as another related party. Interest expense on the convertible subordinated debt for the years ended December 31, 2014 and 2013 was approximately $543,000 and $546,000, respectively.

Note 5: Commitments and Contingencies

Leases

Jupiter, Florida Headquarters

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

Greensboro, North Carolina Laboratory

The Company closed the Greensboro, North Carolina laboratory facility and a storage building in April 2014. The facility consisted of approximately 3,150 square feet with a monthly rental rate of approximately $2,100. There are no further costs or expenses due on this facility.

The Netherlands Office and Laboratory

Dyadic NL leases office and laboratory space in Wageningen, The Netherlands, which consists of approximately 15,000 square feet with a monthly rental rate of approximately $28,000. The lease expires on December 31, 2019. The lease is secured by Restricted Cash *(Note 2)* of approximately $122,000 and $200,000 at December 31, 2014 and 2013, respectively.

Note 5: Commitments and Contingencies (Continued)

Leases (Continued)

Future minimum lease commitments due for facilities and equipment leases under non-cancellable operating leases at December 31, 2014 are approximately as follows:

2015	$	413,000
2016		345,000
2017		347,000
2018		335,000
2019		335,000
	$	1,775,000

Rent expense under all operating leases for the years ended December 31, 2014 and 2013 totaled approximately $523,000 and $374,000, respectively, of which approximately $270,000 and $152,000, respectively is included in cost of goods sold, and approximately $253,000 and $222,000, respectively is included in operating expenses in the accompanying consolidated statements of operations. During the year ended December 31, 2014, the Company completed the first expansion of its Dutch laboratory facility and approved a second expansion in February of 2015. The future lease commitments table includes the costs for the laboratory expansions in The Netherlands.

Manufacturing Commitment

The Company manufactures all of its enzymes with a third party manufacturer which the Company believes is sufficient to meet its current and projected future needs. In order to further 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.

Note 5: Commitments and Contingencies (Continued)

Litigation, Claims and Assessments (Continued)

Pending Actions (Continued)

Professional Liability Lawsuit (Continued)

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

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

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

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

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

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

Note 5: Commitments and Contingencies (Continued)

Litigation, Claims and Assessments (Continued)

Pending Actions (Continued)

Professional Liability Lawsuit (Continued)

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

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

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

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

The Company continues to vigorously prosecute this litigation which is now in its final phases of pretrial motion practice. The fact discovery is complete. One expert deposition remains to be taken on April 1 and 2, 2015. All summary judgment motions have been filed and the deadline for serving additional summary judgment motions has passed. The Company is waiting for the Court's ruling on one final summary judgment motion pending before the Court. Rulings on previous summary judgment motions, including an Order dated February 27, 2015 on the Moscowitz Defendants' Motion for Partial Summary Judgment, have been favorable to the Company. The Court is holding Case Management and Scheduling Conferences on March 30, 2015 and April 20, 2015 to schedule hearing time on motions to exclude experts and motions in limine. The Court has not yet set a trial date for 2015.

Note 5: Commitments and Contingencies (Continued)

Litigation, Claims and Assessments (Continued)

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.

Resolved Actions

Mark A. Emalfarb Arbitration

On September 25, 2007, Mark A. Emalfarb commenced an arbitration proceeding (the "Emalfarb Arbitration") against the Company before the American Arbitration Association seeking monetary damages resulting from his termination for cause pursuant to his employment agreement dated as of April 1, 2001 (as amended, the "Employment Agreement"). This arbitration action asserts, among other things, that "cause" as defined in the Employment Agreement, did not exist and that his reputation had been damaged by the Company. On October 22, 2007, the Company filed an answering statement and motion to dismiss the arbitration. On April 1, 2008, Mr. Emalfarb responded to Dyadic's answering statement and motion to dismiss and filed a Supplemental Demand for Arbitration against Dyadic asserting various counts and demanding full recompense from the Company for damages relating to such termination. The Company's primary and excess insurance carriers denied coverage for the Emalfarb Arbitration based on their interpretation of exclusions and assertion of other coverage defenses contained in the Company's insurance policies. In consideration for the contribution by the insurance carriers to the resolution of a stockholder class action litigation against the Company, which was resolved on July 27, 2010, all pending claims with such insurance carriers with respect to the Emalfarb Arbitration were released.

On October 22, 2013, in consideration for the dismissal of the arbitration proceedings, the Company agreed to reimburse Mr. Emalfarb approximately $313,000 for past expenses incurred. Such amount is included in other expense in the consolidated statement of operations for the year ended December 31, 2013. In addition to this reimbursement, Mr. Emalfarb will be entitled to receive a percentage of the net proceeds, if any, received by the Company related to the professional liability lawsuit against the Company's former outside legal counsel discussed above.

Note 6: Capital Structure

Issuances of Common Stock

The Company issued 20,500 shares of its common stock during the year ended December 31, 2014 for stock options exercised at prices ranging from $.15 to $.23 per share. Cash received from the exercise of stock options during the year ended December 31, 2014 was $1,150. The Company issued 1,288,750 shares of its common stock during the year ended December 31, 2013 for stock options exercised at prices ranging from $0.15 to $1.21 per share. Cash received from stock option exercises during the year ended December 31, 2013 was $61,400.

For the year ended December 31, 2014, the Company advanced certain employees $3,125 under the 2013 Employee Loan Program (the "Loan Program"), in connection with their exercise of stock options to purchase 15,500 shares of common stock. During the year ended December 31, 2013, the Company also advanced a member of management approximately $94,000 under the Loan Program in connection with his exercise of warrants to purchase 589,950 shares of common stock, which was repaid in May 2013. 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 December 31, 2014 and 2013, outstanding advances to employees under the Loan Program were approximately $131,000 and $183,000, respectively, and are included in stock subscriptions receivable in the consolidated balance sheets.

During the year ended December 31, 2014, 10,000 warrants, which were previously exercised but not issued, were issued and gifted to an unrelated charitable trust. An additional 2,500 shares of that exercise have not yet been issued. (*Note 7*).

Note 7: Share-Based Compensation

Warrants

All of the Company's warrants were fully vested and were exercised prior to, or expired on, May 29, 2013. Information concerning the Company's warrant activity is as follows:

	2014		2013	
	Warrants	Weighted-Average Exercise Price	Warrants	Weighted-Average Exercise Price
Outstanding at the beginning of the year	-	-	1,045,750	$0.15
Retired	-	-	(50,000)	$0.15
Exercised	-	-	(995,750)	$0.15
Outstanding at the end of the Year	-		-	

Note 7: Share-Based Compensation (Continued)

Description of Equity Plans

The Company maintains the Dyadic International, Inc. 2006 Stock Option Plan, as amended (the "2006 Stock Option Plan") and the Dyadic International, Inc. 2011 Equity Incentive Award Plan (the "2011 Equity Incentive Plan") (the 2006 Stock Option Plan and the 2011 Equity Incentive Plan are hereinafter collectively referred to as the "Equity Compensation Plans"). All options granted under the Equity Compensation Plans are service-based and typically vest over a four year period.

2006 Stock Option Plan

The 2006 Stock Option Plan was adopted by the Company in April 2006 and amended in December, 2009. The purpose of the 2006 Stock Option Plan is to retain and attract key management, employees, non-employee directors and consultants by providing those persons with a proprietary interest in the Company. The Compensation Committee of the Board administers the 2006 Stock Option Plan and may grant incentive stock options or nonqualified stock options that do not comply with Section 422 of the Internal Revenue Code. Under the 2006 Option Plan, 4,700,000 shares of common stock have been reserved for issuance.

As of December 31, 2014, there were 1,989,625 stock options outstanding and 912,125 available for grant under the 2006 Stock Option Plan. As of December 31, 2013, there were 2,019,125 stock options outstanding and 851,878 available for grant under the 2006 Stock Option Plan. The term of the stock options outstanding under the 2006 Option Plan is no more than ten years. All outstanding stock option awards granted under the 2006 Stock Option Plan will continue to be subject to the terms and conditions set forth in the agreements evidencing such stock option awards and the 2006 Stock Option Plan and shall be unaffected by the approval of the 2011 Equity Incentive Plan by the Company's stockholders.

2011 Equity Incentive Plan

The 2011 Equity Incentive Plan was adopted by the Company's Board on April 28, 2011, and approved by the Company's stockholders on June 15, 2011. The principal purpose of the 2011 Equity Incentive Plan is to attract, retain and motivate selected employees, consultants and directors through the granting of stock-based compensation awards and cash-based performance bonus awards. The 2011 Equity Incentive Plan is also designed to permit the Company to make cash-based awards and equity-based awards intended to qualify as "performance-based compensation" under Section 162(m) of the Internal Revenue Code of 1986, as amended.

Under the 2011 Equity Incentive Plan, 3,000,000 shares of the Company's common stock have been initially reserved for issuance pursuant to a variety of stock-based compensation awards, including stock options, stock appreciation rights ("SARs"), restricted stock awards, restricted stock unit awards, deferred stock awards, dividend equivalent awards, stock payment awards and performance awards and other stock-based awards, in addition to the number of shares remaining available for future awards under the 2006 Stock Option Plan. The number of shares initially reserved for issuance or transfer pursuant to awards under the 2011 Equity Incentive Plan will be increased by (i) any shares available for issuance under the 2006 Stock Option Plan or are subject to awards under the 2006 Stock Option Plan that are forfeited or lapse unexercised and which following the effective date of the 2011 Equity Incentive Plan are not issued under the 2006 Stock Option Plan and (ii) an annual increase on the first day of each fiscal year beginning in 2012 and ending in 2021, equal to either 1,500,000 shares or such smaller number of shares of stock as determined by our Board of Directors.

Note 7: Share-Based Compensation (Continued)

Description of Equity Plans (Continued)

2011 Equity Incentive Plan (Continued)

As of December 31, 2014, there were 2,112,500 stock options outstanding under the 2011 Equity Incentive Plan and 862,500 stock options were available for grant under the 2011 Equity Incentive Plan. As of December 31, 2013, there were 1,290,000 stock options outstanding under the 2011 Equity Incentive Plan and 1,685,000 stock options were available for grant. The term of any stock option awards under the 2011 Equity Incentive Plan is no more than ten years.

Valuation of Stock Options

Share-based compensation related to stock options is determined using the single option approach under the Black-Scholes valuation model. The fair value of options is amortized to expense over the vesting periods of the underlying options, generally four or five years.

The fair value of stock option awards for the years ended December 31, 2014 and 2013 was estimated on the date of grant using the assumptions in the following table. The expected volatility in this model is based on the historical volatility of the Company's stock. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time awards are granted, based on maturities which approximate the expected life of the stock options. The expected life of the stock options granted is estimated using the historical exercise behavior of employees or the contractual term of the agreement, which ever represents the best evidence of fair value. The expected dividend rate takes into account the absence of any historical payments and the Board's intention to retain all earnings, if any, for future operations and expansion.

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

	Year Ended December 31, 2014	Year Ended December 31, 2013
Average Risk-Free Interest Rate	2.52-2.70%	1.61-1.88%
Dividend Yield	0.00%	0.00%
Average Volatility Factor	78.206-84.35%	81.35-84.36%
Average Option Life	5-10 years	6.5 years

Forfeiture Rate for Options

The Company is required to estimate forfeitures at the time of grant and revise those estimates in subsequent periods on a cumulative basis in the period the estimated forfeiture rate changes for all share-based awards. The Company considered its historical experience of stock option forfeitures as the basis to arrive at its estimated average stock option forfeiture rate of 5% per year for stock options granted.

During the years ended December 31, 2014 and 2013, the Company terminated one and four employees, respectively. A cumulative adjustment of approximately $1,000 and $205,000 was recorded as a reduction to non-cash share-based compensation expense in the Company's consolidated results of operations for the years ended December 31, 2014 and 2013, respectively.

Note 7: Share-Based Compensation (Continued)

Non-cash Share-based Compensation Expense

The Company recognized non-cash share-based compensation expense for its share-based awards of approximately $984,000 and $807,000 for the years ended December 31, 2014 and 2013, respectively.

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

	Year Ended December 31,	
	2014	2013
General and administrative	$ 779,000	$ 608,000
Research and development	33,000	67,000
Cost of goods sold	66,000	48,000
Sales and marketing	106,000	84,000
	$ 984,000	$ 807,000

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

	Shares	Weighted Average Exercise Price
Outstanding at December 31, 2012	4,490,375	$ 0.98
Granted	536,000	1.80
Exercised	(1,288,750)	0.32
Expired	-	-
Cancelled	(428,500)	1.60
Outstanding at December 31, 2013	3,309,125	1.67
Granted	825,000	1.65
Exercised	(20,500)	0.21
Expired	-	-
Cancelled	(11,500)	1.20
Outstanding at December 31, 2014	4,102,125	1.68
Exercisable at December 31, 2014	2,393,167	$ 1.72

Note 7: Share-Based Compensation (Continued)

Equity Compensation Plans Awards Activity

The weighted average grant date fair values of stock options granted during the years ended December 31, 2014 and 2013 were $1.40 and $1.32 per share, respectively.

Cash received from stock option exercises and repayments of stock subscriptions during the years ended December 31, 2014 and 2013 was approximately $56,000 and $61,000, respectively. The Company has a net operating loss carry forward as of December 31, 2014 and, therefore, no excess tax benefits for tax deductions related to the stock options were recognized.

There was no cash received for warrants in 2014. Cash received from warrants exercised in the year ended December 31, 2013 was approximately $159,000.

A further detail of the stock options outstanding as of December 31, 2014 is set forth as follows:

Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Yrs	Weighted-Average Exercise Price Per Share	Options Exercisable
$0.15	91,500	2.5	$0.15	91,500
$0.23	163,125	4.0	$0.23	163,125
$1.20	5,000	7.6	$1.20	2,500
$1.21	651,500	7.2	$1.21	325,750
$1.33	100,000	2.2	$1.33	50,000
$1.36	30,000	9.5	$1.36	7,500
$1.41	100,000	9.3	$1.41	-
$1.53	50,000	9.3	$1.53	-
$1.55	25,000	9.3	$1.55	-
$1.61	1,000	8.8	$1.61	250
$1.66	260,000	9.6	$1.66	-
$1.67	25,000	8.2	$1.67	6,250
$1.71	60,000	9.2	$1.71	2,500
$1.75	100,000	8.2	$1.75	43,750
$1.76	310,000	6.2	$1.76	25,000
$1.80	50,000	6.8	$1.80	37,500
$1.83	400,000	8.3	$1.83	166,667
$1.88	75,000	5.0	$1.88	75,000
$1.93	736,500	6.2	$1.93	564,875
$2.08	343,500	5.2	$2.08	343,500
$2.12	150,000	1.2	$2.12	112,500
$2.28	300,000	0.2	$2.28	300,000
$2.73	75,000	5.4	$2.73	75,000
	4,102,125			**2,393,167**

Note 7: Share-Based Compensation (Continued)

Unrecognized Share-Based Compensation Expense

As of December 31, 2014, there was approximately $840,000 of total unrecognized compensation expense related to non-vested share-based compensation arrangements granted under the Equity Compensation Plans. Future share based compensation represents:

2015	$	510,000
2016		227,000
2017		86,000
2018		17,000
	$	840,000

Stock Option Grants

On March 4, 2013, the Company granted to its non-employee directors stock options to purchase a total of 100,000 shares of the Company's common stock at an exercise price of $1.75 per share. The stock options vest over four years and expire on March 3, 2023. The fair market value of such stock options was $1.52 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	1.88%
Dividend Yield	0.00%
Average Volatility Factor	116.622%
Average Option Life	6.5 years

On April 1, 2013, the Company granted to a new employee stock options to purchase 25,000 shares of the Company's common stock at an exercise price of $1.67 per share. The stock options vest over four years and expire on March 31, 2023. The fair market value of such stock options was $1.22 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	1.86%
Dividend Yield	0.00%
Average Volatility Factor	83.532%
Average Option Life	6.5 years

On May 1, 2013, the Company granted to a new employee stock options to purchase 400,000 shares of the Company's common stock at an exercise price of $1.83 per share. The stock options vest over four years and expire on April 30, 2023. The fair market value of such stock options was $1.34 per stock option based on the Black-Scholes valuation model.

Note 7: Share-Based Compensation (Continued)

Stock Option Grants (Continued)

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

Average Risk-Free Interest Rate	1.66%
Dividend Yield	0.00%
Average Volatility Factor	83.890%
Average Option Life	6.5 years

On October 21, 2013, the Company granted to a new employee stock options to purchase 1,000 shares of the Company's common stock at an exercise price of $1.61 per share. The stock options vest over four years and expire on October 20, 2023. The fair market value of such stock options was $1.15 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	81.41%
Average Option Life	6.5 years

On October 23, 2013, the Company granted to a new employee stock options to purchase 10,000 shares of the Company's common stock at an exercise price of $1.71 per share. The stock options vest over four years and expire on October 22, 2023. The fair market value of such stock options was $1.22 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	2.51%
Dividend Yield	0.00%
Average Volatility Factor	84.35%
Average Option Life	6.5 years

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 years ended December 31, 2014 and 2013, the Company recognized approximately $44,000 and $26,000 respectively, in non-cash share-based compensation expense related to these RSU's. The Company will recognize approximately $63,000 in additional non-cash share-based compensation expense related to the RSU's over the remaining vesting period.

Note 7: Share-Based Compensation (Continued)

Stock Option Grants (Continued)

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 $1.45 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	80.915%
Average Option Life	10 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 an exercise prices ranging from $1.55 to $1.70 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 $0.98 and $1.27 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	2.65%
Dividend Yield	0.00%
Average Volatility Factor	80.061%
Average Option Life	5-10 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 $1.25 per stock option based on the Black-Scholes valuation model. Assumptions used in the Black-Scholes valuation model for options granted were as follows:

Average Risk-Free Interest Rate	2.70%
Dividend Yield	0.00%
Average Volatility Factor	79.853%
Average Option Life	10 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 $1.15 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	79.747%
Average Option Life	10 years

Note 7: Share-Based Compensation (Continued)

Stock Option Grants (Continued)

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 June 11, 2024. The fair market value of such stock options was $1.10 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	78.898%
Average Option Life	10 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 $1.34 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	2.57%
Dividend Yield	0.00%
Average Volatility Factor	78.581%
Average Option Life	10 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 $1.34 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	78.206%
Average Option Life	10 years

Note 8: Employee Benefit Plan

On October 1, 2009, the Company instituted a 401(k) defined contribution plan (the "401(k) Plan") under which participants may elect to defer up to 100% of their compensation up to a maximum amount determined annually pursuant to Internal Revenue Service regulations. Employee contributions may begin 90 days after the date of hire and are immediately vested. The 401(k) Plan provides a safe harbor basic match contribution for all eligible employees who make salary deferrals. The match contribution is equal to 100% of the employee's salary deferral up to 4% of such employee's annual deferred compensation. This match contribution is credited to the employee's account plans and is 100% vested. A total of approximately $54,000 and $48,000 of match contribution expense was reported for the years ended December 31, 2014 and 2013, respectively.

Note 9: Segment Data Information and Concentrations of Business Risk

Segment Information

Operating segments are defined as components of an enterprise engaging in business activities about which separate financial information is available that is evaluated regularly by the chief operating decision maker or group in deciding how to allocate resources and in assessing performance. Utilizing these criteria, the Company has identified its reportable segments based on the geographical markets they serve, which is consistent with how the Company operates and reports internally.

The Company has two reportable segments: U.S. operations and The Netherlands operations. The U.S. reportable segment includes a subsidiary in Poland that is considered auxiliary to the U.S. operations.

The accounting policies for the segments are the same as those described in the summary of significant accounting policies. The Company accounts for intersegment sales as if the sales were to third parties, that is, at current market prices. The U.S. operating segment is a developer, manufacturer and distributor of enzyme products, proteins, peptides and other bio-molecules derived from genes and a collaborative licensor of enabling proprietary and patented technologies for the development and manufacturing of biological products and use in R&D. The Netherlands operating segment is also a developer of enzyme products, proteins, peptides and other bio-molecules derived from genes and, to date, has mainly invested in R&D activities.

Note 9: Segment Data Information and Concentrations of Business Risk (Continued)

Segment Information (Continued)

The following tables summarize the Company's segment and geographical information:

	Year Ended December 31, 2014			
	U.S. Operating Segment	The Netherlands Operating Segment	Eliminations	Total
Total net revenues	$ 10,479,233	$ 4,948,717	$ (2,904,552)	$ 12,523,398
Income (Loss) from Operations	(6,419,744)	1,094,807		(5,324,937)
Interest income	26,380	1,675		28,055
Interest expense	(683,207)	-		(683,207)
Compensation expense on stock option grants	(874,934)	(109,223)		(984,157)
Capital expenditures	(8,167)	(250,642)		(258,809)
Depreciation and amortization	(62,400)	(208,728)		(271,128)
Total assets at December 31, 2014	4,635,777	(4,579,824)	8,479,399	8,535,353

	Year Ended December 31, 2013			
	U.S. Operating Segment	The Netherlands Operating Segment	Eliminations	Total
Total net revenues	$ 15,800,767	$ 2,724,482	$ (1,390,508)	$ 17,134,741
Income (loss) from operations	535,755	20,747	-	556,502
Interest income	11,929	2,684	-	14,613
Interest expense	(686,022)	-	-	(686,022)
Gain on settlement of litigation	(313,143)	-	-	(313,143)
Compensation expense on stock option grants	(710,897)	(95,660)	-	(806,557)
Capital expenditures	-	(312,145)	-	(312,145)
Depreciation and amortization	(80,866)	(172,637)	-	(253,503)
Total assets at December 31, 2013	10,379,077	(5,186,813)	9,748,053	14,940,317

Note 9: Segment Data Information and Concentrations of Business Risk (Continued)

Concentrations

The Company's credit risks consist primarily of cash and cash equivalents and uncollateralized accounts receivables. The Company performs periodic credit evaluations of its customers' financial condition and provides allowances for doubtful accounts as required.

At times, the Company has cash and cash equivalents at financial institutions exceeding the Federal Depository Insurance Company ("FDIC") insured limit on domestic currency and the Netherlands FDIC counterpart on foreign currency. The Company only deals with reputable financial institutions and has not experienced any losses on these accounts. At December 31, 2014 and 2013, amounts on deposit at financial institutions that exceeded these limits are approximately $2,122,000 and the Dutch limit of $8,567,000 respectively.

For the year ended December 31, 2014, there were two customers that accounted for approximately 16% and 10%, respectively, of net product sales. For the year ended December 31, 2014, there were two customers that accounted for approximately 55% and 16%, respectively, of research and development revenue.

For the year ended December 31, 2014, there were two customers that accounted for approximately 18% and 11%, respectively, of net product sales. For the year ended December 31, 2013, there were four customers that accounted for approximately 23%, 22%, 21% and 16%, respectively, of research and development revenue.

As of December 31, 2014, there were four customers that accounted for approximately 18%, 13%, 11% and 10%, respectively, of total accounts receivable. As of December 31, 2013, there were two customers that accounted for approximately 13% and 12%, respectively, of total accounts receivable.

The Company conducts operations in The Netherlands through its foreign subsidiary (*Note 1*). The net assets of the Company as of December 31, 2014 had an unfavorable foreign currency exchange difference of approximately $147,000.

The Company generates a large portion of its product sales to customers that are located outside the U.S. Sales to external customers whose corporate offices are outside the U.S., totaled approximately $7,591,000, or 78% and $7,279,00, or 74% for the years ended December 31, 2014 and 2013, respectively.

The Company does not own enzyme manufacturing facilities and relies on third party contract manufacturers to produce all of its enzymes. The Company has and will continue to utilize third party manufacturers to fulfill its current and future production needs. In order to address future growth, 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.

For the years ended December 31, 2014 and 2013, there was one vendor that accounted for 10% or greater of purchases, which represented approximately 50% and 71%, respectively, of total purchases, respectively. This vendor accounted for approximately 50% and 73% of total accounts payable balance as of December 31, 2014 and 2013, respectively.

Note 10: Income Taxes

There was no current U.S. income tax provision recognized during the years ended December 31, 2014 and 2013. The Company has incurred operating losses and has established a full valuation allowance against its deferred tax asset. The Company's operations in The Netherlands are subject to income taxes in those jurisdictions.

There was no provision or benefit for either U.S. or foreign deferred income taxes for the years ended December 31, 2014 and 2013.

The U.S. and foreign components of income (loss) from operations before income taxes consisted of the following for the years ended December 31:

	2014	2013
United States	$ (5,980,089)	$ (428,050)
Foreign	-	-
	$ (5,980,089)	$ (428,050)

The primary difference between the Company's income tax benefit computed at the U.S. statutory rate of 35% and the effective tax rates for the years ended December 31, 2014 and 2013 is the change in the valuation allowance in the respective periods that results from the Company fully offsetting the deferred income tax benefit of its net operating losses.

A reconciliation of the Company's income tax provision (benefit) to amounts calculated at the federal statutory rate is as follows for the years ended December 31:

	2014	2013
Federal statutory taxes	(35.00) %	(35.00) %
State income taxes, net of federal tax benefit	(3.58)	(3.58)
Nondeductible items	6.84	72.42
Change in tax asset valuation allowance	31.74	(33.84)
	- %	- %

The significant components of the Company's net deferred tax assets and liabilities consisted of the following as of December 31:

	2014	2013
Current tax assets and liabilities:		
Allowance for doubtful accounts	$ 25,000	$ 13,000
Inventory reserves	92,000	83,000
Other items, net	156,000	138,000
Depreciation and amortization	(39,000)	(17,000)
	234,000	217,000
Non-current tax assets and liabilities:		
Net operating loss and tax credit carryforwards	$ 25,571,000	$ 23,650,000
Valuation allowance	(25,805,000)	(23,867,000)
Net deferred tax assets	$ -	$ -

Note 10: Income Taxes (Continued)

GAAP requires a valuation allowance to reduce the deferred tax assets reported if, based on the weight of the evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. After consideration of all the evidence, both positive and negative, management has determined that a full valuation allowance of approximately $25,805,000 and $23,867,000 against its net deferred taxes is necessary as of December 31, 2014 and 2013, respectively. The increase in valuation allowance for the years ended December 31, 2014 and 2013 was approximately $1,938,000 and $129,000, respectively.

At December 31, 2014, the Company had approximately $66,280,000 of U.S. net operating loss carryforwards remaining, which will expire beginning in 2021. As a result of certain ownership changes, the Company may be subject to an annual limitation on the utilization of its U.S. net operating loss carryforwards pursuant to Section 382 of the Internal Revenue Code. A study to determine the effects of this change, if any, has not been undertaken.

Note 11: Subsequent Events

The Company has evaluated these consolidated financial statements for subsequent events through March 11, 2015, the date of issuance of these consolidated financial statements. Except as disclosed in Note 5 and below, management is not aware of any events that have occurred subsequent to the balance sheet date that would require adjustment to, or disclosure in the consolidated financial statements.

On March 9, 2015, the Company completed a private placement of a $2,000,000 convertible subordinated secured promissory note (the "2015 Note"). The 2015 Note will pay interest quarterly at a rate of 10% per annum and is convertible at the holder's option into shares of Dyadic common stock at $1.28 per share. This conversion price was at a premium to the stock price on that day. Unless converted, the 2015 Note will mature on January 1, 2016. The 2015 Note is not callable early, and as to this note holder's 2010 and 2011 notes *(Note 4)*, the early call provision (after March 31, 2015 and before January 1, 2016) was amended to state that the early call provision can no longer be exercised solely by the Company.