DYADIC INTERNATIONAL, INC.

A Delaware Corporation

140 Intracoastal Pointe Drive, Suite 404
Jupiter, Florida 33477
Telephone: (561) 743-8333
Facsimile: (561) 743-8343
Corporate Website:
www.dyadic.com

SIC Code: 2836
Federal EIN: 45-0486747

Annual Report

For the year ended December 31, 2017

ISSUER'S EQUITY SECURITIES

COMMON STOCK

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

38,936,988 Shares Issued as of December 31, 2017
28,327,811 Shares Outstanding as of December 31, 2017

38,930,738 Shares Issued as of December 31, 2016
32,382,265 Shares Outstanding as of December 31, 2016

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

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

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

OTCQX: DYAI

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

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

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Special Cautionary Note Regarding Forward-Looking Statements

Information (other than historical facts) set forth in this Annual Report contains forward-looking statements within the meaning of the Federal Securities Laws, which involve many risks and uncertainties that could cause our actual results to differ materially from those reflected in the forward-looking statements. Forward-looking statements generally can be identified by use of the words "expect," "should," "intend," "anticipate," "will," "project," "may," "might," "potential," or "continue" and other similar terms or variations of them or similar terminology. Such forward-looking statements are included under Item 16 "Management's Discussion and Analysis". Dyadic International, Inc., and its subsidiaries cautions readers that any forward-looking information is not a guarantee of future performance and that actual results could differ materially from those contained in the forward-looking information. Such statements reflect the current views of our management with respect to our operations, results of operations and future financial performance. Forward-looking statements involve many risks, uncertainties or other factors within and/or beyond Dyadic's control. These factors include, but are not limited to, (1) general economic, political and market conditions; (2) our ability to carry out and implement our biopharmaceutical research and business plans and strategic initiatives; (3) our ability to retain and attract employees, consultants, directors and advisors; (4) our ability to implement and successfully carry out Dyadic's and third parties research and development efforts; (5) our ability to obtain new license and research agreements; (6) our ability to maintain our existing access to, and/or expand access to third party contract research organizations in order to carry out our research projects for ourselves and third parties; (7) competitive pressures and reliance on key third-party and related party research organizations, customers and collaborators; and (8) other factors discussed in Dyadic's publicly available filings, including information set forth under the caption "Risk Factors" in this Annual report. We caution you that the foregoing list of important factors is not exclusive. The forward-looking statements are based on our beliefs, assumptions and expectations of future performance, considering the information currently available to us. These statements are only predictions based upon our current expectations and projections about future events. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward-looking statements. Moreover, we operate in a highly regulated, competitive and rapidly changing environment. Our competitors have far greater resources, infrastructure and market presence than we do which makes it difficult for us to enter certain markets, and/or to gain or maintain customers. New risks emerge from time to time and it is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. Before investing in our common stock, investors should carefully read the information set forth under the caption "Risk Factors" and elsewhere in this Annual Report which could have a material adverse effect on our business, results of operations and financial condition.

You should not rely upon forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that the future results, levels of activity, performance and events and circumstances reflected in the forward-looking statements will be achieved or occur. Except as required by law, we undertake no obligation to publicly update any forward-looking statements for any reason after the date of this Annual Report to conform these statements to actual results or to changes in our expectations.

We qualify all our forward-looking statements by these cautionary statements. In addition, with respect to all our forward-looking statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

PART A. GENERAL COMPANY INFORMATION

Item 1 The Exact Name of the Issuer and its Predecessor (if any)

The name of the issuer is Dyadic International, Inc.

Item 2 The Address and Telephone Number of the Issuer's Principal Executive Offices

The address of the issuer:	140 Intracoastal Pointe Drive, Suite 404 Jupiter, Florida 33477
The telephone and facsimile:	Telephone: (561) 743-8333 Facsimile: (561) 743-8343
The issuer's website:	Dyadic's corporate website, www.dyadic.com, contains general information about us and our products and services. The information contained on or accessible from this website shall not be deemed incorporated by reference herein.
Investor relations contact:	Mark A. Emalfarb Chief Executive Officer 140 Intracoastal Pointe Drive, Suite 404 Jupiter, Florida 33477 Telephone: (561) 743-8333 Facsimile: (561) 743-8343 Email: memalfarb@dyadic.com

Item 3 The Jurisdiction and Date of the Issuer's Incorporation or Organization

The Company was incorporated in the State of Delaware in September 2002.

PART B. SHARE STRUCTURE

Item 4 The Exact Title and Class of Securities Outstanding

As of December 31, 2017, Dyadic had two classes of capital stock authorized, common stock and preferred stock. Our common stock is traded on the OTCQX U.S. Premier, a tier of the OTC marketplace. There were no shares of preferred stock outstanding as of the reported period. The trading symbol for Dyadic's common stock assigned by the Financial Industry Regulatory Authority, Inc. is "DYAI."

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

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

Item 5 Par or Stated Value and Description of the Security

A. Par or Stated Value

1. Dyadic's preferred stock has a par value of $0.0001 per share, none of which is outstanding.
2. Dyadic's common stock has a par value of $0.001 per share.

B. Common or Preferred Stock

The following descriptions of our capital stock are summaries and are qualified by reference to the Company's certificate of incorporation and bylaws, which were posted to the OTC Markets website as Exhibits 1.1 and 1.2 dated March 15, 2017.

Dividend Rights

The holders of our common stock are entitled to dividends in the amounts and at times as may be declared by the board of directors out of funds legally available therefor.

Voting Rights

Holders of our common stock are entitled to one vote per share in the election of directors and on all other matters on which stockholders are entitled or permitted to vote. Holders of our common stock are not entitled to cumulative voting rights.

Preemption Rights

Holders of our common stock have no preemptive rights.

Liquidation Rights

Upon liquidation or dissolution, holders of our common stock are entitled to share ratably in all net assets available for distribution to stockholders after we have paid, or provided for payment of, all of our debts and liabilities.

Other Rights of the Common Stockholders

Holders of our common stock have no redemption or conversion rights. There are no sinking fund provisions applicable to our common stock. The rights, preferences and privileges of the holders of our common stock are subject to the rights of the holders of shares of any series of preferred stock that we may issue in the future.

Our board of directors has the authority to issue preferred stock in one or more classes or series and to fix the designations, powers, preferences and rights, and the qualifications, limitations or restrictions thereof, including dividend rights, conversion right, voting rights, terms of redemption, liquidation preferences and the number of shares constituting any class or series, without further vote or action by the stockholders. Although we have no present plans to issue any other shares of preferred stock, the issuance of shares of preferred stock, or the issuance of rights to purchase such shares, could decrease the amount of earnings and assets available for distribution to the holders of common stock, could adversely affect the rights and powers, including voting rights, of the common stock, and could have the effect of delaying, deterring or preventing a change of control of us or an unsolicited acquisition proposal.

Except as described above in this Item 5, or as they may be created under applicable law, the common stockholders have no other material rights.

Stock Options

As of December 31, 2017, we had outstanding options to purchase an aggregate of 2,712,390 shares of our common stock with exercise prices ranging from $0.15 to $2.08 per share, with a weighted average exercise price of $1.62 per share. Options outstanding that were exercisable at December 31, 2017 totaled 1,461,503 with a weighted average exercise price of $1.59 per share.

Item 6 The Number of Shares or Total Amount of the Securities Outstanding for Each Class of Securities Authorized

The following tables show the amount of the securities issued and outstanding for each class of securities authorized:

Common Stock

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

		As of Years Ended December 31,		
		2017	**2016**	**2015**
(i)	Number of shares authorized	100,000,000	100,000,000	100,000,000
(ii)	Number of shares issued	38,936,988	38,930,738	40,298,324
(iii)	Number of shares outstanding	28,327,811	32,382,265	40,298,324
(iv)	Number of shares held in treasury	10,609,177	6,548,473	0
(v)	Number of shares freely tradable (public float)	20,096,588	19,795,676	24,272,217
(vi)	Number of unaffiliated beneficial holders of freely tradable shares	(a)	(b)	(c)
(vii)	Total number of holders of record	72	94	89

(a) As of December 31, 2017, there were greater than 1,580 beneficial shareholders owning at least 100 shares of the Company's common stock.
(b) As of December 31, 2016, there were greater than 1,480 beneficial shareholders owning at least 100 shares of the Company's common stock.
(c) As of December 31, 2015, there were greater than 1,800 beneficial shareholders owning at least 100 shares of the Company's common stock.

Preferred Stock

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

		As of Years Ended December 31,		
		2017	**2016**	**2015**
(i)	Number of shares authorized	5,000,000	5,000,000	5,000,000
(ii)	Number of shares outstanding	0	0	0
(iii)	Number of shares freely tradable (public float)	0	0	0
(iv)	Number of unaffiliated beneficial holders of freely tradable shares	0	0	0
(v)	Total number of holders of record	0	0	0

Item 7 The Name and Address of the Transfer Agent

Name and address of transfer agent:	Continental Stock Transfer & Trust Company 1 State Street, 30th Floor New York, NY 10004
Telephone number:	(212) 509-4000

Continental Stock Transfer & Trust Company is registered under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and is regulated by the U.S. Securities and Exchange Commission (the "SEC" or "Commission").

PART C. BUSINESS INFORMATION

Item 8 The Nature of the Issuer's Business

A. Business Development

Dyadic International, Inc. ("Dyadic", "we", or the "Company") is a global biotechnology platform company based in Jupiter, Florida with operations in the United States and the Netherlands. Over the past two decades, the Company has developed a gene expression platform for producing commercial quantities of enzymes and other proteins, and has previously licensed this technology to third parties, such as Abengoa Bioenergy, BASF, Codexis and others, for use in industrial (non-pharmaceutical) applications. This technology is based on the *Myceliophthora thermophila* fungus, which the Company named C1. The C1 technology is a robust and versatile fungal expression system for the development and production of enzymes and other proteins.

On December 31, 2015, the Company sold its industrial technology business to DuPont's (NYSE: DD) industrial biosciences business for $75.0 million (the "DuPont Transaction"). The DuPont Transaction included $8.0 million of the purchase price held in escrow for 18 months to ensure Dyadic's obligations with respect to certain indemnity claims and working capital adjustments. The escrow amount of approximately $7.4 million was net of contractual working capital adjustments agreed to by the parties and interest earned to the release date, as previously reported. The Company received the escrowed funds on July 6, 2017.

DuPont granted Dyadic co-exclusive rights to the C1 technology for use in all human and animal pharmaceutical applications, with the exclusive ability to enter into sub-license agreements. DuPont retained certain rights to utilize the C1 technology in pharmaceutical applications, including the development and production of pharmaceutical products, for which it will make royalty payments to Dyadic upon commercialization. In certain circumstances, Dyadic may owe a royalty to either DuPont or certain licensors of DuPont, depending upon whether Dyadic elects to utilize certain patents either owned by DuPont or licensed in by DuPont.

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

1. The form of organization of the issuer.

The Issuer is a Delaware corporation.

2. The year that the issuer (or any predecessor) was organized.

The Issuer was formed in September 2002.

3. The issuer's fiscal year end date.

The Issuer's fiscal year end date is December 31.

4. Whether the issuer (or any predecessor) has been in bankruptcy, receivership or any similar proceeding.

The Issuer has not been in, and is not in the process of, any bankruptcy, receivership or any similar proceeding within the last three years.

5. Any material reclassification, merger, consolidation, or purchase or sale of a significant amount of assets.

On December 31, 2015, the Company completed the DuPont Transaction for $75 million in cash.

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

Upon closing of the BDI transaction, the Company paid EUR €1 million in cash to engage BDI to develop designated C1 based product candidates and further improve the C1 manufacturing process, in consideration of which Dyadic also received a 16.1% equity interest in BDI Holdings and a 3.3% equity interest in VLPbio. BDI is obligated to spend a minimum amount of EUR €936,000 over two years since the closing of the BDI transaction in the conduct of the research and development project under the RSA. In addition, under the SFA, Dyadic agreed to purchase from BDI at least USD $1 million in contract research services specified by Dyadic over the next two years. See Note 3, *Research and Collaboration Agreement*, to our Consolidated Financial Statements, included in *Item 12* of this Annual Report.

6. Any default of the terms of any note, loan, lease, or other indebtedness or financing arrangement requiring the issuer to make payments.

The Issuer has not experienced any default of the terms of any note, loan, lease, or other indebtedness or financing arrangement requiring the Issuer to make payments within the last three years.

7. Any change of control.

The Issuer has not experienced any change of control within the last three years.

8. Any increase of 10% or more of the same class of outstanding equity securities.

In connection with the closing of the DuPont Transaction on December 31, 2015, all of Dyadic's outstanding debt has been repaid or converted into shares of Dyadic's common stock. A total of $8,110,787 in convertible debt and $170,387 in accrued interest was exchanged for 6,117,694 shares of Dyadic's common stock and 1,052,496 warrants with a $1.48 per share strike price with a December 31, 2016 expiration date. A total of $550,000 in convertible debt and $11,090 in accrued interest was repaid in cash and 94,780 warrants with a $1.48 per share strike price with a December 31, 2016 expiration date to convertible debt holders who elected not to convert. In addition, the outstanding non-convertible note of $1,424,941 and accrued interest of $34,121 was repaid in cash.

The Issuer has not experienced any other increases of 10% or more of the same class of outstanding equity securities within the last three years.

9. Any past, pending or anticipated stock split, stock dividend, recapitalization, merger, acquisition, spin-off, or reorganization.

There are no past or pending stock splits, stock dividends, recapitalizations, mergers, acquisitions, spin-offs, or reorganizations within the last three years.

Share Repurchase

See Note 7, *Shareholder's Equity,* to the Consolidated Financial Statements included in *Item 12*, of this Annual Report for additional information.

Potential Reverse Stock Split

On December 7, 2016, at the special meeting of Dyadic shareholders, Dyadic's shareholders approved the proposal to amend Dyadic's Restated Certificate of Incorporation to effect a reverse stock split of the Company's issued and outstanding shares of common stock at a ratio between 1-for-every-2 and 1-for-every-4 and effective upon a date, in each case, to be determined by the Company's board of directors.

On November 6, 2017, our Board of Directors concluded that the reverse stock split and potential up-listing would not be in the best interest of the Company or its shareholders at this time. Accordingly, the Company decided not to effectuate a reverse split prior to the December 6, 2017 shareholder approved deadline. Management and the Company's Board of Directors will continue to evaluate if such an action would be the in the best interest of the Company and its shareholders in the future.

10. Any delisting of the issuer's securities by any securities exchange or deletion from the OTC Bulletin Board.

The Issuer's securities have been neither delisted by any securities exchange nor deleted from the OTC Bulletin Board in the last three years.

11. Any current, past, pending or threatened legal proceedings or administrative actions either by or against the issuer that could have a material effect on the issuer's business, financial condition, or operations and any current, past or pending trading suspensions by a securities regulator. State the names of the principal parties, the nature and current status of the matters, and the amounts involved.

In 2009, the Company sued its former professional service providers in connection with the events relating to alleged improprieties at the Company's former Asian subsidiaries. On March 1, 2017, the Company reached a settlement with the last of the remaining defendant, Greenberg Traurig, LLP, and Greenberg Traurig, P.A., in addition to three of the original defendants who have previously settled. On April 14, 2017, the Company received from Greenberg Traurig the full settlement payment in the amount of $4,500,000, net of legal fees and expenses. For further information regarding these legal proceedings, see Note 5, *Commitments and Contingencies* to our Consolidated Financial Statements, included in *Item 12* of this Annual Report.

B. Business of Issuer

For a description of the Issuer's business, see above and Management's Discussion and Analysis included in *Item 16,* of this Annual Report.

1. The issuer's primary and secondary SIC Codes.

The Issuer's primary SIC Code is 2836. The Issuer does not have a secondary SIC Code.

2. If the issuer has never conducted operations, is in the development stage, or is currently conducting operations.

The Issuer is currently conducting operations.

3. Whether the issuer has at any time been a "shell company."

The Issuer has not at any time been a "shell company."

4. The names of any parent, subsidiary, or affiliate of the issuer, and its business purpose, its method of operation, its ownership, and whether it is included in the financial statements attached to this Annual Report.

The Issuer is a Delaware 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 ("Geneva"), 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 1998, Dyadic-Florida formed Geneva as

the parent company to manage the Company's interest in Puridet Asia Limited, a Chinese subsidiary which we abandoned in 2007 and excluded from the Dyadic's financial statements. 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 was liquidated and de-registered in July 2017. In January 2003, Dyadic-Florida formed Dyadic NL for the development, use and marketing of the C1 technology.

The Issuer's subsidiaries are included in its consolidated financial statements included in *Item 12* of this Annual Report.

5. The effect of existing or probable governmental regulations on the business.

The Issuer develops technologies derived from genetically modified organisms ("GMOs") that are subject to regulation by federal, state, local and foreign government agencies. The agencies administering existing or future applicable regulation or legislation may not allow the Issuer or its licensees to produce and/or market products derived from GMOs in a timely manner or under technically or commercially feasible conditions. The U.S. Food and Drug Administration ("FDA") may subject the Issuer's technologies to lengthy reviews and unfavorable determinations due to safety concerns or changes in the FDA's current regulatory policy. The European Union ("EU") also has regulations regarding the development, production and, marketing of products from GMOs, which are generally more restrictive than present U.S. regulations. Further, the Issuer is subject to regulations in the other countries in which it operates outside of the U.S. and EU, which may have different rules and regulations depending on the jurisdiction. For further discussion, see the section entitled "Risks Related to Our Business and Industry" in this Annual Report.

6. An estimate of the amount spent during each of the last two fiscal years on research and development activities, and, if applicable, the extent to which the cost of such activities are borne directly by customers.

Research and development expenses are included in our Consolidated Statements of Operations dated December 31, 2017 and 2016, included in *Item 12,* as well as Management's Discussion and Analysis included in *Item 16,* of this Annual Report. The Company intends to continue its investment in research and development to further advance its technology and to generate data.

7. Costs and effects of compliance with environmental laws (federal, state and local).

The costs and effects of compliance with federal, state and local environmental laws have not been material to date. However, our contract research organization(s) and licensee(s) are subject to such compliance with environmental laws and this may have a negative impact on our costs, technologies and business.

8. The number of total employees and number of full-time employees.

As of December 31, 2017, Dyadic had a total of 7 full-time employees. The Company reviews staffing periodically to assess its needs as it expands its business and develops its capabilities. We remain flexible as to our staffing to allow us to take advantage of opportunities, if and when they present themselves. As we move forward, we will regularly review our staffing levels in research and development, sales and business development to enable the Company to be more effective in achieving our business plans.

Risk Factors

Investing in our common stock involves a high degree of risk. You should carefully consider all matters described in this Annual Report, including the risk factors included in this section, our Management's Discussion and Analysis or Plan of Operations and our accompanying financial statements in evaluating our current business and future performance. We cannot assure you that any of the events discussed in the risk factors will not occur. If we are not able to successfully address any of the risks or difficulties, we could experience a material adverse effect on our business, operations and financial performance. In such circumstances, the trading price of our common stock could decline,

and in some cases, such declines could be significant and you could lose part or all of your investment. In addition to the risks discussed in this "Risk Factors" section, other unforeseeable risks and uncertainties that we currently believe are immaterial or unknown to us may also adversely affect our business, operating results or financial performance. Certain statements contained in this Annual Report constitute forward-looking statements. Please refer to the section entitled "Special Cautionary Notice Regarding Forward-Looking Statements" on page 3 of this Annual Report for important limitations and guidelines regarding reliance on forward-looking statements.

Risks Related to Our Business and Industry

We may not succeed in implementing our new business strategy.

Subsequent to the December 31, 2015 sale of substantially all of the assets of our industrial technology business to DuPont's Industrial Biosciences business for $75 million in cash, the Company has been focused on its biopharmaceutical business. DuPont granted Dyadic co-exclusive rights to the C1 technology for use in all human and animal pharmaceutical applications, with Dyadic having exclusive ability to enter into sub-license agreements in that field. DuPont retains certain rights to utilize the C1 technology for development and production of pharmaceutical products, for which it will make royalty payments to Dyadic upon commercialization. We cannot predict whether DuPont intends to or will pursue the use of the C1 technology to develop or manufacture pharmaceutical products or whether or when we might receive royalties from DuPont. In certain circumstances, Dyadic may owe a royalty to either DuPont or certain licensors of DuPont, depending upon whether Dyadic elects to utilize certain patents owned or licensed in by DuPont. Consequently, our business has changed dramatically as compared to the past as we no longer have any product revenue related to our enzyme business. We have begun to apply the C1 technology in the biopharmaceutical market, which is relatively new to us. This change in our business makes it difficult to evaluate our current business and to predict our future operating results or financial performance.

As we attempt to adapt the C1 technology for use in the biopharmaceutical market, our business is subject to the execution, integration, and research and development risks that early-stage companies customarily face with new technologies, products and markets. These risks relate to, among other things, our ability to successfully further develop the C1 technology, products and processes, assemble adequate production and research and development ("R&D") capabilities, comply with regulatory requirements, construct effective channels of distribution and manage growth. We have encountered and will continue to encounter risks and difficulties frequently experienced by early stage companies in expanding and upgrading our intellectual property, regulatory, marketing, sales and R&D capabilities, improving our accounting and financial reporting and internal controls infrastructure, and adapting to the rapidly evolving industries in which we operate. Additionally, we are subject to competition from much larger companies with more resources than us. Also, the market for developing and manufacturing pharmaceutical proteins produced from a filamentous fungus, such as the C1 fungus, is a market that is not yet established and is subject to a high level of regulatory hurdles from the U.S. Food and Drug Administration (the "FDA") and other governmental bodies and there is a risk that such technologies will not be adopted by the pharmaceutical industry or governmental agencies and therefore not succeed and/or not grow at the rates projected or at all.

We have not yet commercialized any products for the biopharmaceutical market, and we may never be able to do so. Other than select members of our board of directors, we currently have neither qualified personnel with experience or expertise in research and development of biopharmaceutical products nor personnel with regulatory, manufacturing, marketing, sales and licensing experience in these areas.

We do not know when or if we and/or our licensees and collaborators will complete any of our or their product development efforts, obtain regulatory approval for any product candidates incorporating our technologies or successfully commercialize any approved products. Even if we and/or our licensees and collaborators are successful in developing products that are approved for marketing, we and they will still require that these products gain regulatory approval and market acceptance. The biopharmaceutical industry is a high risk industry in that even if we are successful at expressing certain proteins, these proteins may fail to be advanced or approved for use or sale for many reasons including their characteristics, stability, glycosylation structures, containments, purity, performance, safety and regulatory reasons.

Because of the numerous risks and uncertainties associated with pharmaceutical product development, we are unable to predict the timing or amount of increased expenses or when, or if, we will be able to achieve certain product and/or commercial milestones, access fees and royalties, launch products and/or processes, or achieve profitability. In addition, our expenses could increase if we are required by the FDA or other domestic and foreign regulatory authorities to perform studies or trials in addition to those currently expected, or if there are delays in completing additional safety studies such as toxicology and pathogenicity studies, clinical trials, preclinical studies, animal or human studies or the development of any of our or our collaborators' product candidates.

As a result of the evolving nature of our business, our operating history in past periods will not provide a reliable basis to evaluate our current business or predict our future performance. Any assessments of our current business or predictions regarding our future success or viability are likely not as accurate as they could be if we had a longer operating history in our new line of business.

We have a history of net losses, and we may not achieve or maintain profitability.

As of December 31, 2017, we have an accumulated deficit of approximately $27.4 million. Prior to the DuPont Transaction, our revenues were derived from licensing, licensing milestones and a very small amount of royalties from the licensing of the C1 expression system to third parties mainly within the industrial biotechnology markets, the operation of our industrial enzyme business and the collection of R&D fees from third parties. Our profitability has strongly relied on, and will be even more reliant going forward on, third party industry and government research funding, licensing partnerships and other forms of collaborations. We believe that it is likely that if we do not sign license deals or other forms of collaborations, we will incur losses because of our planned levels of R&D and additional general and administrative expenditures that we believe is necessary to operate our business and further develop the C1 technology for use in the pharmaceutical business and the continued expenses. The amount of our future net losses will depend, in part, on the rate of increase in our expenses along with other potential cost of unforeseen circumstances, our ability to generate research funding, government grants, receipt of access fees, milestones, royalty and other payments, and whether we are able to generate revenues by entering into license agreements or other forms of collaborations, launch new products and/or processes from future licensees or collaborators, and our ability to raise additional capital. The net losses we anticipate incurring over the next several years will have an adverse effect on our stockholders' equity and working capital.

The R&D efforts needed to enhance the C1 technology for use in developing and manufacturing biopharmaceuticals will require significant funding and increased staffing; therefore, we expect near-term operating and research expenses to continue, and maybe even accelerate, as we further develop our research and business plans, and our goals and objectives. Consequently, we will require significant additional revenue to achieve profitability. We cannot provide assurance that we will be able to generate any revenues from our focus and efforts as we intend to apply the C1 technology into the biopharmaceutical industry. If we fail to enter into new license agreements or other forms of collaborations, or generate revenues and profit from additional research projects and government grants, the market price of our common stock will likely decrease. Further regulatory complications, competition from other technologies, or delays in the adoption of the C1 technology by the biopharmaceutical industry may force us to reduce our staffing and research and development efforts, which may further affect our ability to generate cash flow.

We are dependent on collaborations with third parties and if we fail to maintain or successfully manage existing, or enter into new, strategic collaborations, we may not be able to develop and commercialize many of our technologies and products and achieve profitability.

Our R&D revenue is generated from a relatively small number of research collaborations. These collaborations could be delayed as they have in the past, or be discontinued at any time with little advance notice. We expect it to take a period of time before we will be successful, if at all, in obtaining additional research funding from industry and/or governmental sources. Therefore, for the time being, most of the research funding to further technology and product development will be incurred directly by the Company without any expense reimbursement from existing or new licensees and collaborators.

Our ability to enter into, maintain and manage collaborations in our target market is fundamental to the success of our business. We currently rely on, and expect to continue to rely on, our current and future partners, in part, for research and development, manufacturing and distribution, sales and marketing services, and application and regulatory know how. In addition, we intend to enter into additional collaborations to conduct research, develop, produce, market, license and sell our technologies and products and processes we anticipate developing. However, we may not be successful in entering into collaborative arrangements with third parties. Any failure to enter into such arrangements on favorable terms could delay or hinder our ability to develop and commercialize our technologies, products and processes and could increase our costs of research and development and commercialization.

We have limited or no control over the resources that any collaborator or licensee may devote to our programs.

Any of our current or future collaborators or licensees may, breach or terminate their agreements with us or otherwise fail to perform and conduct their required activities successfully and in a timely manner. Our collaborators or licensees may elect not to develop products arising out of our collaborative or license arrangements or may choose not to devote sufficient resources to the development, manufacture, market or sale of these products. If any of these events occur, we or our collaborators or licensees may not develop our technologies or commercialize our or their products.

Reductions in collaborators' R&D budgets may affect our businesses.

Fluctuations in the R&D budgets of government agencies, our customers, licensees, collaborators and research partners could have a significant impact on the interest in and demand for our technology. Private R&D budgets fluctuate due to changes in available resources, consolidation in the pharmaceutical and other industries, spending priorities and institutional budgetary policies. Governmental agencies, which we periodically receive research funding from, also experience fluctuations in their R&D budgets, which may negatively impact our ability to receive funding from such agencies. Our businesses could be seriously damaged by significant decreases in life sciences and/or pharmaceutical R&D expenditures by government agencies and existing and potential partners.

Conflicts with our collaborators and/or licensees could harm our business.

An important part of our strategy includes involvement in proprietary research programs. We may pursue opportunities in the pharmaceutical field that could conflict with those of our collaborators and licensees. Moreover, disagreements with DuPont, our CROs, collaborators or licensees could develop over rights to our intellectual property, over further licensing of our technologies to other parties in certain pharmaceutical fields, or over other reasons. Any conflict with DuPont, our CROs, collaborators or licensees could reduce our ability to obtain future collaboration agreements and negatively impact our relationship with existing collaborators or licensees, which could reduce our revenues and profits.

Some of our CROs, collaborators and/or licensees could also become competitors in the future. Our CROs, collaborators and/or licensees could develop competing technologies or products, preclude us from entering into collaborations or license agreements with their customers, could fail to obtain timely regulatory approvals, terminate their agreements with us prematurely or fail to devote sufficient resources to the development and commercialization of their technology and products and processes. Any of these developments could harm our technology development and value, product development efforts, revenue, profits and overall business.

If issues arise with our CROs, collaborators and/or licensees, we will need to either commercialize products resulting from our proprietary programs directly or by licensing to other companies, which could cause us to lose revenue or incur losses. Similarly, we may lose revenue or incur losses if we are unable to license our technology to new licensees on commercially reasonable terms, or are unable to develop the capability to market and sell products and processes on our own.

We rely on contracts with third-party contract research organizations ("CROs") to conduct our research and development, which may not be available to the Company on commercially reasonable terms or at all.

As a result of the DuPont Transaction, we no longer own a research and development laboratory and we became dependent upon the performance and research capacity of a number of third-party contract research organizations to conduct our research and development projects, which include services and programs in connection with the modification and enhancement of the Company's C1 expression platform for use in biopharmaceutical applications. The licensing and service arrangements with these third party CROs are not guaranteed to be renewed or continued on reasonable terms, if at all. The Company may be unable to maintain or expand its access to third party CROs to conduct our research projects. Failure to maintain and expand access to certain third party CROs could have a material adverse impact on the Company's research projects, financial condition and operating results.

We are dependent upon the availability and performance of third-party research organizations. If we require research capacity and/or capabilities and are unable to obtain it in sufficient quantity, and quality we may not be able to offer our technologies or products for license, or sale, or we may be required to make substantial capital investments to build out that capacity or to contract with other research organizations on terms that may be less favorable than our current arrangements. In addition, if we contract with other research organizations, we may experience delays of several months in qualifying them or in starting up research programs at these facilities, which could harm our relationships with our licensees, collaborators or customers and we may be required to make a capital investment in connection with these arrangements. This could have a material adverse effect on our business, revenues or operating results.

Additionally, if we were unsuccessful in retaining a contract research organization and were required to build our own research facility, it could take a year or longer before such owned research facility is able to be brought online to carry out the necessary technology and product development efforts of the Company. Any funding and resources we utilize to acquire or build internal research capabilities could be at the expense of other potentially more profitable opportunities.

We rely on our collaborators and other third parties to deliver timely and accurate information in order to accurately report our financial results as required by law.

We need to receive timely, accurate and complete information from a number of third parties in order to accurately and timely report our financial results. We rely on third parties to provide us with complete and accurate information regarding research developments and data, revenues, expenses and payments owed to or by us on a timely basis. We will need to establish the proper controls related to obtaining and reporting information from our CROs, licensees and collaborators related to when milestones are earned, if any, when royalties are earned, if any, as well as other types of potential revenues and expenses. If the information that we receive is not accurate, our consolidated financial statements may be materially incorrect and may require restatement. Although we may have contractual rights to receive information, such provisions may not ensure that we receive information that is accurate or timely. As a result, we may have difficulty in completing accurate and timely financial disclosures, which could have an adverse effect on our business and common stock.

If our competitors develop technologies and products more quickly and market more effectively than our product candidates, our commercial opportunity will be reduced or eliminated. Because of the competition and safety risks in the biopharmaceutical industry, any product candidates are subject to extensive regulation, which can be costly and time consuming.

Any biopharmaceutical products we or our collaborators or licensees develop through the C1 expression system will compete in highly competitive and regulated markets. Many of the organizations competing with us in the market for such products have more capital resources, larger R&D and marketing staff, facilities and capabilities, and greater experience in research and development, regulatory approval, manufacturing and commercialization of technology and products. Accordingly, our competitors may be able to develop technologies and products more rapidly. If a competitor develops superior technology or products, or more cost-effective alternatives to our and our collaborators' or licensees' technologies, products or processes, our business, operating results and financial condition could be seriously harmed.

Customers may prefer existing or future technologies over the C1 expression system. Well-known and highly competitive biotechnology companies offer comparable technologies for the same products and services as our

biopharmaceutical business. We anticipate that we, our collaborators and licensees will continue to encounter increased competition as new companies enter these markets and as the development of biological processes and products evolve.

Pharmaceutical companies are usually more focused on the qualitative and safety aspects of the products rather than on the actual cost or potential cost savings of producing such safe pharmaceutical products. It is expected to be a very difficult task, and it is expected to take a very long time to get the biopharmaceutical industry to adopt a new expression system, including the C1 expression system. Even if the C1 technology delivers on its promise of expressing high volumes of low cost proteins with the proper qualitative properties without negative side effects, it is still expected to take a very long time to obtain adoption of the C1 expression system by both the pharmaceutical industry and governmental regulatory agencies.

We could fail to manage our growth, which would impair our business.

- Balance our cash burn with technology and product development, advancement and value creation of such technologies and products;
- Maintain and gain additional CROs, or other technology collaborators;
- Maintain and gain additional strategic partners and technology licensees;
- File, maintain and defend our intellectual property and protect our proprietary information and trade secrets;
- Develop technology, products and processes that do not infringe on the intellectual property of third parties;
- Recruit and hire the required employees necessary to maintain and grow our business and to advance our technologies and products;
- Achieve technical success in our and our licensees' or collaborators' research and product development programs;
- Implement and oversee our operational and financial control systems;
- Operate successful recruiting and training programs;
- Access manufacturing capacity;
- Access additional growth capital;
- Recruit and maintain consultants, board members and scientific advisory board members;
- Manage scientific risks and uncertainties that may arise during our R&D and regulatory programs; and
- Limit litigation risks and uncertainties.

Public views on ethical and social issues may limit use of our technologies.

Our success will depend in part upon our ability, our collaborators' or licensees' ability, to develop pharmaceutical products discovered, developed and manufactured through the C1 expression system. Governmental authorities could, for social, ethical or other purposes, limit the use of genetic processes or prohibit the practice of using a modified C1 organism to produce biologic vaccines and drugs. Concerns about the C1 expression system, and particularly about the expression of genes from C1 for pharmaceutical purposes, could adversely affect their market acceptance.

The commercial success of our and our licensees' potential products will depend in part on public acceptance of the use of genetically engineered products including enzymes, vaccines, drugs and other protein products produced in this manner. Claims that genetically engineered products are unsafe for consumption or pose a danger to the environment, animals or humans may influence public attitudes. Our and our licensees' genetically engineered products may not gain public acceptance. Negative public reaction to GMOs and products could result in increased government regulation of genetic research and resulting products, including stricter labeling laws or other regulations, and could cause a decrease in the demand for our products. If we and/or our collaborators are not able to overcome the ethical, legal, and social concerns relating to genetic engineering, some or all of our products and processes may not gain public acceptance. Any of the considerations below could result in expenses, delays, or other impediments to our and our licensees' programs or the public acceptance and commercialization of products and processes dependent on our technologies and could have a material adverse effect on our business operations and financial condition:

- public attitudes about the safety and environmental hazards of, and ethical concerns over, genetic research and genetically engineered products and processes, which could influence public acceptance of our and our licensees' technologies, products and processes;

- public attitudes regarding, and potential changes to laws governing, ownership of genetic material which could harm our intellectual property rights with respect to our genetic material and discourage collaborative partners or licensees from supporting, developing, or commercializing our products, processes and technologies; and
- government regulations are changing rapidly, which likely will result in greater government regulation of genetic research and derivative technologies and products derived from such technologies, making approvals of such technologies and the products derived from such technologies to be delayed, more expensive with added risks.

Our revenue growth depends in part on market and regulatory acceptance of the C1 technology to develop and manufacture animal and/or human biopharmaceutical products.

The success of our biopharmaceutical business will depend on our ability to develop, register, and introduce new and better technologies and products in a timely manner that address the evolving requirements of the pharmaceutical industry and potential customers. There is no assurance that the C1 technology or any product expressed from C1 will perform better, save our customers money relative to our competitors' existing gene expression technologies or those of our competitors, provide our customers with other benefits, obtain governmental safety and regulatory approvals, be registered or will gain market acceptance. If we fail to develop new and better performing technologies, products and processes, make fermentation yield improvements on our existing production processes, generate the necessary safety and regulatory data or gain registration and market acceptance of the C1 technology and C1 expressed products or processes, we could fail to recoup our R&D investment and fail to capitalize on potential opportunities or gain market share from our competitors. Any failure, for technological, quality, safety, regulatory, or other reasons, to develop and launch improved technologies and new products, could negatively impact our business.

The dynamic and conservative nature of the biopharmaceutical industry, the unpredictable nature of the product development process and the time and cost of new technology adoption in the biopharmaceutical industry may affect our ability to meet the requirements of the marketplace or achieve market and/or regulatory acceptance. Some factors affecting market and regulatory acceptance of our technologies and products include:

- Availability, quality, performance and price of competitive products and processes;
- Functionality and cost of new and existing technologies and products;
- Timing of product introduction, performance and pricing compared to our competitors;
- Scientists', customers' and regulatory agencies' opinions of our technology and products' utility and our ability to effectively incorporate their feedback into future technology development or product offerings;
- The status of C1 and other expression technologies including other microbial systems as to safety, quality, purity and expression levels, capital expenditure intensity, operating costs, and continually changing governmental and industry regulatory requirements;
- The impact of our, DuPont's and our collaborators' intellectual property, and that of our competitors
- Competition with and against much larger companies; and
- Regulatory hurdles, timing, costs and receipt of approvals.

The expenses or losses associated with unsuccessful technology and product development activities or lack of market acceptance of our new technologies and products could seriously harm our business, financial condition and results of operations.

We must continually offer new products and technologies.

The biopharmaceutical industry is characterized by rapid technological change, and the area of gene and protein research and platform development is a rapidly-evolving field. Our future success will depend on our ability to maintain a competitive position with respect to technological advances in terms of product and process quality, stability, safety and productivity. Rapid technological development by others could cause our products and technologies to become obsolete.

Potential future regulations limiting our ability to sell genetically engineered products could harm our business.

We, our collaborators and licensees develop biologic products using genetically engineered microorganisms (GMOs). Products derived from GMOs may in some instances be subject to bans or additional regulation by federal, state, local and foreign government agencies. These agencies may not allow us or our collaborators and licensees to produce and market products derived from GMOs in a timely manner or under technically or commercially feasible conditions.

Compliance with FDA, EPA and EU regulations could result in expenses, delays or other impediments to our product development programs or the commercialization of resulting products. The FDA currently applies the same regulatory standards to products made through genetic engineering as those applied to products developed through traditional methodologies. Regardless of GMO status, a product may be subject to lengthy FDA reviews and unfavorable FDA determinations due to safety concerns or changes in the FDA's regulatory policy. The EPA regulates biologically-derived enzyme-related chemical substances not within the FDA's jurisdiction. An unfavorable EPA ruling could delay commercialization or require modification of the production process or product in question, resulting in higher manufacturing costs, thereby making the product uneconomical. The EU also has regulations regarding the development, production and marketing of products from GMOs, which may be as or more restrictive than U.S. regulations.

Further, we, DuPont, our collaborators and licensees are subject to regulations in the other countries in which we operate outside of the U.S. and EU, which may have different rules and regulations depending on the jurisdiction. Different countries have different rules regarding which products qualify as GMO. If any of these countries expand the definition of GMO and increase the regulatory burden on GMO products, our business could be harmed.

Other changes in regulatory requirements, laws and policies, or evolving interpretations of existing regulatory requirements, laws and policies, may result in increased compliance costs, delays, capital expenditures and other financial obligations that could adversely affect our business or financial results.

Our results of operations may be adversely affected by environmental, health and safety laws, regulations and liabilities.

We and our contract research organizations are subject to various federal, state and local environmental laws and regulations relating to the discharge of materials into the air, water and ground, the generation, storage, handling, use, transportation and disposal of hazardous materials, and the health and safety of our employees. These laws, regulations and permits can often require expensive pollution control equipment or operational changes to limit actual or potential impacts to the environment. A violation of these laws and regulations or permit conditions can result in substantial fines, criminal sanctions, permit revocations and/or facility shutdowns.

In addition, new laws, new interpretations of existing laws, increased government enforcement of environmental laws, or other developments could require us or our contract research organizations to make additional significant expenditures. Present and future environmental laws and regulations and interpretations thereof, more vigorous enforcement of policies and discovery of currently unknown conditions may require substantial expenditures that could have a material adverse effect our results of operations and financial position. Additionally, any such developments may have a negative impact on our contract manufacturers, which could harm our business.

We may fail to commercialize the C1 expression system for the expression of therapeutic proteins, antibodies and vaccines.

We have not yet developed any C1-based biopharmaceutical products or completed the commercialization of any therapeutic proteins, antibodies and vaccines.

To date, drug companies have developed and commercialized only a small number of gene-based products in comparison to the total number of drug molecules available in the marketplace. Our biopharmaceutical business should

be evaluated as having the same risks as those inherent to early-stage biotechnology companies because the application of the C1 expression system for the expression of pre-clinical and clinical quantities of therapeutic proteins, antibodies and vaccines is still in early development.

Successful development of the C1 expression system for biopharmaceutical purposes will require significant research, development and capital investment, including testing, to prove its safety, efficacy and cost-effectiveness. In general, our experience has been that each step in the process has been longer and costlier than originally projected, and we anticipate that this is likely to remain the case with respect to the continuing development efforts of our biopharmaceutical business.

We have no experience submitting applications to the FDA or similar regulatory authorities, and could be subject to lengthy and/or unfavorable regulatory proceedings.

While we anticipate that many of our collaborators or licensees have experience submitting an application to the FDA or other applicable regulatory authorities, we have no such experience. Neither we nor any collaborator or licensee has yet submitted an application with the FDA or any other regulatory authority for any product candidate generated through the use of the C1 expression system as it relates to the development and manufacture of pharmaceutical products. The FDA may not have substantial experience with technology similar to ours, which could result in delays or regulatory action against us. We, our collaborators and licensees, may not be able to able to obtain regulatory approval for our products, which would harm our business.

The C1 expression system has been tested for use in the manufacturing of an enzyme in the production of wine, beer and fruit juices, and is generally regarded as safe, and has generated promising safety and toxicity data for that enzyme. A risk nonetheless exists that the C1 expression system could produce vaccines, antibodies, or therapeutic products and enzymes that have safety, toxicity, pathogenicity, immunogenicity and other issues associated with them. The C1 expression system may be subject to lengthy regulatory reviews and unfavorable regulatory determinations if it raises safety questions which cannot be satisfactorily answered or if results from studies do not meet regulatory requirements. An unfavorable regulatory ruling could be difficult to resolve and could delay or possibly prevent a product from being commercialized, or even the use of the C1 technology to produce future products which would harm our business. Additionally, future products produced by us or our licensees or collaborators using the C1 expression system may not be approved by the FDA or other regulatory agencies in the U.S. or worldwide. There is no assurance that safety, toxicity, pathogenicity, immunogenicity and other issues will not arise in current or future product development and manufacturing programs due to media, fermentation, inherent properties or genetic changes in the C1 strain and fermentation process.

If these therapeutic protein products, antibodies or vaccines are not approved by regulators, we or our customers or collaborators and licensees will not be able to commercialize them, and we may not receive research funding, upfront license fees, milestone and royalty payments which are based upon the successful advancement of these products through the drug development and approval process. Even after investing significant time and expense, any regulatory approval may also impose limitations on the uses for which we can market a product, and any marketed product and its manufacturer are subject to continual review. Discovery of previously unknown problems with a product or manufacturer may result in new restrictions on the product, manufacturer and manufacturing facility, including withdrawal of the product from the market. In certain countries, regulatory agencies also set or approve prices, which may decrease our margins or harm our business.

Alternative technologies may not require microbial or other cell produced proteins.

Research is being conducted with cell or gene based therapies that offer a possible alternative to producing proteins as they are today based on microbial, organic matter containing Carbon, Hydrogen, and Oxygen or other organisms, that may allow genes to be directly inserted into cells that can be implanted into animals and humans directly, displacing the need for the existing methods used for development of biologic vaccines and drugs. If they are successful, these new methods may supplant or greatly reduce the need for microorganisms, Carbon, Hydrogen, and Oxygen or other organisms to produce these proteins externally as the injected cells in animals and human may be able to do so internally.

Other Business Risks That We Face

We may need substantial additional capital in the future to fund our business.

Our future capital requirements may be substantial, particularly as we continue to further develop, engineer and optimize the C1 expression system and our other proprietary technologies, products and processes for licensing for research and development, and commercialization of potential animal and human pharmaceutical products.

Our need for additional capital, if any, will depend on many factors, including (i) the technical and financial success of our efforts to enter the biopharmaceutical industry, (ii) the progress and scope of our collaborative and independent R&D projects and other ongoing and future potential projects, (iii) the receipt of future upfront fees, potential milestones, royalties and other payments from future licensees or other types of collaborations if any,(iv) our ability to obtain payments from other potential pharmaceutical business customers through research funding, milestones, license agreements and other forms of collaborative agreements, (v) the extent to which we can obtain licensees, or other types of collaborative partnerships for the research, development and commercialization of proteins in the biopharmaceutical industry, (vi) the effect of any acquisitions of other technologies and/or businesses that we may make in the future, and (vii) the filing, prosecution, enforcement and defense of patent claims and/or infringements by us, and our collaborators.

If our capital resources are insufficient to meet our capital requirements, we will have to raise additional funds to continue the development of our technologies and complete the development and commercialization of products, if any, resulting from our technologies. If acquisition of additional funds is not possible or if we engage in future equity financings, dilution to our existing stockholders may result. If we raise debt financing, we may be subject to restrictive covenants that limit our ability to conduct our business. We may not be able to raise funds on terms that are favorable to us, if at all. If we fail to raise sufficient funds and incur losses, our ability to fund our operations, take advantage of strategic opportunities, develop products or technologies, or otherwise respond to competitive pressures could be significantly limited. If this happens, we may be forced to delay or terminate research or development programs or the commercialization of products resulting from our technologies, curtail or cease operations or obtain funds through collaborative and licensing arrangements that may require us to relinquish commercial rights, sell certain assets of the company which will limit future opportunities, or grant licenses on terms that are not favorable to us. Without sufficient funding or revenue, we may have to curtail, cease, or dispose of, one or more of our operations and we would be forced to reduce our employee headcount.

Changes in global economic and financial markets may have a negative effect on our business.

Our business is subject to a variety of market forces including, but not limited to, domestic and international economic, political and social conditions. Many of these forces are beyond our control. Any change in market conditions that negatively impacts our operations or the demand of our current or prospective customers could adversely affect our business operations.

In addition, changes in the global financial and biotech markets may make it difficult to accurately forecast operating results. These changes have had, and may continue to have, a negative effect on our business, results of operations, financial condition and liquidity. In the event of a downturn in global economic activity, current or potential customers may go out of business, may be unable to fund purchases or determine to reduce purchases, all of which could lead to reduced demand for our products, reduced gross margins, and increased customer payment delays or defaults. Further, suppliers may not be able to supply us with needed raw materials on a timely basis, may increase prices or go out of business, which could result in our inability to meet consumer demand or affect our gross margins. We are also limited in our ability to reduce costs to offset the results of a prolonged or severe economic downturn given certain fixed costs associated with our operations and difficulties if we overstrained our resources. The timing and nature of a sustained recovery in the credit and financial markets remains uncertain, and there can be no assurance that market conditions will significantly improve in the near future or that our results will not continue to be materially and adversely affected.

If we lose key personnel, including key management or board members, or are unable to attract and retain additional personnel, it could delay our technology and product development programs, harm our R&D efforts, and we may be unable to pursue research funding, licenses and other forms of collaborations or develop our own products.

Our planned activities will require ongoing recruiting and retention of additional expertise in specific industries and areas applicable to the products being developed through our technologies. These activities will not only require the development of additional expertise by existing management personnel, but also the addition of new research and scientific, regulatory, licensing, sales, marketing, management, accounting and finance and other personnel. The inability to acquire or develop this expertise or the loss of principal members of our management, accounting and finance, sales, and scientific staff could impair the growth, if any, of our business. Competition for experienced personnel from numerous companies, academic institutions and other research facilities may limit our ability to attract and retain qualified management and scientific personnel on acceptable terms. Failure to attract and retain qualified personnel would inhibit our ability to pursue collaborations and develop our products or core technologies.

Personnel changes may disrupt our operations. Hiring and training new personnel will entail costs and may divert our resources and attention from revenue-generating efforts. In addition, we periodically engage consultants to assist us in our business and operations, these consultants operate as independent contractors, and we, therefore, do not have as much control over their activities as we do over the activities of our employees. Our consultants may be affiliated with or employed by other parties, and some may have consulting or other advisory arrangements with other entities that may conflict or compete with their obligations to us.

Inability to protect our intellectual property could harm our ability to compete.

Our success will depend in part on our ability to obtain patents and on our and DuPont's (as part of the DuPont Transaction, patents were assigned to DuPont) and our collaborators' ability to maintain adequate protection of our and their intellectual property. If we, DuPont, or our collaborators do not adequately protect our intellectual property, competitors may be able to practice our technologies and erode our competitive advantage. The laws of some foreign countries do not protect proprietary rights to the same extent as the laws of the United States, and many companies have encountered significant problems in protecting their proprietary rights in these foreign countries.

However, the patent positions of biotechnology companies, including our patent position, are generally uncertain and involve complex legal and factual questions. We will be able to protect our proprietary rights from unauthorized use by third parties only to the extent that our, and in certain instances the C1 patents assigned to DuPont, and our collaborators proprietary technologies are covered by valid and enforceable patents or are effectively maintained as trade secrets. We intend to apply for patents covering both our technologies and our products, as we deem appropriate. However, existing and future patent applications may be challenged and are not guaranteed to result in the issuing of patents. Even if a patent is obtained, it may not be sufficiently broad to prevent others from practicing our technologies or from developing competing products. Others, including DuPont and our licensees and other collaborators, may independently develop similar or alternative technologies or design around our, DuPont's or our collaborators' patented technologies. In addition, DuPont, our collaborators or other third parties may challenge or invalidate our patents, or our patents may fail to provide us with any competitive advantages. If any third party is able to gain intellectual property protections for technology similar to our own, they may be successful in blocking us and our licensees from using C1 technology and/or commercializing products derived from the C1 technology.

The United States Leahy-Smith America Invents Act, enacted in September 2011, brought significant changes to the U.S. patent system, which include a change to a "first to file" system from a "first to invent" system and changes to the procedures for challenging issued patents and disputing patent applications during the examination process, among other things. The effects of these changes on our patent portfolio and business have yet to be determined, as the final substantive provisions of the America Invents Act took effect on March 16, 2013. The United States Patent and Trademark Office (the "USPTO"), only recently finalized the rules relating to these changes and the courts have yet to address the new provisions. These changes could increase the costs and uncertainties surrounding the prosecution of our patent applications and the enforcement or defense of our patent rights. Additional uncertainty may result from legal precedent handed down by the United States Court of Appeals for the Federal Circuit and United States Supreme Court as they determine legal issues concerning the scope and construction of patent claims and inconsistent

interpretation of patent laws by the lower courts. Accordingly, we cannot ensure that any of our pending patent applications will result in issued patents, or even if issued, predict the breadth of the claims upheld in our and other companies' patents. Given that the degree of future protection for our proprietary rights is uncertain, we cannot ensure that we were the first to invent the inventions covered by our pending patent applications, or that we were the first to file patent applications for these inventions or the patents we have obtained.

In addition, Dyadic will continue to review its existing and potential patent positions and rights. Based on our analysis if and when the commercial opportunities and patent enforceability are questionable, we may abandon certain patents in some countries. There is a risk that we will abandon potentially valuable patents.

Litigation or other proceedings or third-party claims of intellectual property infringement could require us to spend significant time and resources and could prevent us and our collaborators from commercializing our or their technologies and products or negatively impact our stock price.

Our commercial success depends in part on neither infringing patents and proprietary rights of third parties, nor breaching any licenses that we have entered into with regard to our technologies and products. Others have filed, and in the future are likely to file, patent applications covering genes or gene fragments, screening, gene expression and fermentation processes and other intellectual property that we may wish to utilize with the C1 expression system or products and systems that are similar to those developed with its use. If these patent applications result in issued patents and we wish to use the claimed technology, we may need to obtain a license from the appropriate third party.

Third parties may assert that we are employing their proprietary technology without authorization. In addition, third parties may obtain patents in the future and claim that use of our technologies infringes these patents. We could incur substantial costs and diversion of management and technical personnel in defending ourselves against any of these claims or enforcing our patents and other intellectual property rights. Parties making claims against us may be able to obtain injunctive or other equitable relief, which could effectively block our ability to further develop, commercialize and sell products, and could result in the award of substantial damages against us. If a claim of infringement against us is successful, we may be required to pay damages and obtain one or more licenses from third parties. In the event that we are unable to obtain these licenses at a reasonable cost, we could encounter delays in product commercialization while we attempt to develop alternative methods or products. Defense of any lawsuit or failure to obtain any of these licenses could prevent us from commercializing available products.

In addition, unauthorized parties may attempt to steal, copy or otherwise obtain and use our C1 microbial strains, genetic elements, development and manufacturing processes, other technology or products. Monitoring unauthorized use of our intellectual property is difficult, and we cannot be certain that the steps we have taken will prevent unauthorized use of our technologies, particularly in certain foreign countries where the local laws may not protect our proprietary rights as fully as in the United States. Moreover, third parties could practice our inventions in territories where we do not have patent protection. Such third parties may then try to import into the United States or other territories products, or information leading to potentially competing products, made using our inventions in countries where we do not have patent protection for those inventions. If competitors are able to use our technologies, our ability to compete effectively could be harmed. Moreover, others may independently develop and obtain patents for technologies that are similar to or superior to our technologies. If that happens, we may need to license these technologies, and we may not be able to obtain licenses on reasonable terms, if at all, which could harm our business.

Confidentiality agreements with employees and others may not adequately prevent disclosures of trade secrets and other proprietary information.

We rely in part on trade secret protection to protect our confidential and proprietary information and processes. However, trade secrets are difficult to protect. We have taken measures to protect our trade secrets and proprietary information, but these measures may not be effective. We require employees and consultants to execute confidentiality agreements upon the commencement of an employment or consulting arrangement with us. These agreements generally require that all confidential information developed by the individual or made known to the individual by us during the course of the individual's relationship with us be kept confidential and not disclosed to third parties. These agreements also generally provide that inventions conceived by the individual in the course of rendering services to us shall be our

exclusive property. Nevertheless, our proprietary information may be disclosed, third parties could reverse engineer our biocatalysts and others may independently develop substantially equivalent proprietary information and techniques or otherwise gain access to our trade secrets. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and failure to obtain or maintain trade secret protection could adversely affect our competitive business position.

We may be sued for product liability.

We may be held liable if any product we develop, or any product which is made with the use or incorporation of, any of our technologies, causes injury or is found otherwise unsuitable or unsafe during product testing, manufacturing, marketing or sale. These claims could be brought by various parties, including other companies who purchase products from our collaborators or by end users of the products.

While we maintain product liability insurance, it may not fully cover all of our potential liabilities and our liability could in some cases exceed our total assets, which would have a material adverse effect on our business, results of operations, financial condition and cash flows, or cause us to go out of business. Further, insurance coverage is expensive and may be difficult to obtain, and may not be available to us or to our collaborators in the future on acceptable terms, or at all. Inability to obtain sufficient insurance coverage at an acceptable cost to protect against potential product liability claims could prevent or inhibit the commercialization of products developed by us, or our collaborators.

Foreign currency fluctuations could adversely affect our results.

In the conduct of our business, in certain instances, we are required to receive payments or pay our obligations in currencies other than U.S. dollars. Especially since a large portion of our research and development is done in the EU and our CROs and certain consultants request payments in Euros. As a result, we are exposed to changes in currency exchange rates with respect to our business transactions denominated in non-US dollars.

Fluctuations in currency exchange rates have in the past and may in the future negatively affect our revenue, expenses and our financial position and results of operations as expressed in U.S. dollars. Our management monitors foreign currency exposures and may in the ordinary course of business enter into foreign currency forward contracts or options contracts related to specific foreign currency transactions or anticipated cash flows. We do not hedge, and have no current plans to hedge in the future, the translation of financial statements of consolidated subsidiaries whose local books and records are maintained in foreign currency.

Our ability to use our net operating loss carryforwards ("NOLs") to offset future taxable income may be subject to certain limitations.

In general, under Section 382 of the Internal Revenue Code, a corporation that undergoes an "ownership change" is subject to limitations on its ability to utilize its NOLs, to offset future taxable income. If the Internal Revenue Service challenges our analysis that our existing NOLs are not subject to limitations arising from previous ownership changes, our ability to utilize NOLs could be limited by Section 382 of the Internal Revenue Code. Future changes in our stock ownership, some of which are outside of our control, could result in an ownership change under Section 382 of the Internal Revenue Code. Furthermore, our ability to utilize NOLs of companies that we may acquire in the future may be subject to limitations.

We may make acquisitions, investments and strategic alliances in the future that may use significant resources, result in disruptions to our business or distractions of our management, may not proceed as planned, and could expose us to unforeseen liabilities.

We may seek to expend our business through the acquisition of, investment in and strategic alliances with companies, technologies, products, and services. If we are able to identify suitable acquisition, investment or strategic alliance targets, we may be unable to negotiate successfully their acquisition at a price or on terms and conditions acceptable to us. Acquisition, investments and strategic alliances involve a number of risks, including, but not limited to:

- the potential adverse effect on our cash position as a result of all or a portion of an acquisition, investment or strategic alliance purchase price being paid in cash;
- the potential issuance of securities that would dilute our stockholders' percentage ownership;
- unanticipated costs and liabilities, including the potential to incur restructuring and other related expenses, including significant transaction costs that may be incurred regardless of whether a potential strategic alliance, acquisition or investment is completed;
- the ability to effectively and quickly assimilate the operations, technologies, products and services or products of the acquired company or business;
- the ability to integrate acquired personnel;
- the ability to oversee, retain and motivate key employees;
- the ability to retain customers;
- minimizing the diversion of management's attention from other business concerns; and
- potential loss of invested capital.

We cannot assure you that, following an acquisition, investment or strategic alliance, we will achieve revenues, specific net income or loss levels that justify such transaction or that the transaction will result in increased earnings, or reduced losses, for the combined company in any future period. Moreover, we may need to raise additional funds through public or private debt or equity financing to acquire any businesses or to provide funding for such business, which would result in dilution for stockholders or the incurrence of indebtedness and may not be available on terms which would otherwise be acceptable to us. We may not be able to operate acquired businesses profitably or otherwise implement our growth strategy successfully.

We rely significantly on information technology and any failure, inadequacy, interruption or security lapse of that technology, including any cybersecurity incidents, could harm our ability to operate our business effectively.

Despite the implementation of security measures, our internal computer systems and those of third parties with which we contract are vulnerable to damage from cyber-attacks, computer viruses, unauthorized access, natural disasters, terrorism, war and telecommunication and electrical failures. System failures, accidents or security breaches could cause interruptions in our operations, and could result in a material disruption of our research activities and business operations, in addition to possibly requiring substantial expenditures of resources to remedy. To the extent that any disruption or security breach were to result in a loss of, or damage to, our data or applications, or inappropriate disclosure of confidential or proprietary information, we could incur liability and delays in our research efforts and financial reporting compliance, as well as significant increase in costs to recover or reproduce the data.

Risks Related to Our Stock Repurchase Program

Our stock repurchase program may be extended, suspended or discontinued at any time, which could cause the price of our common stock to be volatile or to decrease.

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

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

Under the 2017 Stock Repurchase Program, the Company is authorized to repurchase shares in open-market purchases in accordance with all applicable securities laws and regulations, including Rule 10b-18 of the Securities Exchange Act of 1934, as amended. The extent to which the Company repurchases its shares, and the timing of such repurchases, is dependent upon a variety of factors, including market conditions, regulatory requirements and other corporate considerations, as determined by the Company's management. The repurchase program may be extended, suspended or discontinued at any time. The Company expects to finance the program from its existing cash resources. All repurchased shares are held in treasury. However, the board may decide to retire these shares in the future.

In addition to the Stock Repurchase Programs above, our Board of Directors may, on a case by case basis, authorize the repurchase the Company's shares in privately negotiated transactions, if such transaction is in the best interest of the Company and its shareholders.

See Note 7, *Shareholders' Equity* and Note 8, *Subsequent Events* to the Consolidated Financial Statements included in *Item 12* of this Annual Report for additional information.

The Company may in the future determine to initiate a new repurchase program depending upon a variety of factors, including market conditions, regulatory requirements and other corporate considerations, as determined by the Company's Board of Directors and management.

Risks Related to Our Common Stock

The price of our shares of common stock is likely to be volatile, and you could lose all or part of your investment.

The trading price of our common stock has been, and is likely to continue to be, volatile. Biotechnology company stocks generally tend to experience extreme price fluctuations. The valuations of many biotechnology companies without consistent product sales and earnings are extraordinarily high based on conventional valuation standards such as price-to-earnings and price-to-sales ratios. These trading prices and valuations may not be sustained. Factors that may result in fluctuations in our stock price include, but are not limited to, the following:

- Changes in the public's perception of the prospects of biotechnology companies.
- Broad market and industry factors including market fluctuations or political and economic conditions such as war, recession or changes in interest and currency rates.
- Announcements of new technological innovations, patents or new products or processes by us, DuPont or our competitors;
- Announcements by us, DuPont or our licensees and collaborators relating to our relationships or either of our relationships with other third parties;
- Coverage of, or changes in financial estimates by us or securities analysts;
- Conditions or trends in the biotechnology industry;
- Changes in the market valuations of other biotechnology companies;
- Limitations on the areas within the biopharmaceutical industry into which we can apply the C1 expression system;
- Actual or anticipated changes in our growth rate relative to our competitors;
- Developments in domestic and international governmental policy or regulations;
- Announcements by us, DuPont, our collaborators, or our competitors of significant acquisitions, divestures, strategic partnerships, license agreements, joint ventures or capital commitments;
- The position of our cash, cash equivalents and marketable securities;
- Any changes in our debt position;
- Developments in patent or other proprietary rights held by us, DuPont or by others;
- Negative effects related to the stock or business performance of DuPont, our licensees, or the abandonment of projects using our technology by our licensees and/or collaborators;
- Scientific risks inherent to emerging technologies such as the C1 expression system;
- Set-backs, and/or failures, and or delays in our or our licensees' or collaborators R&D and commercialization programs;
- Delays or failure to receive regulatory approvals by us, DuPont and/or our licensees;
- Loss or expiration of our or DuPont's intellectual property rights;
- Lawsuits initiated by or against us, DuPont, or our collaborators;
- Period-to-period fluctuations in our operating results;
- Future royalties from product sales, if any, by DuPont, our strategic partners or collaborators;
- Future royalties may be owned to DuPont by us, our collaborators or sub-licensees under certain circumstances related to our DuPont Pharma License;

- Sales of our common stock or other securities in the open market;
- Stock buy-back programs;
- Stock splits and reverse stock split;
- Decisions made by the board related to potential registration of Dyadic's stock under the Securities Act of 1933, and/or up listing to another stock exchange.

Volatile stock prices can lead to securities class action litigation. In 2007, a stockholder filed a securities class action suit against us, which we settled on July 27, 2010. If we were to become party to another securities class action suit, we could incur substantial legal fees and our management's attention and resources could be diverted from operating our business to responding to litigation.

Our quarterly and annual operating results may be volatile.

Our quarterly and annual operating results have fluctuated in the past and are likely to do so in the future. These fluctuations could cause our stock price to vary significantly or decline. Some of the factors that could impact our operating results include:

- Expiration of or cancellations of our research contracts with collaborators and/or licensees, which may not be renewed or replaced;
- Setbacks or failures in our and our collaborators and licensees research, development and commercialization efforts;
- Setbacks, or delays in our research and development efforts to develop and produce biologics.
- Setbacks, or delays in our research and development efforts to re-engineer the C1 technology for its application and use in developing and producing biologics.
- The speed, and success rate of our discovery and research and development efforts leading to potential licenses, or other forms of collaborations, access fees, milestones and royalties;
- The timing and willingness of collaborators and licensees to utilize C1 to develop and commercialize their products which would result in potential upfront fees, milestones and royalties;
- General and industry specific economic conditions, which may affect our collaborators' and licensees' R&D expenditures;
- The adoption and acceptance of the C1 expression system by biopharmaceutical companies and regulatory agencies;
- The addition or loss of one or more of the collaborative partners, grants, research funding, or licensees we are working with to further develop and commercialize our technologies and products in the pharmaceutical industry;
- Our ability to file, maintain and defend our intellectual property and to protect our proprietary information and trade secrets;
- Our ability to develop technology, products and processes that do not infringe on the intellectual property of third parties;
- The introduction by our competitors of new discovery and expression technologies competitive with the C1technology;
- Our ability to enter into new research projects, grants, licenses or other forms of collaborations and generate revenue from such parties;
- Scientific risk associated with emerging technologies such as the C1 expression system;
- Failure to bring on the necessary research capacity if required;
- Uncertainty regarding the timing of research funding, grants or upfront license fees for new C1 expression system license agreements or expanded license agreements;
- Delays or failure to receive upfront fees, milestones and royalties and other payments.

A large portion of our expenses are relatively fixed, including expenses for personnel. Accordingly, if revenues do not grow as anticipated due to the expiration of research contracts or government research grants, the failure to obtain new contracts, licensees or other forms of collaborations or other factors, we may not be able to correspondingly reduce our operating expenses. Failure to achieve anticipated levels of revenue could, therefore, significantly harm our operating results for a particular fiscal period or for even prolonged periods of time.

Due to the possibility of fluctuations in our revenues and expenses, we believe that quarter-to-quarter comparisons of our operating results are not necessarily a good indication of our future performance. Our operating results in some quarters, or even in some years may not meet the expectations of stock market analysts and investors, potentially causing our stock price to possibly decline.

We do not expect to pay cash dividends in the future.

We have never paid cash dividends on our stock and do not anticipate paying any dividends for the foreseeable future. The payment of dividends on our shares, if ever, will depend on our earnings, financial condition and other business and economic factors deemed relevant for consideration by our board of directors. If we do not pay dividends, our stock may be less valuable because a return on investment will only occur if and to the extent that our stock price appreciates.

Our anti-takeover defense provisions may deter potential acquirers and depress our stock price.

Certain provisions of our certificate of incorporation, bylaws and Delaware law, as well as certain agreements we have with our executives, could make it substantially more difficult for a third party to acquire control of us. These provisions include the following:

- We may issue preferred stock with rights senior to those of our common stock;
- We have a classified board of directors;
- Action by written consent by stockholders is not permitted;
- Our board of directors has the exclusive right to fill vacancies and set the number of directors cumulative voting by our stockholders is not allowed; and
- We require advance notice for nomination of directors by our stockholders and for stockholder proposals.

These provisions may discourage certain types of transactions involving an actual or potential change in control. These provisions may also limit our stockholders' ability to approve transactions that they may deem to be in their best interests and discourage transactions in which our stockholders might otherwise receive a premium for their shares over the current market price.

Concentration of ownership among our existing officers, directors and principal stockholders may prevent other stockholders from influencing significant corporate decisions and depress our stock price.

Our executive officers, directors and principal stockholders (5% stockholders) together control approximately 43.9% of our 28,327,811 shares of outstanding common stock as of December 31, 2017. (See details included in Item 14 *Beneficial owners* of this Annual Report)

Our Founder and Chief Executive Officer Mark Emalfarb, through the Mark A. Emalfarb Trust under agreement dated October 1, 1987, as amended (the "MAE Trust") of which he is the trustee and beneficiary, owned approximately 14.5% of our outstanding common stock as of December 31, 2017. Further, the Francisco Trust U/A/D February 28, 1996 (the "Francisco Trust"), whose beneficiaries are the descendants and spouse of Mr. Emalfarb, owned approximately 13.3% of our outstanding common stock as of December 31, 2017. We have historically been partially controlled, managed and partially funded by Mr. Emalfarb, and affiliates of Mr. Emalfarb. Collectively, Mr. Emalfarb and stockholders affiliated with Mr. Emalfarb controlled approximately 27.8% of our outstanding common stock as of December 31, 2017.

Mr. Emalfarb may be able to control or significantly influence all matters requiring approval by our shareholders, including the election of directors and the approval of mergers or other business combination transactions. The interests of Mr. Emalfarb may not always coincide with the interests of other shareholders, and he may take actions that advance his personal interests and are contrary to the desires of our other shareholders.

If our existing officers, directors and principal stockholders act together, they will be able to exert a significant degree of influence over our management and affairs and over matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. In addition, this concentration of ownership may delay or prevent a change in control and might affect the market price of our shares, even when a change may be in the best interests of all stockholders. Certain of our principal stockholders may elect to increase their holdings of our common stock, which may have the impact of delaying or preventing a change of control. Moreover, the interests of this concentration of ownership may not always coincide with our interests or the interests of other stockholders, and, accordingly, they could cause us to enter into transactions or agreements, which we would not otherwise consider.

If securities or industry analysts do not commence the publication of research or reports about our business, or publish negative reports about our business, our stock price and trading volume could decline.

The trading market for our common stock will be influenced by the research and reports that securities or industry analysts publish about us or our business. We have no control over these analysts. If one or more analysts decide to cover the Company, they could release a negative report, or release a positive report and subsequently downgrade or change that report, potentially causing our stock price would likely decline. Additionally, if one or more of these analysts cease coverage of our Company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which could cause our stock price or trading volume to decline.

Future issuances of shares of our common stock may negatively affect our stock price.

The sale of additional shares of our common stock, or the perception that such sales could occur, could harm the prevailing market price of shares of our common stock. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate.

As of December 31, 2017, there were 28,327,811 shares of our common stock outstanding. Approximately 43.9% of these outstanding common shares are beneficially owned or controlled by our executive officers, directors and principal stockholders. Shares held by our affiliates and certain of our directors, officers and employees are "restricted securities" as defined by Rule 144 ("Rule 144") of the Securities Act of 1933, as amended (the "Securities Act") and subject to certain restrictions on resale. Restricted securities may be sold in the public market only if they are registered under the Securities Act or are sold pursuant to an exemption from registration such as Rule 144.

Our common stock has a relatively small public float. As a result, sales of substantial amounts of shares of our common stock, or even the potential for such sales, may materially and adversely affect prevailing market prices for our common stock. In addition, any adverse effect on the market price of our common stock could make it difficult for us to raise additional capital through sales of equity securities.

We incurred significant costs as a listing company on the OTCQX U.S. Premier marketplace, and those costs will increase if, as and when we decide to register our shares with the Securities and Exchange Commission ("SEC") and operate as a public company, and our management will be required to devote substantial time to compliance initiatives.

As a company quoted on the OTCQX U.S. Premier marketplace, we incur significant legal, accounting and other expenses that we did not incur previously. The OTCQX Alternative Reporting Standards impose various requirements on companies that require our management and other personnel to devote a substantial amount of time to compliance initiatives. These costs will further increase if we become a fully reporting company under the Exchange Act.

We may in the future seek to list our common stock on the NASDAQ Stock Market or another U.S. or foreign stock exchange. However, we do not currently meet the listing standards for any national securities exchange. During the period that our common stock is quoted on the OTCQX U.S. Premier or any other over-the-counter system, an investor may find it more difficult to dispose of shares or obtain accurate quotations as to the market value of our

common stock than would be the case if and when we list on the NASDAQ Stock Market or another U.S. or foreign stock exchange.

In addition, if we fail to meet the criteria set forth in certain SEC regulations, various requirements would be imposed by law on broker-dealers who sell our securities to persons other than established customers and accredited investors. Consequently, such regulations may deter broker-dealers from recommending or selling our common stock, which may further affect its liquidity. This would also make it more difficult for us to raise additional capital.

We may not be able to meet the initial listing standards of any stock exchange, correctly predict the timing of such listing or, if listed, maintain such a listing.

If we decide to register our shares with the SEC and operate as a public company, we would incur significant legal, accounting and other expenses that we do not incur as of now. In addition, the Exchange Act, the Sarbanes-Oxley Act and the Dodd-Frank Wall Street Reform and Consumer Protection Act, as well as related rules implemented by the SEC, impose various requirements on public companies that would require our management and other personnel to devote a substantial amount of time to compliance initiatives. The failure to conform with these laws and regulations could cause our stock price to decline, and could lead to sanctions, investigations or other material adverse effects on our business, reputation, results of operations, financial condition or liquidity.

Item 9 The Nature of Products or Services Offered

A. Principal products or services, and their markets.

We are a biotechnology company focused on further developing and applying the proprietary C1 expression platform for its use in speeding up the development and lowering the cost of manufacturing human and animal biopharmaceutical products. The C1 platform has the potential to be a safe and efficient expression system that may improve the development and production of biopharmaceutical products. See the discussion above and Management's Discussion and Analysis included in *Item 16,* of this Annual Report.

B. Distribution methods of the products or services.

We utilize contract research organizations (CROs) to perform research and development services on our behalf. At this time, we utilize primarily four scientific and business development resources in Europe to oversee our research and to market our technology and services in all geographic areas.

C. Status of any publicly announced new product or service.

Currently, we do not have any commercialized products. We provide research services to our collaboration partners through our contract research organizations. See discussion under Management's Discussion and Analysis included in *Item 16,* of this Annual Report.

D. Competitive business conditions, the issuer's competitive position in the industries, and methods of competition.

The biopharmaceutical industry in which we operate has different risks. We also have the associated risks of our research and development efforts, as well as those of our licensees and collaborators. See the discussion in this Annual Report under the sections entitled "Risks Related to Our Businesses and Industry" and "Other Business Risks That We Face".

E. Sources and availability of raw materials and the names of principal suppliers.

We rely on contract research organizations to perform research on our behalf. Prime CRO and BDI are our principal service providers, which perform substantially all of our research needs. See *Item 18* material contracts of this Annual Report for details.

F. Dependence on one or a few major customers.

As a result of the DuPont Transaction, we should be viewed as an early stage company focused on positioning our technology for application in the biopharmaceutical industry. We will be dependent on a few customers until we establish our technology in the marketplace. During 2017, we conducted research projects for two top tier pharmaceutical companies as well as carried out other internal and third party research projects. One of the pharmaceutical research projects ended in the fourth quarter of 2017 while the other one is still ongoing. We are in discussions with both pharmaceutical companies to extend our research collaborations and their funding of such. We intend to continue our existing EU ZAPI vaccine program. The Company has several additional proof-of-concept research collaborations ongoing and others in early to advanced stages of discussion.

G. Patents, trademarks, licenses, franchises, concessions, royalty agreements or labor contracts, including their duration.

On December 31, 2015, Dyadic sold to DuPont substantially all of its industrial enzyme and technology assets, including its C1 platform, a technology for producing enzyme products used in a broad range of industries. DuPont has granted back to Dyadic co-exclusive rights to the C1 technology for use in human and animal pharmaceutical applications, with exclusive ability to enter into sub-license agreements in that field. DuPont will retain certain rights to utilize the C1 technology for development and production of pharmaceutical products, for which it will make royalty payments to Dyadic upon commercialization. In certain circumstances, Dyadic may owe a royalty to either DuPont or certain licensors of DuPont, depending upon whether Dyadic elects to utilize certain patents either owned by DuPont or licensed in by DuPont. We also rely heavily on trade secrets to protect our technologies. We review our intellectual property activities and assets on an ongoing basis, and we file claims on new innovations and let other intellectual property rights expire as we deem appropriate. See the descriptions of our material agreements under *Item 18* of this Annual Report.

H. The need for any government approval of principal products or services and the status of any requested government approvals.

We currently do not have any products that are subject to the approval of U.S. FDA, or similar regulatory body in the EU or other countries. However, our licensees of C1 technology will be subject to the rules of the U.S., EU and other countries if C1 technology is utilized in the development and commercialization of any biopharmaceutical product in the future.

Item 10 The Nature and Extent of the Issuer's Facilities

Jupiter, Florida Headquarters

The Company's corporate headquarters are located in Jupiter, Florida. The Company occupies approximately 4,900 square feet with a monthly rental rate and common area maintenance charges of approximately $9,400. The lease expires on June 30, 2018.

The Netherlands Office

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

PART D. MANAGEMENT STRUCTURE AND FINANCIAL INFORMATION

Item 11 The Name of the Chief Executive Officer, Members of the Board of Directors, as well as Control Persons

The following table provides information regarding our executive officers and certain key employees, and directors as of December 31, 2017:

Name (6)	Age	Position(s)	Director Since
Mark A. Emalfarb (1)	62	Chief Executive Officer, Director	2004
Thomas L. Dubinski (7)	61	Vice President and Chief Financial Officer	—
Ronen Tchelet, Ph.D.	60	Vice President of Research and Business Development	—
Matthew S. Jones	40	Managing Director of Business Development and Licensing	—
Michael P. Tarnok (1)(2)(3)(4)(5)	63	Chairman, Director	2014
Jack L. Kaye (1)(2)(3)(5)	74	Director	2015
Seth J. Herbst, MD (1)(3)(4)	60	Director	2008
Arindam Bose, Ph.D. (1)(2)(4)	65	Director	2016

(1) Member of the Board of Directors.
(2) Member of the Audit Committee.
(3) Member of the Compensation Committee.
(4) Member of the Nominating Committee.
(5) Member of the Special Committee. On March 8, 2017, the Special Committee was disbanded as a result of the settlement of the Company's professional liability litigation. See Note 5 to the Consolidated Financial Statements, included in *Item 12* of this Annual Report for additional information regarding the settlement of litigation.
(6) On January 3, 2018, the Company appointed Barry Buckland, Ph.D., to its board of directors.
(7) Thomas L. Dubinski will not be returning from his medical leave of absence that was announced on March 15, 2018. Ping W. Rawson, the Company's Director of Financial Reporting since June 2016, was promoted to Chief Accounting Officer on March 14, 2018 and will serve as the Company's principal financial officer and assume responsibility for finance, tax and treasury.

Mark A. Emalfarb, Founder, Chief Executive Officer, and Director

Mark A. Emalfarb is the founder of Dyadic, and currently serves as the Chief Executive Officer and Board of Director of the Company. He has been a member of Dyadic's board of directors and has served as its Chairman from October 2004 until April 2007 and from June 2008 until January 2015. Since founding the predecessor to Dyadic in 1979, Mr. Emalfarb has served as a Director, President and Chief Executive Officer and has successfully led and managed the evolution of Dyadic from its origins as a pioneer and leader in providing ingredients used in the stone-washing of blue jeans to the discovery, development, manufacturing and commercialization of specialty enzymes used in various industrial applications and the development of an integrated technology platform based on Dyadic's patented and proprietary C1 fungal microorganism. Mr. Emalfarb is an inventor of over 25 U.S. and foreign biotechnology patents and patent applications resulting from discoveries related to the patented and proprietary C1 fungus, and has been the architect behind its formation of several strategic research and development, manufacturing and marketing relationships with U.S. and international partners. Mr. Emalfarb earned his B.A. degree from the University of Iowa in 1977.

Thomas L. Dubinski, Vice President and Chief Financial Officer

Thomas L. Dubinski joined Dyadic in August 2014 as our Vice President and Chief Financial Officer. Mr. Dubinski has held various financial positions of increasing responsibility in the healthcare and biotechnology industries. Prior to Dyadic, Mr. Dubinski served as a management consultant with CFO Services from January 2012 to July 2014 where he advised public and private clients on financial strategy and operations. He was Finance Officer at Walgreens, Infusion and Respiratory Services from September 2010 to November 2011, and Corporate Assistant Controller from June 2007 to August 2010. Mr. Dubinski has also held senior finance and accounting positions at Novartis Medical Nutrition, MTS and Abbott Laboratories. Mr. Dubinski earned his B.S. degree in Accounting from the University of Illinois, Urbana-Champaign and he is a certified public accountant in the state of Illinois.

Ronen Tchelet, Ph.D., Vice President of Research and Business Development

Ronen Tchelet, Ph.D. joined Dyadic in May 2014, and has been our Vice President of Research and Business Development since January 2016. Since joining Dyadic, Dr. Tchelet has been a key contributor to Dyadic's transformation into a pharmaceutical biotech company. Prior to joining Dyadic, Dr. Tchelet was the founder and Managing Director of

Codexis Laboratories Hungary kft. ("CLH") and a Vice President of Codexis Inc. from 2007 through 2014. While at CLH, Dr. Tchelet established a state-of-the-art laboratory for strain engineering and all aspects of fermentation including process optimization and scale up. During this time period, Dr. Tchelet also led a collaboration that successfully developed C1 technology for the Biofuel and the Bio-Industrial enzymes applications. Dr. Tchelet's experience in the pharmaceutical industry includes prior employment at TEVA Pharmaceutical Industries LTD ("TEVA"), API Division during the late 2000's to 2006. While at TEVA, he served as a Chief Technology Officer of Biotechnology and head of TEVA's Biotechnology Research and Development fermentation plant in Hungary. Also during the period of 2000 through 2005, Dr. Tchelet was the Director of Quality Assurance for TEVA's flag ship innovative drug, COPAXONE®. Throughout his career, Dr. Tchelet has led several Biotechnology and Biosimilar projects that have encompassed all aspects of research and development, operations management, and manufacturing of API's and biologics. Dr. Tchelet received his Ph.D. in Molecular Microbiology and Biotechnology from Tel Aviv University in 1993 and did his postdoctoral work as an EERO fellow at the Institute of Environmental Science and Technology (EAWAG) in Switzerland.

Matthew S. Jones, Managing Director of Business Development and Licensing

Matthew S. Jones joined Dyadic in May 2016, and serves as our Managing Director of Business Development and Licensing to lead Dyadic's strategic partnerships, licensing and commercial opportunities within and across the biopharmaceutical industry. A veteran of the life sciences industry with two decades of commercial deal making and leadership experience, Mr. Jones has developed and implemented strategies which have delivered revenue growth, organically and through acquisitions, for a diverse range of life science businesses both in Europe and the US. Prior to joining Dyadic, Mr. Jones served as Chief Commercial Officer for Concept Life Sciences from its formation until 2016. Prior to that, Mr. Jones was Vice President of Global Sales & Business Development at Lonza Biologics, where he implemented new income-generating revenue streams and captured enterprise synergies in manufacturing, research and client/vendor relationships. From 2009 to 2012, Mr. Jones served as Executive Vice President of Business Development & Marketing at Ricerca Biosciences LLC, responsible for strategic partnerships, royalty and asset license optimization and marketing effectiveness and where Mr. Jones supported the Bain Ventures trade sale of the business toward WiL research. From 2003 to 2009, Mr. Jones was Senior Vice President of Business Development at MDS Pharma Services Inc., where he was responsible for global biopharmaceutical and clinical commercial growth strategies. Earlier in his career, Mr. Jones also held senior level leadership roles within the biopharmaceutical industry with Alkermes, Inc. and GlaxoSmithKline plc. Mr. Jones is a graduate of Warwick University and London Business School.

Ping W. Rawson, Chief Accounting Officer

Ping W. Rawson was appointed Chief Accounting Officer in March 2018. She currently serves as the Company's principal financial officer, and is responsible for all aspects of finance, tax and treasury. Prior to joining Dyadic in June 2016 as our Director of Financial Reporting, Ms. Rawson served as a technical accounting management position for ADT security services, where she led accounting and financial reporting workstream for acquisition, integration and restructuring. Prior to that, Ms. Rawson was an accounting research principal for NextEra Energy, Inc. (Florida Power & Light Company), where she was responsible for accounting research and new standards implementation. Previously, Ms. Rawson was a manager at Deloitte in New York City, where she was a subject matter specialist for derivatives, financial instruments and valuation, providing audit, SEC reporting, and capital markets consulting services to large banking and multinational public companies in the financial service industry. Ms. Rawson holds both a M.B.A. in Finance, and a M.S. in Accounting from the State University of New York at Buffalo, and a B.S. in Economics from Guangdong University of Foreign Studies in China. She is a certified public accountant in the state of New York.

Michael P. Tarnok, Chairman, Director

Michael P. Tarnok joined Dyadic's board of directors on June 12, 2014 and has served on the Company's audit, nominating and compensation committees, and on January 12, 2015 Mr. Tarnok was appointed Dyadic's Chairman of the Board of Directors. Mr. Tarnok is also currently a board member of Global Health Council, and Ionetix, Inc. In addition, Mr. Tarnok's prior board service includes Keryx Biopharmaceuticals, Inc., where he also served as Chairman of the Board. Mr. Tarnok is a seasoned finance and operational executive with extensive pharmaceutical industry experience in a wide range of functional areas. He spent the majority of his career at Pfizer Inc., which he joined in 1989 as Finance Director-US Manufacturing and from 2000 to 2007 served as a Senior Vice President in Pfizer's US Pharmaceutical Division. In this position, Mr. Tarnok managed multiple responsibilities for the division including, finance, access contracting, trade management, information technology, Sarbanes-Oxley compliance and the Greenstone generics division. Prior to joining Pfizer, Mr. Tarnok worked primarily in financial disciplines for ITT Rayonier, Inc., Celanese Corporation and Olivetti Corporation of America. Mr. Tarnok earned an M.B.A. in Marketing from New York University and a B.S. in Accounting from St. John's University.

Jack L. Kaye, Director

Jack L. Kaye joined Dyadic's board of directors in May 2015 and currently serves as chairman of the Company's audit committee. He also serves on the Company's compensation committees. Mr. Kaye is currently the Chairman of both the audit and compensation committees of uniQure B. V. where he has served since May 2016. Mr. Kaye's prior board service includes Keryx Biopharmaceuticals Inc., a position he has held from 2006 to May 2016 where he served as Chairman of the audit committee and he was also a member of their nominating and governance committee. He also served on the boards of Tongli Pharmaceuticals (USA) Inc. and Balboa Biosciences, Inc., where he served as Chairman of both audit committees. In the past, Mr. Kaye was selected to participate on several dissident board slates which included the Astellas, Inc./OSI, Roche Pharmaceuticals, Inc./Illumina and the Horizon, Inc./Depomed hostile M&A transactions. Mr. Kaye was a partner at Deloitte LLP from 1978 until May 2006, when he retired. At Deloitte, Mr. Kaye was responsible for serving a diverse client base of public and private, global and domestic companies in a variety of industries. Mr. Kaye has extensive experience consulting with clients on accounting and reporting matters, private and public debt financings, SEC rules and regulations and corporate governance/ Sarbanes-Oxley issues. In addition, he has served as Deloitte's Tristate liaison with the banking and finance community and assisted clients with numerous merger and acquisition transactions. Mr. Kaye served as Partner-in-Charge of Deloitte's Tri-State Core Client practice, a position he held for more than twenty years. He earned a B.B.A. from Baruch College and is a Certified Public Accountant.

Seth J. Herbst, MD, Director

Seth J. Herbst, MD has been on Dyadic's board of directors since June 2008 and is a board certified obstetrician/ gynecologist who is also board certified in advanced laparoscopic and minimally invasive gynecologic surgery. Dr. Herbst is the founder and President of the Institute for Women's Health and Body in May of 1997, an OB/GYN practice with multiple locations in Palm Beach County, Florida. He is the co-founder of Visions Clinical Research since 1999, which performs medical and surgical clinical trials throughout the United States. Dr. Herbst is also a consultant for multiple medical device companies in the United States and a member of medical advisory boards for these and other companies. He received his B.S. degree from American University in 1978 and his medical degree from Universidad del Noreste School of Medicine in Tampico, Mexico in 1983. Dr. Herbst completed his OB/GYN residency and was Chief Resident at Long Island College Hospital in Brooklyn, New York.

Arindam Bose, Ph.D., Director

Arindam Bose, Ph.D. joined Dyadic's board of directors on August 15, 2016 and serves on the Company's audit and nominating committees. Dr. Bose retired from Pfizer Worldwide Research & Development in 2016 after 34 years in leadership roles in bioprocess development and clinical manufacturing. Most recently, Dr. Bose served as Vice-President, Biotherapeutics Pharmaceutical Sciences External Affairs and Biosimilar Strategy with responsibility for external sourcing, competitive intelligence and external influencing as well as for executing the technical development plan for Pfizer's entry into biosimilars. He is widely recognized as a Key Thought Leader in the biopharmaceutical industry. Dr. Bose has served as the Chair of the Biologics and Biotechnology Leadership Committee of the Pharmaceutical Research and Manufacturers of America (PhRMA), the chief advocacy arm of the US pharmaceutical industry. His outstanding accomplishments and service to the profession have been recognized by his election as "Fellow" of 3 leading professional organizations: American Chemical Society, American Institute of Chemical Engineers and American Institute for Medical and Biological Engineering. Dr. Bose was elected to the US National Academy of Engineering in February 2017 for innovative research in biologics manufacturing. He received a Ph.D. in chemical engineering from Purdue University, a M.S. from the University of Michigan, Ann Arbor and a B. Tech from the Indian Institute of Technology, Kanpur.

Barry C. Buckland, Ph.D., Director

Barry Buckland, Ph.D. joined Dyadic's board of directors in January 2018. Dr. Buckland retired from Merck Research Laboratories in 2009 after 28 years of contributions to the Bioprocess R&D group including more than 12 years as leader in the position of Vice President. Since leaving the Merck Research Laboratories, Dr. Buckland has headed up his own consulting company (BiologicB,LLC). He also is President of Engineering Conferences International (ECI), a not for profit organization which organizes prestigious conferences with an engineering focus. Dr. Buckland has chaired successful conference such as Microbial Engineering I and Vaccine Technology Conferences I to IV. He is also a visiting professor at University College London in the Biochemical Engineering Department and is the author or co-author of more than 70 publications. His previous Board experience includes Enumeral Biomedical and Mucosis. Dr. Buckland was a Senior Advisor to Protein Sciences until they were purchased by Sanofi in 2017. Dr. Buckland became Executive Director of NIIMBL (National Institute for Innovation for Manufacturing Biopharmaceuticals) in 2017.

Business Address

The business address for each of our directors and executive officer is c/o the Issuer, 140 Intracoastal Pointe Drive, Suite 404, Jupiter, Florida 33477.

Compensation of Executive Officers and Key Personnel

The following table sets forth information regarding compensation earned by our executive officers and certain key personnel, who were serving as executive officers and key personnel as of December 31, 2017:

Name	Salary and Compensation	Change of Control Bonus (1)	Stock Option Awards (# of shares) (2)	Stock Option Awards ($) (2)(3)	Other Compensation (4)	Total
Mark A. Emalfarb (*)	$ 382,044	$ 444,996	150,000	$ 244,500	$ 210,030	$ 1,281,570
Thomas L. Dubinski	$ 230,130	$ 112,500	74,667	$ 121,707	$ 11,437	$ 475,774
Ronen Tchelet, Ph.D. (5)	$ 200,513	$ —	50,000	$ 81,500	$ 6,073	$ 288,086
Matthew S. Jones (6)	$ 256,390	$ —	40,000	$ 65,200	$ —	$ 321,590

(*) Mr. Emalfarb also serves on the Board of Directors, for which he receives no direct, indirect or incremental compensation.

1. Pursuant to new employment agreements with Mr. Emalfarb and Mr. Dubinski, their change of control bonus are to be paid in equal monthly installments over 36 months and 24 months, respectively. The amounts represent the total change of control bonus paid to Mr. Emalfarb and Mr. Dubinski in 2017. See Employee Agreements Section below.
2. The number of Stock Option Awards represents stock options granted on January 3, 2017 in connection with the annual share-based compensation rewards, vesting upon grant or one year anniversary in accordance with their individual employment agreement or consulting agreement.
3. The Stock Option Awards represented the grant date fair market value of each option granted in 2017, computed in accordance with FASB ASC Topic 718. These amounts do not correspond to the actual value that will be recognized by the named executive officers. The assumptions used in the valuation of these awards are consistent with the valuation methodologies specified in the notes to our consolidated financial statements.
4. Other compensation paid to Mr. Emalfarb included $141,777 for a litigation settlement payment, $12,891 for car allowance and $55,362 for Company's contribution and catch up amount to the 401(k) retirement plan. Other compensation paid to Mr. Dubinski included $11,437 for Company's contribution to the 401(k) retirement plan. Other compensation paid to Mr. Tchelet included $6,073 for sales commission earned in 2017.
5. The amounts represent the total compensation paid to Mr. Tchelet for the year ended December 31, 2017, in accordance with his consulting agreement.
6. The amounts represent the total compensation paid to Mr. Jones for the year ended December 31, 2017, in accordance with his consulting agreement.

Compensation of Directors

The following table sets forth the total compensation for our non-employee directors as of December 31, 2017:

Name	Fees earned or Paid in Cash (1)	Stock Options Awards (# of shares) (1)	Stock Options Awards ($) (1) (2)	Total
Michael P. Tarnok	$ 72,000	50,000	$ 81,500	$ 153,500
Jack L. Kaye	$ 69,600	50,000	$ 81,500	$ 151,100
Seth J. Herbst, MD	$ 60,000	50,000	$ 81,500	$ 141,500
Arindam Bose, Ph.D.	$ 60,000	100,000	$ 153,000	$ 213,000
Stephen J. Warner (3)	$ 25,000	50,000	$ 81,500	$ 106,500

(1) Per our current director compensation policy, effective January 1, 2016, directors who are also employees or officers of the Company or any of its subsidiaries do not receive any separate compensation as a director. Non-employee directors receive an annual retainer for board service of $60,000, paid in equal monthly installments. A director serving as Chairman of the Board shall also receive an additional annual retainer of $12,000, paid in equal monthly installments. An independent

director who serves as Chair of the Company's Audit Committee shall also receive an additional annual retainer of $9,600, paid in equal monthly installments. The annual stock option award for non-employee directors is 50,000 options. Newly appointed directors are issued 30,000 stock options in the first year. In August 2017, the Board granted additional 50,000 shares of stock options to Mr. Bose for his special contribution to the Company's business. All options granted to directors vest 25% upon grant and the remaining 75% will vest annually in equal installments over four years.

(2) The Stock Option Awards represented the grant date fair market value of each option granted in 2016, computed in accordance with FASB ASC Topic 718. These amounts do not correspond to the actual value that will be recognized by the named directors. The assumptions used in the valuation of these awards are consistent with the valuation methodologies specified in the notes to our consolidated financial statements.

(3) Mr. Warner resigned from the Board of Directors of the Company on June 1, 2017. The Board of Directors approved the amendment to his previously granted equity awards by providing acceleration of the vesting dates and extension of the exercise period. The incremental costs of such modification were immaterial.

Employment Agreements

Mark A. Emalfarb

We entered into an Employment Agreement with Mr. Emalfarb dated October 23, 2013 (the "Emalfarb Employment Agreement"). Pursuant to the Emalfarb Employment Agreement, Mr. Emalfarb agreed to serve as our President and Chief Executive Officer. The Emalfarb Employment Agreement has an initial term of three years and automatic renewals of two years at the end of each term, unless either party provides a notice of nonrenewal. Mr. Emalfarb's base salary is $425,000 and he is eligible for a discretionary annual bonus and stock options, as well as other benefits. Additionally, Mr. Emalfarb is entitled to a performance bonus equal to 20% of the value of the first $4,000,000 of any new revenue streams generated by the Company during his employment, for a maximum of $800,000. Mr. Emalfarb is also eligible to receive benefits at the same level as other executive employees of the Company. Mr. Emalfarb has agreed to certain restrictive covenants, including non-disclosure, non-solicitation for three years following termination of employment and non-competition for three years following termination of employment. Upon a termination by the Company without Cause or a resignation by Mr. Emalfarb for Good Reason, in each case as defined in the Emalfarb Employment Agreement, subject to his timely execution of a release of claims in favor of the Company, Mr. Emalfarb will be entitled to the following severance benefits: (i) continued payment of his base salary and provision of other benefits for a period of three years following termination of employment and (ii) full vesting acceleration of all stock options. Mr. Emalfarb will continue his employment under the terms of the Emalfarb Employment Agreement post-Closing, although the performance bonus thereof has been removed by amendment as described below.

In addition, Mr. Emalfarb, under the Emalfarb Employment Agreement, is entitled to terminate his employment with the Company for Good Reason (as defined in the Emalfarb Employment Agreement) within 12 months from the consummation of a change of control transaction (as defined in the Emalfarb Employment Agreement). If Mr. Emalfarb terminates his employment within such period, the Company is obligated to pay Mr. Emalfarb his Annual Base Salary and benefits as specified in the Emalfarb Employment Agreement, as of the date of termination and for a period of three years from the date of termination. Additionally, all of Mr. Emalfarb's stock options will be immediately vested.

The Company entered into a new employment agreement dated June 21, 2016 (the "Emalfarb New Agreement") with Mr. Emalfarb. The Emalfarb New Agreement has a three-year term. The material terms of the Emalfarb New Agreement are summarized below:

Base Salary and Bonus. Mr. Emalfarb will receive an annual base salary of $375,000 and he may be eligible for an annual bonus award, with the timing and amount of any such bonus determined in the sole discretion of the Compensation Committee of the Board.

Performance Stock Options. Mr. Emalfarb will have the opportunity to be awarded three (3) annual stock option grants, each such annual option incentive stock option grant will be to purchase up to three hundred thousand (300,000) shares of common stock (the "Maximum Option Bonus") based on performance achievements in 2016, 2017 and 2018. Performance incentives for the six month period January-June 2019 will be agreed to by the Board and Mr. Emalfarb based solely on the Compensation Committee's evaluation of Mr. Emalfarb's performance during the time period. The stock option grant(s), if granted by the Compensation Committee, will have a five-year term and shall vest on the grant date. The Compensation Committee of the Board will establish the performance criteria based on the Company's business and strategic plans.

Stock Options Grants. Upon the execution of Emalfarb New Agreement, Mr. Emalfarb received a stock option grant to purchase one hundred thousand (100,000) shares of common stock (the "First Option") which share amount comprises one third of the 2016 Performance Stock Options. The exercise price of the First Option is equal to the closing price of Dyadic common stock on June 21, 2016. The First Option vest immediately and have a five-year term from the date of grant.

Stock Exchange Stock Option. Upon the execution of Emalfarb New Agreement, Mr. Emalfarb received a stock option grant to purchase up to four hundred thousand (400,000) shares of common stock at an exercise price equal to the closing price of Dyadic common stock on June 21, 2016. The stock option shall vest and become exercisable if the Company's shares of common stock commence trading on the Nasdaq Capital Markets or other stock exchange approved by the Board. The Stock Exchange stock option grant, if and when earned, will have a five-year term.

Licensing/Collaboration Transaction Stock Options. Upon the execution of Emalfarb New Agreement, Mr. Emalfarb was granted a stock option to purchase up to six hundred thousand (600,000) shares of common stock which shall be proportionally awarded, vest and become exercisable when each of three (3) Bona Fide Licensing / Collaboration Transactions are entered into with the Company. A Bona Fide transaction is defined as a license, joint venture or other collaboration for a specific biological with the intent to commercialize and/or a license agreement that generates a cumulative five million dollars in non-refundable cash, or when either the vaccine or biologics pharmaceutical business categories are sold.

Severance Terms. Mr. Emalfarb will be eligible for severance benefits comparable to other executives at his level. In addition, if Mr. Emalfarb's employment is terminated by the Company without cause, by Mr. Emalfarb for good reason, or due to Mr. Emalfarb's death or disability, then the Company shall fulfill its obligations as for annual base salary through the effective date of termination and he will be entitled to receive his accrued but unpaid vacation through the date thereof plus, in the sole discretion of the Compensation Committee, the 2016, 2017, 2018 and the period January through June 21, 2019 Maximum Option Bonus shall be awarded. In addition, all of Mr. Emalfarb's unvested Stock Exchange Stock Options and Licensing/Collaboration Transaction Stock Options will vest immediately in the event milestones for which the options would have been awarded are achieved within one year from the date of termination or upon a change of control.

Other Benefits. Mr. Emalfarb will be eligible to participate in the benefit programs generally available to senior executives of the Company.

Side Letter. Mr. Emalfarb's previous agreement included a Change of Control provision entitling him to a lump sum payment of his Annual Base Salary and all other benefits for a period of three years from the date of termination (the "Aggregate Payments") if triggered by the Mr. Emalfarb's voluntary termination. Emalfarb New Agreement does not include a provision for such payments. As an additional incentive to enter into the new employment agreement, the Company and Mr. Emalfarb entered into a separate agreement (the "Side Letter") to pay the Aggregate Payments due Mr. Emalfarb in monthly installments over 36 months instead of one lump sum.

Thomas L. Dubinski

We entered into an Employment Agreement with Mr. Dubinski dated August 1, 2014 (the "Dubinski Employment Agreement"). Pursuant to the Dubinski Employment Agreement, Mr. Dubinski agreed to serve as our Vice President Finance and Chief Financial Officer. The Dubinski Employment Agreement does not have a specific term, but will renew daily such that it remains effective for a 12-month period at all times, unless we or Mr. Dubinski provides notice of non-renewal. Mr. Dubinski's base salary is $200,000 and he is eligible for a discretionary annual target bonus of up to 40% of his base salary. Mr. Dubinski is also eligible to receive benefits at the same level as other similarly situated employees of the Company. Mr. Dubinski is subject to certain restrictive covenants, including non-disclosure for three years following termination of employment, non-interference for two years following termination of employment and non-competition for one year following termination of employment.

Upon a Change of Control of the Company, as defined in the Dubinski Employment Agreement, Mr. Dubinski's stock options automatically vest. If he resigns for Good Reason, as defined in the Dubinski Employment Agreement, within 24 months after the Change of Control, he is entitled to (i) accrued but unpaid annual base salary and accrued but unused vacation, in each case, through the date of resignation, (ii) annual base salary paid in 12 monthly installments, (iii) an amount equal to Mr. Dubinski's bonus from the prior year payable in accordance with the Company's normal payroll practices, and (iv) 12 months of continuing participation in the Company's health insurance and disability plans.

Upon a termination by the Company without Cause or a resignation by Mr. Dubinski for Good Reason, as defined in the Dubinski Employment Agreement, subject to his timely execution of a release of claims in favor of the Company, Mr. Dubinski will be entitled to the following severance benefits: (i) pro rata discretionary annual bonus for the year of termination

based on actual achievement, (ii) six months of base salary paid in six monthly installments, and (iii) six months of continuing participation in the Company's health insurance and disability plans.

The Company entered into a new employment agreement dated May 1, 2016 (the "Dubinski New Agreement") with Mr. Dubinski. The Dubinski New Agreement has a two-year term. The material terms of Dubinski New Agreement are summarized below:

Base Salary and Bonus. Mr. Dubinski will receive an annual base salary of $225,000 and he may be eligible for an annual bonus award, with the timing and amount of any such bonus determined in the sole discretion of the Compensation Committee of the Board.

Performance Stock Options. Mr. Dubinski will have the opportunity to be awarded two (2) annual stock option grants (the "2016 and 2017 Maximum Option Bonus"). Each such annual option incentive stock option grant will be to purchase up to one hundred sixty thousand (160,000) shares of common stock based on performance achievements in 2016 and 2017. The Compensation Committee of the Board will establish the performance criteria based on the Company's business and strategic plans.

Stock Options Grants. Upon the execution of Dubinski New Agreement, Mr. Dubinski received a stock option grant to purchase fifty three thousand three hundred thirty three (53,333) shares of common stock (the "First Option") which share amount comprises one third of the 2016 Maximum Option Bonus. The exercise price of the First Option is equal to the closing price of Dyadic common stock on May 2, 2016. The First Option vest immediately and have a ten-year term from the date of grant.

Stock Exchange Stock Option. Upon the execution of Dubinski's New Agreement, Mr. Dubinski received a stock option grant to purchase up to two hundred fifty thousand (250,000) shares of common stock at an exercise price equal to the closing price of Dyadic common stock on May 2, 2016. The stock option shall vest and become exercisable if the Company's shares of common stock commence trading on the Nasdaq Capital Markets or other stock exchange approved by the Board. The Stock Exchange stock option grant, if and when earned, will have a five-year term.

Severance Terms. Mr. Dubinski will be eligible for severance benefits comparable to other executives at his level. In addition, if Mr. Dubinski's employment is terminated by the Company without cause he would be entitled to annual base salary through the effective date of termination and accrued but unpaid vacation through the date thereof plus, in the discretion of the Compensation Committee, the 2016 and 2017 Maximum Option Bonus and, for six (6) months following the date of termination, an amount per month equal to one-twelfth (1/12) of Mr. Dubinski Annual Base Salary. In addition, Mr. Dubinski will be able to continue to participate in the Company's health, insurance and disability plans for a six-month period following termination. If Mr. Dubinski's employment is terminated by Mr. Dubinski for good reason he would be entitled to annual base salary through the effective date of termination and accrued but unpaid vacation through the date thereof plus, in the discretion of the Compensation Committee, the 2016 and 2017 Maximum Option Bonus.

Other Benefits. Mr. Dubinski will be eligible to participate in the benefit programs generally available to senior executives of the Company.

Side Letter. Mr. Dubinski's previous agreement included a Change of Control provision entitling him to a lump sum payment of his Annual Base Salary (the "Aggregate Payments"), and all other benefits for a period of one year from the date of termination if triggered by Mr. Dubinski's voluntary termination. Dubinski New Agreement does not include a provision for such payments. As an additional incentive to enter into the new employment agreement, the Company and Mr. Dubinski entered into a separate agreement (the "Side Letter") to pay the Aggregate Payments earned in monthly installments starting in May 2016 over 24 months instead of one lump sum, and his continued participation of all other benefits for a period of one year from the date of termination.

Ronen Tchelet, Ph.D.

We entered into a consultant agreement with Sky Blue Biotech kft, dated January 1, 2016 (the "Sky Blue Biotech Agreement"), to engage Mr. Tchelet to serve as our Vice President of Research and Business Development. The engagement term of the Sky Blue Biotech Agreement is one year and will renew annually on the anniversary date of the agreement, unless the Company or Mr. Tchelet provides notice of non-renewal any time after the one year anniversary date with not less than 90 days' notice. Mr. Tchelet's will be compensated €180,000 per annum in 2018 for the consulting services provided and he is also eligible for a discretionary annual target bonus of up to 40% of his base contract level if specific performance targets are met according to the Sky Blue Biotech Agreement. During the engagement period, Mr. Tchelet shall be entitled

to reimbursement of all business travel, entertainment and other business expenses reasonably incurred in the performance of his duties for the Company. Additionally, if the Company enters into a licensing agreement or research and development agreement sourced and developed by Mr. Tchelet during the engagement period, Mr. Tchelet shall receive the following: (i) a commission of up to 1% of the up-front licensing revenue and (ii) a commission of up to 2.5% of the research and development revenue. Commissions will be paid quarterly within 30 days of the Company's receipt of payment.

Mr. Tchelet is subject to certain restrictive covenants, including Company ownership of Mr. Tchelet's work product which shall remain the sole and exclusive property of the Company, non-disclosure for five years following the date of execution of the agreement or for three years following the termination of agreement whichever is last to occur, and non-solicitation for five years following the termination of agreement.

Matthew S. Jones

We entered into a consultant agreement with Matthew S. Jones dated December 15, 2016 (the "Jones Consultant Agreement"). Pursuant to the Jones Consultant Agreement, Mr. Jones agreed to serve on a contractual basis and act as our Managing Director Business Development and Licensing and provide such services. The engagement term of the Jones Consultant Agreement is one year and will renew annually on the anniversary date of the agreement, unless the Company or Mr. Jones provides notice of non-renewal any time after the first annual anniversary date with then not less than 90 days' notice. Mr. Jones will be compensated £203,528 per annum in 2018 for the consulting services provided and he is eligible for a discretionary annual target bonus of up to 40% of the base contract value if specific performance targets are met according to the Jones Consultant Agreement. During the engagement period, Mr. Jones shall be entitled to reimbursement of all business travel, entertainment and other business expenses reasonably incurred in the performance of his duties on behalf of the Company.

Mr. Jones is subject to certain restrictive covenants, including Company ownership of Mr. Jones' work product which shall remain the sole and exclusive property of the Company, non-disclosure for five years following the date of execution of the agreement or for three years following the termination of agreement whichever is last to occur, and non-solicitation for five years following the termination of agreement.

Ping W. Rawson

In connection with Ping Rawson's appointment as the Company's Chief Accounting Officer, the Company's Board of Directors approved compensation for Ms. Rawson as follows: Ms. Rawson will be entitled to an annual base salary of $210,000 and she is eligible for a discretionary annual performance bonus up to 100,000 stock options priced at the grant date. In addition, the Company granted Ms. Rawson a sign-on award of 50,000 stock options that will vest annually in equal installments over four years, and a conditional award of 50,000 stock options that will vest once certain conditions are met. Ms. Rawson will be eligible for six months of severance benefits, if her services are no longer required due to a change of control or any reason other than for cause. Such severance benefits will increase to twelve months one year from the effective date of the agreement or upon the Company becoming an SEC reporting entity, whichever occurs first.

B. Legal/Disciplinary History

None.

C. Disclosure of Family Relationships

One of our principal stockholders, the Francisco Trust, which owns 13.3% of our common stock, is administered by Mr. Adam Morgan as trustee. The beneficiaries of the Francisco Trust are the descendants and spouse of Mr. Emalfarb. Apart from these relationships, there are no family relationships among or between our officers, directors and beneficial owners of more than five percent (5%) of our common stock. In accordance with a divorce decree dated March 18, 2014, Lisa K. Emalfarb, the former spouse of Mr. Emalfarb, is no longer a beneficiary of the Francisco Trust.

D. Disclosure of Related Party Transactions

See Item 14 for additional information regarding beneficial owners of the Company.

Item 12 Financial Information for the Issuer's Most Recent Fiscal Period

Financial Statements

MHM

1675 N. Military Trail, 5th Floor ■ Boca Raton, FL 33486
Main: 561.994.5050 ■ Fax: 561.241.0071 ■ www.mhmcpa.com

Report of Independent Registered Public Accounting Firm

To the Board of Directors and
Stockholders of Dyadic International, Inc.:

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Dyadic International, Inc. ("Company") as of December 31, 2017 and 2016, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2017, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Mayer Hoffman McCann P.C.

We have served as the Company's auditor since 2008.
Boca Raton, Florida
March 27, 2018

DYADIC INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2017	**2016**
Assets		
Current assets:		
Cash and cash equivalents	$ 5,786,348	$ 6,889,357
Escrowed funds from sale of assets	—	7,364,859
Short-term investment securities	41,898,754	42,050,052
Interest receivable	489,841	493,154
Accounts receivable	271,029	588,213
Current portion of prepaid research and development	1,015,194	—
Prepaid expenses and other current assets	154,608	242,289
Total current assets	49,615,774	57,627,924
Non-current assets:		
Long-term investment securities	922,648	1,066,643
Non-current portion of prepaid research and development	152,245	—
Other assets	53,492	5,853
Total assets	$ 50,744,159	$ 58,700,420
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 520,261	$ 279,057
Accrued expenses	147,959	389,000
Provision for contract losses	—	216,324
Deferred research and development obligations	—	122,222
Income taxes payable	100,675	3,634
Total current liabilities	768,895	1,010,237
Commitment and contingencies (See Note 5)		
Stockholders' equity:		
Preferred stock, $.0001 par value:		
Authorized shares - 5,000,000; none issued and outstanding	—	—
Common stock, $.001 par value:		
Authorized shares - 100,000,000; issued shares - 38,936,988 and 38,930,738, outstanding shares - 28,327,811 and 32,382,265, as of December 31, 2017 and 2016, respectively	38,937	38,931
Additional paid-in capital	93,913,557	93,257,472
Treasury stock, shares held at cost - 10,609,177 and 6,548,473 shares, as of December 31, 2017 and 2016, respectively	(16,625,873)	(10,401,906)
Accumulated deficit	(27,351,357)	(25,204,314)
Total stockholders' equity	49,975,264	57,690,183
Total liabilities and stockholders' equity	$ 50,744,159	$ 58,700,420

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

DYADIC INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,	
	2017	**2016**
Revenues:		
Research and development revenue	$ 758,420	$ 592,886
Costs and expenses:		
Costs of research and development revenue	680,197	516,162
Provision for contract losses	220,715	436,916
Research and development	1,765,474	885,602
Research and development - related party	437,621	—
General and administrative	5,030,354	4,562,115
Foreign currency exchange (gain) loss, net	(249,059)	147,338
Total costs and expenses	7,885,302	6,548,133
Loss from operations	(7,126,882)	(5,955,247)
Other income:		
Settlement of litigation, net	4,358,223	2,100,000
Interest income, net	566,146	484,581
Total other income	4,924,369	2,584,581
Loss before income taxes	(2,202,513)	(3,370,666)
(Benefit) provision for income taxes	(66,694)	238,073
Net loss	$ (2,135,819)	$ (3,608,739)
Basic and diluted net loss per common share	$ (0.07)	$ (0.10)
Basic and diluted weighted-average common shares outstanding	28,917,961	36,538,444

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

DYADIC INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	Common Stock		Treasury Stock		Additional paid-in capital	Stock subscrip -tions	Stock to be issued	Accumulated deficit	Total
	Shares	Amount	Shares	Amount					
Balance at December 31, 2015	40,298,324	$ 40,299	—	$ —	$ 92,157,374	$ (40,625)	$ 350,553	$ (18,713,096)	$ 73,794,505
Stock-based compensation	96,774	97	—	—	624,711	—	—	—	624,808
Vesting of restricted stocks	219,776	219	—	—	349,959	—	(350,178)	—	—
Exercise of warrants	123,812	123	—	—	25,757	—	(375)	—	25,505
Exercise of stock options	264,288	264	—	—	(264)	—	—	—	—
Sale of common stock	64,516	65	—	—	99,935	—	—	—	100,000
Repayment of stock subscriptions	—	—	—	—	—	40,625	—	—	40,625
Repurchases of common stock	(2,136,752)	(2,136)	(6,548,473)	(10,401,906)	—	—	—	(2,882,479)	(13,286,521)
Net loss	—	—	—	—	—	—	—	(3,608,739)	(3,608,739)
Balance at December 31, 2016	38,930,738	$ 38,931	(6,548,473)	$ (10,401,906)	$ 93,257,472	$ —	$ —	$ (25,204,314)	$ 57,690,183
Stock-based compensation	—	—	—	—	643,430	—	—	—	643,430
Exercise of stock options	6,250	6	—	—	1,431	—	—	—	1,437
Repurchases of common stock	—	—	(4,060,704)	(6,223,967)	—	—	—	—	(6,223,967)
Cumulative effect of change in accounting principle	—	—	—	—	11,224	—	—	(11,224)	—
Net loss	—	—	—	—	—	—	—	(2,135,819)	(2,135,819)
Balance at December 31, 2017	38,936,988	$ 38,937	(10,609,177)	$ (16,625,873)	$ 93,913,557	$ —	$ —	$ (27,351,357)	$ 49,975,264

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

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

	Years Ended December 31,	
	2017	**2016**
Cash flows from operating activities		
Net loss	$ (2,135,819)	$ (3,608,739)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation expense	643,430	624,808
Amortization of premium on held-to-maturity securities, net	192,293	(560,695)
Provision for contract losses	(216,324)	216,324
Foreign currency exchange gain, net	(249,059)	(15,218)
Changes in operating assets and liabilities:		
Interest receivable	3,313	(493,154)
Accounts receivable	333,020	(513,466)
Prepaid research and development	(1,167,439)	—
Prepaid expenses and other current assets	97,726	254,268
Other assets	(47,452)	129,600
Accounts payable	207,434	(339,740)
Accrued expenses	(242,200)	(1,722,539)
Deferred research and development obligation	(122,222)	(6,796)
Income taxes payable	97,041	3,634
Net cash used in operating activities	**(2,606,258)**	**(6,031,713)**
Cash flows from investing activities		
Purchases of held-to-maturity investment securities	(50,548,000)	(54,095,000)
Proceeds from maturities of investment securities	50,651,000	11,539,000
Net cash provided by (used in) investing activities	**103,000**	**(42,556,000)**
Cash flows from financing activities		
Repurchases of common stock	(6,223,967)	(13,286,521)
Proceeds from exercise of options	1,437	—
Proceeds from issuance of stock	—	100,000
Proceeds from repayment of stock subscriptions	—	40,625
Proceeds from exercise of warrants	—	25,505
Net cash used in financing activities	**(6,222,530)**	**(13,120,391)**
Effect of exchange rate changes on cash	257,920	—
Net decrease in cash, cash equivalents and restricted cash	**(8,467,868)**	**(61,708,104)**
Cash, cash equivalents and restricted cash at beginning of period	14,254,216	75,962,320
Cash, cash equivalents and restricted cash at end of period	**$ 5,786,348**	**$ 14,254,216**
Supplemental cash flow information		
Cash paid for interest	$ —	$ 909
Cash paid for (received from) income taxes (refund)	$ (163,735)	$ 11,502
Non-cash items		
Vesting of restricted stock	$ —	$ 350,178
Stock for warrants previously issued	$ —	$ 375
Net exercise of stock options	$ —	$ 264

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

Notes to the Consolidated Financial Statements

Note 1: Organization and Summary of Significant Accounting Policies

Description of Business

Dyadic International, Inc. ("Dyadic", "we", or the "Company") is a global biotechnology platform company based in Jupiter, Florida with operations in the United States and the Netherlands. Over the past two decades, the Company has developed a gene expression platform for producing commercial quantities of enzymes and other proteins, and has previously licensed this technology to third parties, such as Abengoa Bioenergy, BASF, Codexis and others, for use in industrial (non-pharmaceutical) applications. This technology is based on the *Myceliophthora thermophila* fungus, which the Company named C1. The C1 technology is a robust and versatile fungal expression system for the development and production of enzymes and other proteins.

On December 31, 2015, the Company sold its industrial technology business to DuPont's (NYSE: DD) industrial biosciences business for $75.0 million (the "DuPont Transaction"). The DuPont Transaction included $8.0 million of the purchase price held in escrow for 18 months to ensure Dyadic's obligations with respect to certain indemnity claims and working capital adjustments. The escrow amount of approximately $7.4 million was net of contractual working capital adjustments agreed to by the parties and interest earned to the release date, as previously reported. The Company received the escrowed funds on July 6, 2017.

When held in the escrow account, the Company's escrowed funds from sale of assets were considered restricted cash, which includes cash and cash equivalents that are legally or contractually restricted as to withdrawal or usage. Effective July 1, 2017, we early adopted ASU 2016-18, Statement of Cash Flows (Topic 230) - Restricted Cash, which requires that restricted cash be included with cash and cash equivalents when reconciling the beginning and end of period total amounts shown on the statement of cash flows. As required by this ASU, we applied this change retrospectively to our consolidated statement of cash flows for the year ended December 31, 2016.

DuPont granted Dyadic co-exclusive rights to the C1 technology for use in all human and animal pharmaceutical applications, with the exclusive ability to enter into sub-license agreements. DuPont retained certain rights to utilize the C1 technology in pharmaceutical applications, including the development and production of pharmaceutical products, for which it will make royalty payments to Dyadic upon commercialization. In certain circumstances, Dyadic may owe a royalty to either DuPont or certain licensors of DuPont, depending upon whether Dyadic elects to utilize certain patents either owned by DuPont or licensed in by DuPont.

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

Summary of Significant Accounting Policies

Basis of Presentation

The accompanying audited 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 2016 amounts previously reported to conform to the 2017 consolidated financial statement presentation. These consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP").

Since concluding the DuPont Transaction, the Company has conducted business in one operating segment, which is identified by the Company based on how resources are allocated and operating decisions are made. Management evaluates performance and allocates resources based on the Company as a whole.

Use of Estimates

The preparation of these consolidated financial statements in accordance with GAAP requires management to make estimates and judgments that affect the reported amount of assets and liabilities and related disclosure of contingent assets and liabilities at the date of our consolidated financial statements and the reported amounts of revenues and expenses during the applicable period. Actual results may differ from these estimates under different assumptions or conditions. Such differences could be material to the consolidated financial statements.

Concentrations

The Company's financial instruments that are potentially subject to concentrations of credit risk consist primarily of cash and cash equivalents, and investment securities. At times, the Company has cash, cash equivalents, and investment securities at financial institutions exceeding the Federal Depository Insurance Company ("FDIC") and the Securities Investor Protection Corporation ("SIPC") insured limit on domestic currency and the Netherlands FDIC counterpart for foreign currency. The Company only deals with reputable financial institutions, and has not experienced any losses in such accounts.

The Company's revenues and accounts receivable were generated from two collaboration partners and one foreign government grant in 2017 and 2016. The loss of business from one or a combination of the Company's significant customers could adversely affect its operations.

The Company conducts operations in The Netherlands through its foreign subsidiary, and generates a portion of its revenues from customers that are located outside of the United States. There was one European customer that accounted for approximately 22.7% of total revenue and approximately 14.9% of total accounts receivable for 2017. There were two European customers that accounted for approximately 99.5% of total revenue and approximately 78.7% of total accounts receivable for 2016.

Cash and Cash Equivalents

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

Investment Securities

Investment securities are classified as held-to-maturity, available-for-sale, or trading. Management determines the appropriate classification of its investments at the time of purchase and reevaluates the classifications at each balance sheet date. The Company's investments in debt securities have been classified and accounted for as held-to-maturity. Held-to-maturity securities are those securities that the Company has the ability and intent to hold until maturity. Held-to-maturity securities are recorded at amortized cost, adjusted for the amortization or accretion of premiums or discounts. Premiums and discounts are amortized over the life of the related held-to-maturity security. When a debt security is purchased at a premium, the statement of cash flows reflects an investing outflow for the face value of the debt, with the premium reflected as an operating outflow. Other-than-temporary impairment charges, if incurred, will be included in other income (expense).

The Company's investments in money market funds have been classified and accounted for as available-for-sale securities, and presented as cash equivalents on the consolidated balance sheet. As of December 31, 2017 and 2016, all our money market funds were invested in U.S. Government money market funds. The Company did not have any investment securities classified as trading as of December 31, 2017 and 2016.

The Company classifies its investment securities as either short-term or long-term based on each instrument's underlying contractual maturity date. Investment securities with maturities of 12 months or less are classified as short-term, and investment securities with maturities greater than 12 months are classified as long-term, from the applicable reporting date.

Accounts Receivable

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

Outstanding account balances are reviewed individually for collectability. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. Substantially all of our accounts receivable were current and unbilled amounts that will be billed and collected over the next twelve months. There was no allowance for doubtful accounts as of December 31, 2017 and 2016.

The following table summarized the billed and unbilled receivables recorded in accounts receivable for the years ended December 31, 2017 and 2016:

	December 31,	
	2017	**2016**
Billed receivable	$ 208,475	$ 125,000
Unbilled receivable	62,554	463,213
	$ 271,029	$ 588,213

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following:

	December 31,	
	2017	**2016**
Prepaid expenses - general	$ 63,678	$ 59,058
Prepaid insurance	89,760	94,313
Prepaid value added taxes	1,170	88,918
	$ 154,608	$ 242,289

Accounts Payable

Accounts payable consisted of the following:

	December 31,	
	2017	**2016**
Research and development costs	$ 459,141	$ 135,800
Legal expenses	6,865	64,930
Other	54,255	78,327
	$ 520,261	$ 279,057

Accrued Expenses

Accrued expenses consisted of the following:

	December 31,	
	2017	2016
Employee wages and benefits	$ 83,674	$ 93,400
Research and development costs	60,188	284,329
Other	4,097	11,271
	$ 147,959	$ 389,000

Revenue Recognition

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

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

The Company recognizes revenue from research funding under collaboration agreements when earned on a "proportional performance" basis as research hours are incurred. The Company typically performs services as specified in each respective agreement on a best efforts basis, and revenue is recognized over the respective contract periods as the services are performed. The Company initially defers revenue for any amounts billed and payments received in advance of related services performed. The Company then recognizes revenue pursuant to the related pattern of performance, based on total labor hours incurred relative to total labor hours estimated under the contract. Contract accounting requires judgment relative to assessing risks, estimating the revenue and costs and making assumptions for the length of time to complete the contract. Any changes to these assumptions and estimates could result in further adjustments in the future. Changes in estimated revenues, cost of revenues and the related effect on operating income are recognized in the current period using a cumulative catch-up adjustment to reflect the cumulative effect of the changes on current and prior periods based on a contact's proportional performance completed.

Provision for Contract Losses

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

In connection with two collaboration agreements, provisions for loss of $220,715 and $436,916 were established for the years ended December 31, 2017 and 2016, respectively. As of December 31, 2017 and 2016, the remaining contract losses on the balance sheet were $0 and $216,324, respectively.

Research and Development Costs

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

Research and development expenses consist of personnel-related costs, facilities, research-related overhead, services from contract research organizations, and other external costs. Research and development costs incurred by type of cost during the years ended December 31, 2017 and 2016 were as follows:

	December 31,	
	2017	2016
Outside contracted services	$ 1,299,072	$ 498,713
Outside contracted services - related party	437,621	—
Personnel related costs	362,060	322,321
Facilities, overhead and other	104,342	64,568
	$ 2,203,095	$ 885,602

Foreign Currency Transaction Gain or Loss

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

Litigation Settlement

On March 1, 2017, the Company and Greenberg Traurig, LLP, and Greenberg Traurig, P.A. (collectively, "Greenberg Traurig") reached a settlement before the case went to the jury. On April 14, 2017, the Company received the full settlement payment in the amount of $4,500,000, net of legal fees and expenses. In connection with a settlement agreement dated October 22, 2013 between Mark A. Emalfarb ("MAE"), and Dyadic, Dyadic agreed to pay MAE 5% of any net settlement proceeds up to $25 million, and 8% in excess of $25 million provided that the maximum amount payable under the agreement be limited to $6 million. In the second quarter of 2017, the Company made a payment of $141,777 to MAE to satisfy this prior contractual obligation. The net litigation settlement gain of $4,358,223 was reported in the Company's consolidated statement of operations, in other income, in the first quarter of 2017.

On April 19, 2016, the Company received $2.1 million, in connection with the Company's settlement with Bilzin Sumberg Baena Price & Axelrod LLP, in related professional liability litigation. The Company recorded such amount in the Company's consolidated statement of operations, net of legal fees and expenses, for the year ended December 31, 2016.

Fair Value Measurements

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

- *Level 1* – Quoted prices in active markets for identical assets or liabilities.
- *Level 2* – Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

- *Level 3* – Inputs that are generally unobservable and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability.

Assets and liabilities on the audited consolidated balance sheets are measured at carrying values, which approximate fair values due to the short term nature of these balances. Such items include cash and cash equivalents, accounts receivable, accounts payable, prepaid expenses, and accrued expenses. Investments in debt securities are recorded at amortized cost, and their estimated fair value amounts are provided by the third party broker service for disclosure purposes.

Income Taxes

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

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

The Company is required to evaluate the provisions of ASC 740 related to the accounting for uncertainty in income taxes recognized in a company's financial statements. ASC 740 prescribes a comprehensive model for how a company should recognize, present, and disclose uncertain positions that the company has taken or expects to take in its tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. Differences between tax positions taken or expected to be taken in a tax return and the net benefit recognized and measured pursuant to the interpretation are referred to as "unrecognized benefits." A liability should be recognized (or amount of net operating loss carry forward or amount of tax refundable is reduced) for unrecognized tax benefits, because it represents a company's potential future obligation to the taxing authority for a tax position that was not recognized as a result of applying the provision of ASC 740.

The Company classifies accrued interest and penalties related to its tax positions as a component of income tax expense. The Company is not subject to U.S. federal, state and local tax examinations by tax authorities for the years before 2014.

Comprehensive Income (Loss)

Comprehensive income (loss) includes net income (loss) and other revenue, expenses, gains and losses that are recorded as an element of shareholders' equity but are excluded from net income (loss) under U.S. GAAP. The Company does not have any significant transactions that are required to be reported in other comprehensive income (loss), and therefore, does not separately present a statement of comprehensive income (loss) in its consolidated financial statements.

Stock-Based Compensation

We recognize all share-based payments to employees and our board of directors, as non-cash compensation expense, in research and development expenses or general and administrative expenses in the consolidated statement of operations based on the grant date fair values of such payments. Stock-based compensation expense recognized each period is based on the value of the portion of share-based payment awards that is ultimately expected to vest during the period. Forfeitures are recorded as they occur.

Net Loss Per Share

Basic net loss per share is computed by dividing net loss attributable to common shareholders by the weighted average number of common shares outstanding during the reporting period. Diluted net loss per share adjusts the weighted average number of common shares outstanding for the potential dilution that could occur if common stock equivalents, such as stock options, warrants, restricted stock and convertible debt, were exercised or converted into common stock, calculated by applying the treasury stock method. Potentially dilutive securities whose effect would have been anti-dilutive are excluded from the calculation of diluted loss per share.

For the year ended December 31, 2017, 2,712,390 shares of stock options were excluded from the computation of diluted loss per share, as the effect would have been anti-dilutive.

For the year ended December 31, 2016, a total of 3,258,666 shares of potentially dilutive securities were excluded from the computation of diluted loss per share, which included 2,158,083 stock options and 1,147,276 warrants for the period prior to actual exercise as of December 31, 2016, as the effect would have been anti-dilutive.

Recent Accounting Pronouncements

Financial Instruments

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 will be effective for the Company beginning in the first quarter of 2018. The Company will adopt this new accounting guidance as required, and it is not expected to have a material impact on the Company's consolidated financial statements.

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

Revenue Recognition

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

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

The Company will adopt the new revenue standards on January 1, 2018, using the full retrospective transition method. The Company does not expect the adoption of the new revenue standards to have a material impact on its

consolidated financial position or result of operations. The Company's first quarter 2018 report include with the new required disclosures.

Other Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). Under the new guidance, lessees will be required to recognize the assets and liabilities that arise from operating leases. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. Lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. ASU 2016-02 will be effective for the Company beginning in the first quarter of 2019 and early application is permitted. The Company does not expect the standard to have a material impact on its consolidated financial statements and related disclosures.

In March 2017, the FASB issued ASU 2017-08, Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. The amendments in this ASU shorten the amortization period for certain callable debt securities held at a premium. The amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The amendments will be effective for interim and annual reporting periods beginning after December 15, 2018 (effective January 1, 2019 for the Company). The Company is still evaluating the impact, if any, of the adoption of this guidance.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments," which made eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. The ASU further clarified how the predominance principle should be applied to cash receipts and payments relating to more than one class of cash flows. The ASU is effective for annual reporting periods, and interim periods within those annual periods, beginning after December 15, 2017. The Company will adopt this new accounting guidance on January 1, 2018, and the Company's consolidated statements of cash flows will be revised retrospectively for each period presented.

In May 2017, the FASB issued ASU 2017-09, Compensation - Stock Compensation (Topic 718): Scope and Modification Accounting. An entity may change the terms or conditions of a share-based payment award for many different reasons, and the nature and effect of the change can vary significantly. Modification is currently defined as "a change in any of the terms or conditions of a share-based payment award." The amendments in this ASU provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in accordance with Topic 718. The amendments will be effective for interim and annual reporting periods beginning after December 15, 2017. This pronouncement is not expected to have a material impact on the Company's consolidated financial statements.

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

Recent Adopted Accounting Pronouncements

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718) Improvements to Employee Share-Based Payment Accounting. The guidance simplifies several aspects of the accounting for employee share-based payment transactions including allowing excess tax benefits or tax deficiencies to be recognized as income tax benefits or expenses in the Statements of Operations rather than in Additional Paid in Capital (APIC). Also, excess tax benefits no longer represent a financing cash inflow on the Statement of Cash Flows and instead will be included as an operating activity. Under this guidance, excess tax benefits and tax deficiencies will be excluded from the calculation of diluted earnings per share, whereas under current accounting guidance, these amounts must be estimated and included in the calculation. In addition, this simplifies the accounting for forfeitures and changes the statutory tax withholding requirements for share-based payments.

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

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash," which modifies the presentation of the statement of cash flows and requires reconciliation to the overall change in the total of cash, cash equivalents, restricted cash and restricted cash equivalents. As a result, the statement of cash flows will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents. The ASU is effective for annual reporting periods, and interim periods within those annual periods, beginning after December 15, 2017. The ASU is to be applied retrospectively for each period presented.

The Company early adopted ASU 2016-18 in the third quarter of 2017. The adoption of this ASU impacted the Company's presentation of its statement of cash flows, however, it did not have a material impact on the Company's consolidated balance sheet or consolidated statement of operations. Accordingly, the Company has retrospectively adjusted the presentation of its consolidated statement of cash flows for all periods presented. The following table summarizes, by financial statement line item, the adjusted presentation in the Company's consolidated statement of cash flows as of December 31, 2016:

	As Filed December 31, 2016	Adjustments	Adjusted December 31, 2016
Operating activities:			
Other assets	$ 125,923	$ 3,677	$ 129,600
Net cash used in operating activities	$ (6,035,390)	$ 3,677	$ (6,031,713)
Net (decrease) increase in cash, cash equivalents and restricted cash	$ (61,711,781)	$ 3,677	$ (61,708,104)
Cash, cash equivalents and restricted cash at beginning of period	68,601,138	7,361,182	75,962,320
Cash, cash equivalents and restricted cash at end of period	$ 6,889,357	$ 7,364,859	$ 14,254,216

Note 2: Cash, Cash Equivalent, and Investments

The Company's investments in debt securities are classified as held-to-maturity and are recorded at amortized cost, and its investments in money market funds are classified as cash equivalents. The following table shows the Company's cash, available-for-sale securities, and short-term and long-term investment securities by major security type as of December 31, 2017, and 2016:

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

	December 31, 2016				
	Level (1)	Fair Value	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Adjusted Cost
Cash and Cash Equivalents					
Cash		$ 3,501,160	$ —	$ —	$ 3,501,160
Money Market Funds	1	3,388,197	—	—	3,388,197
Subtotal		6,889,357	—	—	6,889,357
Short-Term Investment Securities (2)					
Corporate Bonds (4)	2	41,983,334	708	(67,426)	42,050,052
Long-Term Investment Securities (3)					
Corporate Bonds (4)	2	1,058,240	—	(8,403)	1,066,643
Total		$ 49,930,931	$ 708	$ (75,829)	$ 50,006,052

(1) See Note 1 - Significant accounting policy for the definition of the three-level fair value hierarchy
(2) Short-term investment securities will mature within 12 months or less, from the applicable reporting date
(3) Long-term investment securities will mature between 12 and 18 months, from the applicable reporting date
(4) The premiums paid to purchase held-to-maturity investment securities were $915,084 and $1,553,375 for the years ended December 31, 2017 and 2016, respectively

The Company considers the declines in market value of its investment portfolio to be temporary in nature. The Company's investment policy requires investment securities to be investment grade and held to maturity with the primary objective to maintain a high degree of liquidity while maximizing yield. When evaluating an investment for other-than-temporary impairment, the Company reviews factors such as the length of time and extent to which fair value has been below its cost basis, the financial condition of the issuer and any changes thereto, changes in market interest rates, and whether it is more likely than not the Company will be required to sell the investment before recovery of the investment's cost basis. As of December 31, 2017, the Company does not consider any of its investments to be other-than-temporarily impaired.

Note 3: Research and Collaboration Agreement

On June 30, 2017, the Company entered into a strategic Research Services Agreement (the "RSA") with Biotechnology Developments for Industry in Pharmaceuticals, S.L.U. ("BDI Pharma"), and a Service Framework Agreement (the "SFA", and together with the RSA, the "R&D Agreements"), with VLP The Vaccines Company, S.L.U.

("VLPbio"), both companies are subsidiaries of Biotechnology Developments for Industry, S.L., a Spanish biotechnology company ("BDI Holdings" and together with BDI Pharma and VLPbio, "BDI").

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

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

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

The Company performed a valuation analysis of the components of the transaction and allocated the consideration based on the relative fair value of each component. As the fair value of BDI equity interest was considered immaterial, the initial payment of approximately USD $1.1 million (EUR €1.0 million) was accounted for as a prepaid research and development collaboration payment on our consolidated balance sheet, and both the collaboration payment and the remaining USD $1 million commitment to be paid by Dyadic under the SFA will be expensed as the related research services are performed by BDI. As of December 31, 2017, there were three collaboration projects in progress under the SFA for a total of approximately EUR €0.6 million.

At December 31, 2017, the prepaid research and development collaboration payment of approximately USD $1.2 million is included in our consolidated balance sheet and has been allocated between the current and noncurrent based on whether it is expected to be used over the next 12-month period or beyond. For the year ended December 31, 2017, research and development expenses related to BDI were recorded as research and development - related party in our consolidated statements of operations in the amount of approximately USD $0.4 million.

Note 4: Income Taxes

The significant components of loss before income taxes are as follows:

	Years Ended December 31,	
	2017	2016
U.S. operations	$ (2,096,939)	$ (1,920,356)
Foreign operations	(105,574)	(1,450,310)
Total loss before provision for income taxes	$ (2,202,513)	$ (3,370,666)

The significant components of our (benefit) provision for income tax for the years ended December 31, 2017 and 2016 are as follows:

	Years Ended December 31,	
	2017	2016
Current and deferred tax (benefit) expense		
Federal	$ (66,694)	$ 238,073
State	—	—
Foreign	—	—
	$ (66,694)	$ 238,073

For the year ended December 31, 2017, the Company's current income tax benefit of $66,694 consisted of differences between our estimated tax provisions and the actual amounts incurred of $167,784 offset by AMT taxes of $101,090.

The income tax provision differs from the expense amount that would result from applying the federal statutory rates to income before income taxes due to deferred income tax resulting from permanent differences, state taxes and a change in the deferred tax valuation allowance.

The Tax Cuts and Jobs Act (the "TCJA") was enacted on December 22, 2017 and is effective January 1, 2018. The new legislation contains several key provisions, including a reduction of the U.S. corporate income tax rate from 35% to 21%, and a change to alternative minimum taxes. We are required to remeasure all our U.S. deferred tax assets as of December 22, 2017 and record the impact of such remeasurement in our 2017 financial statements. For the year ended December 31, 2017, we recorded a decrease to deferred tax assets of $0.4 million and increase in valuation allowance of the same amount, all of which reflects the estimated impact associated with the remeasurement of our U.S. deferred tax asset at the lower U.S. federal corporate income tax rate.

As of December 31, 2017, the Company did not record any provisional estimate related to changes to alternative minimum taxes. The staff of the SEC recognized the complexity of determining the impact of the TCJA, and on December 22, 2017 issued guidance in Staff Accounting Bulletin 118 ("SAB 118"). SAB 118 has provided guidance which allows us to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. The Company will continue to analyze the TCJA and related accounting guidance and interpretations in order to finalize any impacts within the measurement period. We currently anticipate finalizing and recording any resulting adjustments by the end of fiscal year 2018.

The reconciliation between the statutory tax rates and the Company's actual effective tax rate is as follows:

	Years Ended December 31,	
	2017	2016
Tax at U.S. statutory rate	(34.00)%	(34.00)%
State taxes, net of federal benefit	(3.45)	(3.57)
Non-deductible items	1.73	0.61
Change in valuation allowance	12.97	48.87
True-up adjustment	7.10	3.95
Foreign operations	0.66	(10.78)
Change in tax rates	19.40	—
AMT adjustment	—	1.98
	4.41 %	7.06 %

The significant components of the Company's net deferred income tax assets are as follows:

	December 31,	
	2017	2016
Gain/Loss on disposals	$ (5,900)	$ (8,800)
Escrowed funds in connection with the sale of assets	—	(2,568,000)
Stock option expense	154,300	26,800
NOL carryforward	1,088,000	3,445,700
AMT credit carryforward	1,005,300	1,063,100
General business credits	1,656,500	1,656,500
Other	(6,500)	(9,100)
Deferred tax asset, net of deferred tax liabilities	3,891,700	3,606,200
Valuation allowance	(3,891,700)	(3,606,200)
Net deferred tax asset	$ —	$ —

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. In assessing the realizability of deferred tax assets, management evaluates whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based on management's evaluation, the net deferred tax asset was offset by a full valuation allowance as of December 31, 2017 and 2016.

The Company had net operating loss ("NOL") carryforwards available in 2017 that will begin to expire in 2035. As of December 31, 2017, and 2016, the Company had NOLs in the amount of approximately $2.9 million and $8.2 million, respectively.

As of December 31, 2017 and 2016, no liability for unrecognized tax benefits was required to be reported. The Company does not expect any significant changes in its unrecognized tax benefits in the next year.

On March 30, 2017, the Company received a letter from the United States Internal Revenue Service (the "IRS") informing the Company that its 2015 federal tax return was selected for examination. During the period of May to September 2017, the Company had several meetings with the IRS agent and provided the IRS with all requested information. On October 17, 2017, the Company received the final closing letter from the IRS, informing the Company that its review of our tax filing for 2015 was complete, and no changes were required.

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 $9,400. The lease expires on June 30, 2018, and thereafter, the Company will reconsider the square footage of the leased space to align with the staffing requirements of the future operations of the Company.

The Netherlands Office

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

Purchase Obligations

The following table provides a schedule of commitments related to agreements to purchase certain services in the ordinary course of business, as of December 31, 2017:

2018	$	1,825,809
2019		207,031
2020		—
2021		—
2022		—
Thereafter		—
Total	$	2,032,840

The purchase obligations in the table above primarily related to our contracts with the Company's contract research organizations to provide certain research services. The contracts set forth the Company's minimum purchase requirements that are subject to adjustments based on certain performance conditions. Most contracts expire in 2018 except one which expires in March 2019.

Professional Liability Lawsuit

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

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

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

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

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

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

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

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

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

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

On July 31, 2015, the Company reached a settlement with one of the three remaining defendant law firms in its ongoing professional liability litigation. On August 12, 2015 the Company received full payment in the amount of $2,170,000, which is net of fees and expenses. The settlement amount was reported in the Company's consolidated statement of operations, in other income, for the year ended December 31, 2015.

On September 29, 2015, the Court removed the professional liability litigation from the Court's eight week trial docket which commenced on October 26, 2015. Instead, the Court, in an effort to promote settlement, ordered the parties to non-binding arbitration with an initial hearing to occur before December 16, 2015. The parties were scheduled to appear before the Court on November 13, 2015 for hearings on various pre-trial motions. At that time, the Court was expected to address when the professional liability litigation will be set for trial in 2016. The parties also voluntarily agreed to again attend mediation on November 18, 2015.

The parties attended both mediation and non-binding arbitration. No resolution was reached. Pretrial motion practice is now substantially completed. On March 3, 2016, the Court issued an Order setting a six week jury trial commencing January 6, 2017.

On April 5, 2016, the Company reached a settlement with one of the two remaining defendant law firms, Bilzin Sumberg Baena Price & Axelrod LLP, in its ongoing professional liability litigation. On April 19, 2016, the Company received full payment in the amount of $2,100,000, which is net of legal fees and expenses. The settlement amount was reported in the Company's consolidated statement of operations, in other income, for the quarter ended June 30, 2016. The trial with the remaining defendant law firm Greenberg Traurig, LLP, Greenberg Traurig, P.A. (collectively, "Greenberg Traurig") and the estate of Robert I Schwimmer remains set for January 6, 2017.

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

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

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

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

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

In addition to the matters noted above, from time to time, the Company is subject to legal proceedings, asserted claims and investigations in the ordinary course of business, including commercial claims, employment and other matters, which management considers immaterial, individually and in the aggregate. The Company makes a provision for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. The requirement for these provisions are reviewed at least quarterly and adjusted to reflect the impact of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular case. Litigation is inherently unpredictable and costly. While the Company believes that it has valid defenses with respect to the legal matters pending against it, protracted litigation and/or an unfavorable resolution of one or more of such proceedings, claims or investigations against the Company could have a material adverse effect on the Company's consolidated financial position, cash flows or results of operations.

Note 6: Share-Based Compensation

Description of Equity Plans

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

As of December 31, 2017, there were 2,712,390 stock options outstanding and 2,006,711 shares of common stock were available for grant under the Company's Equity Compensation Plans.

As of December 31, 2016, there were 2,158,083 stock options outstanding and 2,567,268 shares of common stock were available for grant under the Company's Equity Compensation Plans.

Stock Options

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

The grant-date fair value of each option grant is estimated using the Black-Scholes option pricing model and amortized on a straight-line basis over the requisite service period, which is generally the vesting period, for each separately vesting portion of the award as if the award was, in substance, multiple awards. The Company has elected to account for forfeitures as they occur, upon the adoption of ASU 2016-09 beginning on January 1, 2017 (See Note 1 Recently Adopted Accounting Pronouncement). Use of a valuation model requires management to make certain assumptions with respect to selected model inputs, including the following:

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

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

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

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

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

The assumptions used in the Black-Scholes option pricing model for stock options granted for years ended December 31, 2017 and 2016 are as follows:

	Years Ended December 31,	
	2017	2016
Risk-free interest rate	1.87% - 2.15%	1.18% - 2.24%
Expected dividend yield	—%	—%
Expected stock price volatility	70.24% - 71.43%	74.01% - 77.50%
Expected life of options	5 - 6.25 Years	5 - 10 Years
Discount for lack of marketability	17.72%	—%

The following table summarizes the stock option activities for years ended December 31, 2017 and 2016:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2015	3,711,250	$1.63		
Granted	1,293,333	1.67		
Exercised	(800,000)	1.07		
Expired	(150,000)	2.12		
Canceled	(1,896,500)	1.89		
Outstanding at December 31, 2016	2,158,083	$1.60	6.1	$214,883
Granted (1)	660,557	1.61		
Exercised	(6,250)	0.23		
Expired	(100,000)	1.33		
Canceled	—	—		
Outstanding at December 31, 2017	2,712,390	$1.62	6.1	$69,090
Exercisable at December 31, 2017	1,461,503	$1.59	5.4	$69,090

(1) Represents stock options granted on January 3, 2017 in connection with routine annual share-based compensation awards, including (a) 339,667 stock options with an exercise price of $1.63 granted to executives and key personnel, vesting upon grant or one year anniversary, (b) 250,000 stock options with an exercise price of $1.63 granted to Board of Directors, vesting 25% upon grant and the remaining 75% will vest annually in equal installments over four years, and (c) 20,890 stock options with an exercise price of $1.63 granted to employees, vesting annually in equal installments over four years, as well as 50,000 stock options granted to a board member during the third quarter of 2017 with an exercise price of $1.43, vesting 25% upon grant and the remaining 75% will vest annually in equal installments over four years.

In April 2017, the Compensation Committee and the Board of Directors approved the amendment to equity awards previously granted to a board member who resigned on June 1, 2017. The amendment provided for (1) acceleration of the vesting dates, and (2) extension of the exercise period. At the time of such modification, the incremental cost of this change was recognized immediately and the amount was immaterial.

The weighted average grant-date fair market value of stock options granted for the years ended December 31, 2017 and 2016 was $0.82 and $1.24 respectively, based on the Black-Scholes option pricing model. The intrinsic value of options exercised for the years ended December 31, 2017 and 2016 was $7,313 and $431,397, respectively.

As of December 31, 2017, total unrecognized compensation cost related to non-vested stock options granted under the Company's share option plan was approximately $211,012, which is expected to be recognized over a weighted

average period of 2.63 years. The Company will adjust unrecognized compensation cost for actual forfeitures as they occur.

Restricted Stock

Restricted stock is granted subject to certain restrictions. Vesting conditions are determined at the time of grant under the plan. The fair market value of restricted stock is generally determined based on the closing market price of the stock on the grant date.

For the year ended December 31, 2017, there were no restricted stock granted. For the year ended December 31, 2016, there were 100,300 shares granted to our board of directors with a weighted average grant-date fair value of $1.53 per share. As of December 31, 2017, and 2016, there was no unrecognized compensation cost related to non-vested restricted stock.

Compensation Expenses

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

	Years Ended December 31,	
	2017	**2016**
General and administrative	$ 510,679	$ 507,210
Research and development	132,751	117,598
Total	$ 643,430	$ 624,808

The following table summarizes the Company's non-cash share-based compensation expense by award type for the years ended December 31, 2017, and 2016:

	Years Ended December 31,	
	2017	**2016**
Share-based compensation expense - stock options	$ 643,430	$ 471,388
Share-based compensation expense - restricted stock	—	153,420
Total share-based compensation expense	$ 643,430	$ 624,808

Note 7: Shareholders' Equity

Issuances of Common Stock

The shares of common stock issued for the years ended December 31, 2017 and 2016 are as follows:

	December 31, 2017		December 31, 2016	
	Number of Shares Issued	Weighted Average Issue Price per Share	Number of Shares Issued	Weighted Average Issue Price per Share
Exercise of stock options	6,250	$0.15	264,288	$1.63
Restricted shares and compensation	—	—	316,550	1.58
Sale of common stock	—	—	64,516	1.55
Exercise of warrants (1)	—	—	123,812	$1.60
Total	6,250		769,166	

(1) During the year ended December 31, 2016, 1,147,273 warrants with an exercise price of $1.48 per share were exercised, resulting in an aggregate issuance of 121,312 shares of our common stock. An additional 2,500 shares of common stock were issued in connection with warrants exercised in 2015. As of December 31, 2017 and 2016, there were no warrants outstanding.

Share Repurchases and Buybacks

Privately Negotiated Share Buyback Transactions

On January 12, 2016, the Company repurchased and retired an aggregate of 2,136,752 shares of its common stock at $1.35 per share for an aggregate purchase price of $2,884,615 pursuant to a Securities Purchase Agreement entered into with Abengoa Bioenergy New Technologies, LLC ("ABNT"). The $1.35 per share price is equal to the average conversion price that Dyadic convertible debt holders received upon conversion of debt as of December 31, 2015. These shares repurchased from ABNT were treated as effective retirements, and therefore reduced reported shares issued and outstanding by the number of shares repurchased. The Company recorded the excess of the purchase price over the par value of the common stock in the accumulated deficit in compliance with US GAAP.

On January 11, 2017, the Company entered into a Securities Purchase Agreement with Pinnacle Family Office Investments L.P ("Pinnacle") to repurchase an aggregate of 2,363,590 shares of its common stock at $1.54 per share for an aggregate purchase price of $3,639,929. Upon repurchase, the shares are treated by Dyadic as treasury stock. Subsequent to the repurchase, Pinnacle continued to own approximately 2.1 million common shares of Dyadic. The repurchase of shares from Pinnacle was in addition to Dyadic's 2016 Stock Repurchase Program discussed below.

Stock Repurchase Programs

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

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

Under the 2017 Stock Repurchase Program, the Company is authorized to repurchase shares in open-market purchases in accordance with all applicable securities laws and regulations, including Rule 10b-18 of the Securities Exchange Act of 1934, as amended. The extent to which the Company repurchases its shares, and the timing of such repurchases, is dependent upon a variety of factors, including market conditions, regulatory requirements and other corporate considerations, as determined by the Company's management. The repurchase program may be extended, suspended or discontinued at any time. The Company expects to finance the program from its existing cash resources. All repurchased shares are held in treasury.

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

Period	Number of Shares Purchased	Average Repurchase Price per Share	Amount	Total Number of Treasury Shares Purchased as Part of Publicly Announced Plan	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plan
Privately Negotiated Transactions:					
January 12, 2016 - ABNT repurchased and retired shares	2,136,752	$1.35	$ 2,884,615	—	N/A
January 11, 2017 - Pinnacle Family Office Investments L.P. repurchased shares	2,363,590	1.54	3,639,929	2,363,590	N/A
2016 Stock Repurchase Program (1):					$ 15,000,000
January through December 2016	6,548,473	1.59	10,401,906	6,548,473	$ 4,598,094
January 2017	867,507	1.60	1,384,021	867,507	$ 3,214,073
February 2017	448,000	1.48	662,356	448,000	$ 2,551,717
2017 Stock Repurchase Program:					$ 5,000,000
September 2017	7,000	1.41	9,870	7,000	$ 4,990,130
October 2017	22,000	1.40	30,840	22,000	$ 4,959,290
November 2017	96,000	1.41	135,135	96,000	$ 4,824,155
December 2017	256,607	1.41	361,816	256,607	$ 4,462,339
Total open market and privately negotiated purchases	12,745,929	$1.53	$19,510,488	10,609,177	

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

Treasury Stock

As of December 31, 2017, 10,609,177 shares of common stock are being held in treasury, at a cost of approximately $16.6 million, representing the purchase price on the date the shares were surrendered to the Company. As of December 31, 2016, there were 6,548,473 shares held in treasury, at a cost of approximately $10.4 million.

Note 8: Subsequent Events

For purpose of disclosure in the consolidated financial statements, the Company has evaluated subsequent events through March 27, 2018, the date the consolidated financial statements were available to be issued. Except as discussed below, management is not aware of any material events that have occurred subsequent to the balance sheet date that would require adjustment to, or disclosure in the accompanying financial statements.

Subsequent to December 31, 2017, the Company repurchased, pursuant to the terms of its 2017 Stock Repurchase Program, 267,000 additional shares at a weighted average price of $1.40 per share through March 27, 2018.

Stock Option Grant

On January 2, 2018, the Company granted to executives and key personnel 492,000 stock options with an exercise price of $1.39. The options vest upon grant or one year anniversary.

On January 2, 2018, the Company granted to Board of Directors 200,000 stock options with an exercise price of $1.39. The options vest 25% upon grant and the remaining 75% will vest annually in equal installments over four years.

On January 2, 2018, the Company granted to non-executive employees and consultants 87,500 stock options with an exercise price of $1.39. The options will vest annually in equal installments over four years for employees, and upon one year anniversary for consultants.

On March 19, 2018, the Company granted to one key personnel a one-time award of 50,000 stock options with an exercise price of $1.44. The options will vest upon one year anniversary. In addition, the Company granted to the newly appointed Chief Accounting Officer a sign-on award of 50,000 stock options and a conditional award of 50,000 stock options with an exercise price of $1.44. The sign-on options will vest annually in equal installments over four years, and the conditional award will vest once certain conditions are met.

Board Member

On January 3, 2018, the Company appointed Barry Buckland, Ph.D., to its Board of Directors, and granted 50,000 stock options with an exercise of $1.39. The options vest 25% upon grant and the remaining 75% will vest annually in equal installments over four years.

Departure of Chief Financial Officer and Appointment of Chief Accounting Officer

The Company's Chief Financial Officer, Thomas L. Dubinski, will not be returning from his previously announced medical leave of absence. Ping W. Rawson, the Company's Director of Financial Reporting since June 2016, was promoted to Chief Accounting Officer on March 14, 2018 and will serve as the Company's principal financial officer and assume responsibility for finance, tax and treasury.

Item 13 Similar Financial Information for Such Part of the Two Preceding Fiscal Years as the Issuer or its Predecessor has been in Existence

See Item 12 above. Additionally, the Company's audited Consolidated Financial Statements for the years ended December 31, 2016 and 2015 have also been posted on the OTC website.

Item 14 Beneficial owners

The information presented below regarding beneficial ownership of Dyadic common stock is based upon representations made to us by our directors, officers and other key personnel, and is not necessarily indicative of beneficial ownership for any other purpose. In the table below, we have deemed a person to be a "beneficial owner" of a security if that person has or shares the power to vote or direct the voting of the security or the power to dispose of or direct the disposition of the security. Beneficial ownership includes any security with respect to which a person has the right to acquire sole or shared voting or investment power within 60 days through the conversion or exercise of any convertible security, warrant, option or other right. The table sets forth as to each director, executive officer, key personnel and beneficial holder of 5% or more of the outstanding Dyadic common stock as of December 31, 2017 and includes (1) the number of shares of Dyadic common stock beneficially owned and (2) the percent of total shares of Dyadic common stock outstanding that are beneficially owned.

The Dyadic common stock is not registered under the Securities Exchange Act of 1934, and our shareholders are not required to file certain stock ownership reports with the Securities and Exchange Commission. As a result, we have limited information about the owners of Dyadic common stock. The information presented below regarding ownership of Dyadic common stock is based upon information in our stock ledger and provided to us by our shareholders.

As of December 31, 2017, the Company has 38,936,988 shares of common stock issued and 28,327,811 shares of common stock outstanding with the remaining 10,609,177 shares held in treasury. The beneficial ownership table below includes those shares of common stock underlying options that are currently exercisable or exercisable within sixty (60) days of December 31, 2017, but excludes those shares issued or repurchased subsequent to December 31, 2017:

Name and Address of Beneficial Owner (1)	Number of Common Shares Held	Options Exercisable within 60 Days	Number of Common Share Equivalents Beneficially Owned	Percentage of Common Share Equivalents Beneficially Owned (%) (2)
Five Percent Shareholders				
Mark A. Emalfarb (3)	4,116,987	570,000	4,686,987	16.2%
The Francisco Trust U/A/D February 28, 1996 (4)	3,773,841	—	3,773,841	13.3%
Bandera Master Fund L.P. (5)	2,490,271	—	2,490,271	8.8%
SC Fundamental Value Fund, L.P. (6)	1,711,182	—	1,711,182	6.0%
Named Executive Officers and Directors (7):				
Mark A. Emalfarb (3)	4,116,987	570,000	4,686,987	16.2%
Michael P. Tarnok	188,929	115,938	304,867	1.1%
Seth J. Herbst, MD	—	240,938	240,938	*
Jack L. Kaye	72,707	90,938	163,645	*
Arindam Bose, Ph.D.	—	60,000	60,000	*
Thomas L. Dubinski (8)	78,759	440,000	518,759	1.8%
Ronen Tchelet, Ph.D.	—	250,000	250,000	*
Matthew S. Jones	—	40,000	40,000	*
All executive officers and directors as a group (8 persons):	4,457,382	1,807,814	6,265,196	20.8%

* Less than 1%

(1) Except as otherwise noted, the address for each shareholder is c/o Dyadic International, Inc., 140 Intracoastal Pointe Drive, Suite 404, Jupiter, FL 33477.

(2) Based on 28,327,811 shares of common stock outstanding as of December 31, 2017. Shares of common stock subject to options that are currently exercisable or exercisable within 60 days are deemed outstanding for purposes of computing the percentage of the person holding such options, but are not deemed outstanding for purposes of computing the percentage of any other person.

(3) Includes 4,116,987 shares held by Mark A. Emalfarb beneficially through the MAE Trust, of which Mr. Emalfarb is the sole beneficiary and serves as sole trustee. In addition, Mr. Emalfarb holds 570,000 shares of common stock underlying options that are presently exercisable. The address of the MAE Trust is 193 Spyglass Court, Jupiter, 33477.

(4) The trustee of the Francisco Trust is Adam Morgan, and the beneficiaries thereof are the spouse and descendants of Mark A. Emalfarb. The address of the Francisco Trust is 17236 Gulf Pine Circle, Wellington, Florida 33414. Mr. Emalfarb disclaims beneficial ownership of such shares.

(5) The address is c/o Bandera Master Fund L.P., 50 Broad Street #1820, New York, NY 10004.

(6) The address is c/o SC Fundamental LLC, 747 Third Avenue, 27th Floor, New York, NY 10017.

(7) On January 3, 2018, the Company appointed Barry Buckland, Ph.D., to its Board of Directors, and granted 50,000 stock options with an exercise of $1.39. The options vest 25% upon grant and the remaining 75% will vest annually in equal installments over four years. The beneficial ownership table above excluded those options issued subsequent to December 31, 2017.

(8) Thomas L. Dubinski will not be returning from his medical leave of absence that was announced on March 15, 2018. Ping W. Rawson, the Company's Director of Financial Reporting since June 2016, was promoted to Chief Accounting Officer on March 14, 2018 and will serve as the Company's principal financial officer and assume responsibility for finance, tax and treasury.

Item 15 The Name, Address, Telephone Number, and Email Address of each of the Following Outside Providers that Advise the Issuer on Matters Relating to Operations, Business Development and Disclosure

1. Counsel

Kimberly C. Petillo-Décossard
Cahill Gordon & Reindel LLP
80 Pine Street
New York, NY 10005
Telephone: (212) 701-3265
Facsimile: (212) 378-2545
Email: kpetillo-decossard@cahill.com

2. Accountant or Auditor

Jeremy S. Ahwee
Mayer Hoffman McCann P.C.
1675 N. Military Trail, Fifth Floor
Boca Raton, Florida 33486
Telephone: (561) 922-5110
Facsimile: (561) 241-0071
Email: jahwee@cbiz.com

3. Any other advisor(s) that assisted, advised, prepared or provided information with respect to this Annual Report - the information shall include the telephone number and email address of each advisor.

Tax Advisor:
Cesar A. Estrada
Marcum LLP
450 East Las Olas Boulevard, Ninth Floor
Ft. Lauderdale, FL 33301
Telephone: (954) 320-8074
Email: cesar.estrada@marcumllp.com

Item 16 Management's Discussion and Analysis or Plan of Operations

The following discussion and analysis contains forward-looking statements about our plans and expectations of what may happen in the future. Forward-looking statements are based on a number of assumptions and estimates that are inherently subject to significant risks and uncertainties, and our results could differ materially from the results anticipated by our forward-looking statements as a result of many known or unknown factors, including, but not limited to, those factors discussed under "Risk Factors" or in other parts of this Annual Report. See also the "Special Cautionary Notice Regarding Forward-Looking Statements" set forth at the beginning of this report.

You should read the following discussion and analysis in conjunction with the audited consolidated financial statements, and the related footnotes thereto, included in this Annual Report.

Description of Business

Dyadic International, Inc. ("Dyadic", "we", or the "Company") is a global biotechnology platform company based in Jupiter, Florida with operations in the United States and the Netherlands. Over the past two decades, the Company has developed a gene expression platform for producing commercial quantities of enzymes and other proteins, and has previously licensed this technology to third parties, such as Abengoa Bioenergy, BASF, Codexis and others, for use in industrial (non-pharmaceutical) applications. This technology is based on the *Myceliophthora thermophila* fungus, which the Company named C1. The C1 technology is a robust and versatile fungal expression system for the development and production of enzymes and other proteins.

On December 31, 2015, the Company sold its industrial technology business to DuPont's (NYSE: DD) industrial biosciences business for $75.0 million (the "DuPont Transaction"). The DuPont Transaction included $8.0 million of the purchase price held in escrow for 18 months to ensure Dyadic's obligations with respect to certain indemnity claims and working capital adjustments. The escrow amount of approximately $7.4 million was net of contractual working capital adjustments agreed to by the parties and interest earned to the release date, as previously reported. The Company received the escrowed funds on July 6, 2017.

DuPont granted Dyadic co-exclusive rights to the C1 technology for use in all human and animal pharmaceutical applications, with the exclusive ability to enter into sub-license agreements. DuPont retained certain rights to utilize the C1 technology in pharmaceutical applications, including the development and production of pharmaceutical products, for which it will make royalty payments to Dyadic upon commercialization. In certain circumstances, Dyadic may owe a royalty to either DuPont or certain licensors of DuPont, depending upon whether Dyadic elects to utilize certain patents either owned by DuPont or licensed in by DuPont.

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

Our Technology

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

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

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

Our Industry and Market

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

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

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

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

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

Our Business Development Efforts

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

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

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

- Signed at least 90 Confidential Disclosure Agreements ("CDAs") to start business/collaboration discussions as of December 31, 2017;
- Hired experienced consultants with relationships within the biopharmaceutical industry and governmental agencies to expand the C1 network and reach out to potential research and business partners;
- Retained two new board members who previously worked with Merck and Pfizer and have strong scientific background and extensive business experience in the biopharmaceutical industry;
- Having ongoing research and development discussions, at various stages of progress, with major biopharmaceutical and biotech companies, government and academia (both in the US and internationally);
- Entered into three funded feasibility and expression projects with three of the top tier pharmaceutical companies, including Mitsubishi Tanabe Pharma in early 2018;
- One funded proof of concept research collaboration with one global biotech company to produce an important active moiety;
- Signed a research and development collaboration with The Israel Institute for Biological Research ("IIBR") and having ongoing discussions with other governmental agencies, such as BARDA.

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

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

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

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

Our Research Partners and Contract Research Organizations (CROs)

After the closing of DuPont Transaction, we initially conducted our research and development work on C1 at DuPont's research center in Wageningen, The Netherland's, Dyadic's former C1 research and development center that was acquired by DuPont in the DuPont Transaction on December 31, 2015 ("DuPont Research Center"). On September 30, 2017, the Company concluded the research services provided by DuPont, and successfully transitioned the C1 platform research programs to the following two contract research organizations:

(1) Research and Development Agreement with Our Prime CRO

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

(2) Collaboration Agreement with BDI

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

The R&D Agreements provide a framework under which the parties will engage in a research and development collaboration encompassing several different projects over approximately a two-year period, with a focus on advancing Dyadic's proprietary C1 technology in the development of next generation biological vaccines and drugs. Dyadic expects to leverage the BDI team's previous C1 gene expression and industrial fermentation scale-up and commercialization experience with yeast and filamentous fungi processes to further advance Dyadic's proprietary C1

technology with the potential to commercialize certain biopharmaceutical product(s). All the data and any products developed from the funded research projects will be owned by Dyadic. We anticipate that BDI will conduct gene expression work and cGMP media development coupled with fermentation optimization work, with a goal of improving the C1 technology's production process for manufacturing vaccines, antibodies, enzymes and other therapeutic proteins. Additionally, BDI is conducting research and development on our behalf to express and produce a variety of C1-based biologic products to demonstrate C1's capabilities and to identify potential animal and human pharmaceutical products which may be out licensed to third parties for commercialization. Those proteins include mAbs, FC-fusion, Bi-specific antibodies, Fabs, VLP and others that may be used for human and animal health applications.

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

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

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

(1) Ongoing C1 Production Host R&D Programs

The Company has contracted our Prime CRO to further improve the C1 technology to become an even more robust, versatile and efficient therapeutic protein production platform which may be used to help bring biologic vaccines and drugs to market faster, in greater volumes, at lower cost, and with new properties to drug developers and manufacturers. This includes: (i) improving the genome sequence-accuracy for the application of system biology tools, (ii) improving the C1 genetic tools, (iii) further reducing the background protease(s) levels by identifying and deleting certain protease genes and/or modifying C1 fermentation processes, (iv) developing C1 strains where one or more specific integration sites are being used to increase productivity and to what we expect will help with future regulatory approvals, and (v) modify the glycosylation pathway of C1 cells in order for C1 to express mAbs with mammalian like glycosylation structures.

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

- Data demonstrating an expression yield (productivity) of a monoclonal antibodies (mAb) of 1.5 grams per liter per day.
- Data demonstrating that the binding kinetics of mAbs (monoclonal antibodies) produced from C1 are virtually indistinguishable to the binding kinetics of the mAbs tested which were produced from CHO cells.
- Initial modifications have been successfully made to our C1 microorganisms glycosylation pathway targeting the production of glycosylated proteins, such as mAbs (monoclonal antibodies) that more resemble human glycoforms.
- Generated C1 strains that have lower background protease activity, which remain healthy and viable.
- Developed and used a variety of novel genetic elements, molecular tools that can be used in biologics drug development.

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

(2) Biologic Vaccines Programs - ZAPI

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

As it was reported previously, one of the Company's C1 expressed antigens was tested in a very small mice study within the ZAPI project and the data indicated that the C1 technology produced antigen generated an immune response in mice that protected the mice and showed no negative effects on the health of the mice. We anticipate that more immunogenicity and safety testing will be conducted within the ZAPI project in the months and years ahead.

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

(3) Israel Institute for Biological Research (IIBR)

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

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

(4) Biologic Drug Programs

(i) Monoclonal antibodies (mAbs) and FC-fusion

The Company has a number of internally and externally funded research programs to express different types of monoclonal antibodies (mAbs) using our C1 technology. So far, we have been able to successfully express various mAbs, and our best mAb C1 strain showed expression levels of 1.5 grams/litre/day, and with a final production level of over 10 grams/litre in a seven day fermentation. The Company and its collaborators believe that such results are very exciting, compared to the average expression yields of CHO cells which is the predominant production system used by the pharmaceutical industry to manufacture glycosylated mAbs. Additionally, this expression level was reached using a C1 fed batch fermentation process with low cost defined media, as compared to the expensive growth media being used with CHO. Based on this encouraging data, we have begun to work on optimizing both the media and the fermentation process to further increase mAb yields and productivity.

We continue to believe that the on-going improvements we are making to C1 strains and fermentation processes, such as, continuing to reduce protease levels, glycoengineering C1 strains and optimizing C1's media and fermentation processes, will result in C1 being recognized as a safe and efficient expression system for biologic vaccines and drugs development.

In December 2016 and May 2017, respectively, the Company entered into two funded feasibility and expression research projects with two of the world's largest pharmaceutical companies. The first project was successfully completed in the last quarter of 2017, and the second one is still ongoing and is also showing encouraging mAb expression data. We believe that the data generated from both collaborations continues to demonstrate the potential of the C1 technology to produce high levels of glycosylated mAbs and other therapeutic proteins faster than that can be produced using CHO cells. We are currently in discussions with both of these two pharmaceutical companies exploring the possible next steps in our collaboration.

(ii) Glycosylated Therapeutic Programs

The Company's longer-term objective, which will require substantially more time and money to achieve, is to apply the C1 technology for the large therapeutic glycoprotein market. We believe that with the rapid advances already available today, and those being made at an accelerated pace in genomics and synthetic biology, and with the accelerated pace of new advancements being made, the hyper productive and novel C1 fungal cell line is an excellent candidate to further engineer glycosylation pathways: (i) to produce therapeutic proteins having human types of defined glycoforms structures such as G0, G1, G2, G0F, G1F and G2F and (ii) to create improved immunogenicity in the case of vaccines.

We have already successfully accomplished the very first two steps of our C1 glycoengineering work at the Prime CRO, and the remaining work according to the research plan is anticipated to last for another two years. Based on research results we had to date, the Company believes that the C1 technology has the potential to become a useful platform for the development and production of therapeutic glycoproteins with human-like or potentially even superior glycan structures.

We expect that the successful accomplishment of the glycoengineering work will facilitate the C1 technology to be an important production platform for developing and manufacturing glycosylated antibodies.

(iii) Non-Glycosylated Therapeutic Proteins

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

(iv) Potential Commercialization Program at BDI

Under our collaboration program with BDI, we have begun to evaluate a basket of vaccines and antibodies that are commonly used in the animal and human health markets to determine the potential candidates for future commercialization. The assessment includes different types of molecules that are either glycosylated or non-glycosylated proteins, such as antigens, vaccines, mAbs, Fabs, and bi-specific mAbs.

(v) Potential Additional Market Opportunity (Metabolites)

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

In this research collaboration, the Company will be using metabolic modeling, synthetic biology and genome engineering techniques to demonstrate the benefits of using C1 as a primary metabolite-producing host organism. Importantly, we believe the knowledge and data generated in this program is expected to enhance our understanding of C1's metabolic characteristics and help us advancing our ongoing C1 biologic vaccine and drug research and development programs.

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS

The preparation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and judgments that affect the reported amount of assets and liabilities and related disclosure of contingent assets and liabilities at the date of our consolidated financial statements and the reported amounts of revenues and expenses during the applicable period. Actual results may differ from these estimates under different assumptions or conditions. Such differences could be material to the financial statements.

We define critical accounting policies as those that are reflective of significant judgments and uncertainties and which may potentially result in materially different results under different assumptions and conditions. In applying these critical accounting policies, our management uses its judgment to determine the appropriate assumptions to be used in making certain estimates. These estimates are subject to an inherent degree of uncertainty. Our critical accounting policies include the following:

Revenue Recognition

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

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

The Company recognizes revenue from research funding under collaboration agreements when earned on a "proportional performance" basis as research hours are incurred. The Company typically performs services as specified in each respective agreement on a best efforts basis, and revenue is recognized over the respective contract periods as the services are performed. The Company initially defers revenue for any amounts billed and payments received in advance of related services performed. The Company then recognizes revenue pursuant to the related pattern of performance, based on total labor hours incurred relative to total labor hours estimated under the contract. Contract accounting requires judgment relative to assessing risks, estimating the revenue and costs and making assumptions for the length of time to complete the contract. Any changes to these assumptions and estimates could result in further adjustments in the future. Changes in estimated revenues, cost of revenues and the related effect on operating income are recognized in the current period using a cumulative catch-up adjustment to reflect the cumulative effect of the changes on current and prior periods based on a contact's proportional performance completed.

Provision for Contract Losses

The Company assesses the profitability of our collaboration agreements to provide research services to our contracted business partners and identifies those contracts where current operating results or forecasts indicate probable future losses. If the anticipated contract cost exceeds the anticipated contract revenue, a provision for the entire estimated loss on the contract is recorded and then accreted into the statement of operations over the remaining term of the contract.

The provision for contract losses is based on judgment and estimates, including revenues and costs, where applicable, the consideration of our business partners' reimbursement, and when such loss is deemed probable to occur and is reasonable to estimate.

Accrued Research and Development Expenses

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

Stock-Based Compensation

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

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

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

Accounting for Income Taxes

The Company accounts for income taxes under the asset and liability method in accordance with ASC Topic 740, "Income Taxes". Under this method, income tax expense /(benefit) is recognized for: (i) taxes payable or refundable for the current year and (ii) deferred tax consequences of temporary differences resulting from matters that have been recognized in an entity's financial statements or tax returns. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected

to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. A valuation allowance is provided to reduce the deferred tax assets reported if based on the weight of the available positive and negative evidence, it is more likely than not some portion or all the deferred tax assets will not be realized.

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

The Company is required to evaluate the provisions of ASC 740 related to the accounting for uncertainty in income taxes recognized in a company's financial statements. ASC 740 prescribes a comprehensive model for how a company should recognize, present, and disclose uncertain positions that the company has taken or expects to take in its tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. Differences between tax positions taken or expected to be taken in a tax return and the net benefit recognized and measured pursuant to the interpretation are referred to as "unrecognized benefits." A liability should be recognized (or amount of net operating loss carry forward or amount of tax refundable is reduced) for unrecognized tax benefits, because it represents a company's potential future obligation to the taxing authority for a tax position that was not recognized as a result of applying the provision of ASC 740.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Recent Accounting Pronouncements

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

RESULTS OF OPERATIONS

Year Ended December 31, 2017 Compared to the Year Ended December 31, 2016

Revenue, Cost of Revenue, and Provision for Contract Losses

	Years Ended December 31,	
	2017	2016
Research and development revenue	$ 758,420	$ 592,886
Cost of research and development revenue	$ 680,197	$ 516,162
Provision for contract losses	$ 220,715	$ 436,916

The increases in research and development revenue, and the cost of research and development revenue reflected the activities of ZAPI and two confidential biopharmaceutical research collaborations that began in December 2016 and June 2017, respectively. The provision for contract losses principally reflected the increase in the total estimated research costs due to the Company's extended involvement in the ZAPI program and one of the aforementioned biopharmaceutical research collaborations.

Research and Development Expenses

Research and developments costs are expensed as incurred and primarily include salary and benefit costs, third-party contract research organizations service and supply costs.

Research and development expenses for the year ended December 31, 2017, increased to $1,765,000 compared to $886,000 for the year ended December 31, 2016. The increase principally reflects the costs associated with ongoing and new research projects with third-party contract research organizations.

Research and development expenses - related party, for the year ended December 31, 2017, increased to $438,000 compared to $0 for the year ended December 31, 2016. The increase reflects the research and development costs related to the Company's R&D Agreements with BDI.

General and Administrative Expenses

General and administrative expenses for the year ended December 31, 2017 increased to $5,030,000 compared to $4,562,000 for the year ended December 31, 2016. The change principally reflects increase in new employment agreements for executives of $312,000, business development costs of $228,000, financial reporting costs of $93,000, and other of $8,000, offset by a reduction in legal and litigation costs of $118,000 and board compensation costs of 55,000.

Foreign Currency Exchange Gain or Loss

The Company's foreign currency exchange gain, for the year ended December 31, 2017 was $249,000 compared to a loss of $147,000 for the year ended December 31, 2016. The change represents the strengthening of Euro in comparison to U.S. dollar.

Settlement of Litigation

On April 14, 2017, the Company received from Greenberg Traurig, LLP, and Greenberg Traurig, P.A. (collectively, "Greenberg Traurig") a full settlement in the amount of $4,500,000, net of legal fees and expenses. The Company made a payment of $141,777 to Mark A. Emalfarb to satisfy a prior contractual obligation regarding his portion of the settlement. The Company recorded a net amount of $4,358,223 after all related expenses, in the first quarter of 2017.

On April 19, 2016, the Company received $2.1 million, in connection with the Company's settlement with Bilzin Sumberg Baena Price & Axelrod LLP, in related professional liability litigation. The Company recorded such amount in the Company's consolidated statement of operations, net of legal fees and expenses, for the year ended December 31, 2016.

Interest Income

Interest income for the year ended December 31, 2017 increased to $566,000 compared to $485,000, for the year ended December 31, 2016. The increase in interest income reflects returns earned on the Company's investment grade debt securities, which are classified as held-to-maturity.

Income Taxes

The Company had net operating loss ("NOL") carryforwards available in 2017 that will begin to expire in 2035. As of December 31, 2017, and 2016, the Company had NOLs in the amount of approximately $2.9 million and $8.2 million, respectively.

For the year ended December 31, 2017, the Company's current income tax benefit of $66,694 consisted of differences between our estimated tax provisions and the actual amounts incurred of $167,784 offset by AMT taxes of $101,090.

Deferred tax assets as of December 31, 2017 and December 31, 2016 were approximately $3.9 million and $3.6 million, respectively. Due to the Company's history of operating losses and the uncertainty regarding our ability to generate taxable income in the future, the Company has established a 100% valuation allowance against deferred tax assets as of December 31, 2017 and December 31, 2016. See Note 4, *Income Taxes* to the Consolidated Financial Statements included in *Item 12* of this Annual Report for additional information.

LIQUIDITY AND CAPITAL RESOURCES

Subsequent to the DuPont Transaction, our primary source of cash has been the cash received from the DuPont Transaction in December 2015, investment income, and funding from our research collaboration agreements. In April 2017, the Company's liquidity was further improved with the receipt of a litigation settlement of approximately $4.4 million, net of legal fees and other expenses, ending our long-standing professional liability litigation. In addition, on July 6, 2017, we received previously escrowed funds from the DuPont Transaction of approximately $7.4 million. The Company completed its 2016 Stock Repurchase Program in February 2017, and on August 16, 2017, the Board of Directors authorized the 2017 Stock Repurchase Program, under which the Company may repurchase up to $5 million of its outstanding common stock. The Company expects to finance the 2017 Stock Repurchase Program from its existing cash on hand.

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

At December 31, 2017, cash, cash equivalents and restricted cash were $5.8 million compared to $14.3 million at December 31, 2016. The carrying value of investment grade securities, including accrued interest as of December 31, 2017 was $43.3 million compared to $43.6 million at December 31, 2016.

Net cash used in operating activities for the year ended December 31, 2017 of approximately $2.6 million was principally attributable to a net loss of approximately $2.1 million, BDI research and development activities of approximately $1.2 million, foreign currency exchange gain of approximately $0.2 million, amortization of contract losses of approximately $0.2 million, partially offset by stock based compensation expense of approximately $0.6 million, changes in operating assets and liabilities of approximately $0.3 million, and net amortization of premium on held-to-maturity securities of approximately $0.2 million.

Net cash provided by investing activities for the year ended December 31, 2017 of approximately $0.1 million was primarily related to proceeds from maturities, net of purchases of investment grade debt securities.

Net cash used in financing activities for the year ended December 31, 2017 of approximately $6.2 million was primarily attributable to the repurchase of common stock.

Quantitative and Qualitative Disclosures about Market Risk

The primary objective of our investment activities is to preserve principal while maximizing our income from investments and minimizing our market risk. We currently invest in government money market funds and investment-grade corporate debt in accordance with our investment policy, which we may change from time to time. The securities in which we invest have market risk. This means that a change in prevailing interest rates, and/or credit risk, may cause the fair value of the investment to fluctuate. For example, if we hold a security that was issued with a fixed interest rate at the then-prevailing rate and the prevailing interest rate later rises, the fair value of our investment will probably decline. As of December 31, 2017, our portfolio of financial instruments consists of cash equivalents, short-term and long-term interest bearing securities, including government money market funds and corporate bonds. The average duration of all of our held-to-maturity investments held as of December 31, 2017, was less than 12 months. Due to the

short-term nature of these financial instruments, we believe there is no material exposure to interest rate risk, and/or credit risk, arising from our portfolio of financial instruments.

Board of Directors Changes

On March 8, 2017, the Special Committee was disbanded as a result of the settlement of the Company's professional liability litigation. See Note 5 to the Consolidated Financial Statements, included in *Item 12* of this Annual Report for additional information regarding the settlement of litigation.

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

PART E. ISSUANCE

Item 17 List of Securities Offerings and Shares Issued for Services in the Past Two Years.

Date	Nature of Offering	Party Shares Issued To	Number of Shares Issued	Exercise or Grant Price	Trading Status of Shares	Restrictive Legends (b)
1/4/2016	Restricted Stock Grant	Officer	78,759	1.67	—	Yes
1/4/2016	Option Grant	5 Directors	125,000	1.82	—	Yes
1/6/2016	Option Exercise	Director	7,413	1.21	—	Yes
1/8/2016	Restricted Stock Grant	2 Former Directors	16,825	0.97	—	Yes
1/8/2016	Restricted Stock Grant	Director	7,423	0.97	—	Yes
1/8/2016	Option Exercise	Former Director	6,777	1.21	—	Yes
1/8/2016	Option Exercise	Former Employee	436	0.93	—	Yes
1/8/2016	Option Exercise	2 Former Employees	1,779	1.21	—	Yes
1/8/2016	Option Exercise	3 Former Employees	445	1.55	—	Yes
1/8/2016	Option Exercise	Former Director	10,392	0.97	—	Yes
1/8/2016	Option Exercise	Director	10,901	0.97	—	Yes
1/8/2016	Restricted Stock Grant	Director	5,449	1.21	—	Yes
1/11/2016	Option Exercise	Former Employee	2,158	0.23	—	Yes
1/12/2016	Option Exercise	Non-Employee	43,114	0.23	—	Yes
1/12/2016	Option Exercise	Non-Employee	2,754	1.21	—	Yes
1/15/2016	Option Exercise	Former Employee	6,211	1.21	—	Yes

Date	Nature of Offering	Party Shares Issued To	Number of Shares Issued	Exercise or Grant Price	Trading Status of Shares	Restrictive Legends (b)
1/19/2016	Option Grant	Non-Employee	200,000	1.57	—	Yes
1/19/2016	Restricted Stock Grant	2 Directors	17,320	0.97	—	Yes
1/19/2016	Restricted Stock Grant	2 Directors	96,774	1.55	—	Yes
1/20/2016	Option Exercise	Former Employee	6,879	1.21	—	Yes
1/27/2016	Option Exercise	2 Non-Employees	9,068	0.15	—	Yes
1/27/2016	Option Exercise	Non-Employee	4,286	0.23	—	Yes
1/29/2016	Stock Purchase	Director	64,516	1.55	—	No
2/10/2016	Option Exercise	Non-Employee	1,756	1.21	—	Yes
2/18/2016	Option Exercise	Former Employee	2,342	1.21	—	Yes
2/18/2016	Option Exercise	Former officer	38,650	1.21	—	Yes
2/18/2016	Option Exercise	Non-Employee	2,577	1.21	—	Yes
2/22/2016	Option Exercise	Former Employee	1,288	1.21	—	Yes
2/24/2016	Option Exercise	Non-Employee	4,299	0.23	—	Yes
2/24/2016	Option Exercise	Non-Employee	1,311	1.21	—	Yes
3/28/2016	Restricted Stock Grant	12 Former Employees	25,000	1.48		Yes
3/30/2016	Option Exercise	Non-Employee	4,540	0.15	—	Yes
3/30/2016	Option Exercise	Non-Employee	2,147	0.23	—	Yes
3/30/2016	Option Exercise	Non-Employee	644	1.21	—	Yes
4/1/2016	Option Exercise	Non-Employee	18,182	0.15	—	Yes
4/1/2016	Option Exercise	Non-Employee	8,606	0.23	—	Yes
4/1/2016	Option Exercise	2 Non-Employees	3,334	1.21	—	Yes
4/1/2016	Option Exercise	Former Employee	1,078	1.2	—	Yes
4/1/2016	Option Exercise	2 Former Employees	3,476	1.21	—	Yes
4/1/2016	Option Exercise	Former Officer	15,686	1.21	—	Yes

Date	Nature of Offering	Party Shares Issued To	Number of Shares Issued	Exercise or Grant Price	Trading Status of Shares	Restrictive Legends (b)
4/4/2016	Option Exercise	Non-Employee	3,636	1.53	—	Yes
4/7/2016	Option Exercise	Former Employee	2,798	1.21	—	Yes
4/7/2016	Warrants Exercise	Director	2,500	0.15	—	Yes
4/12/2016	Option Exercise	Former Director	10,735	0.97	—	Yes
4/12/2016	Option Exercise	Former Director	7,206	1.21	—	Yes
5/2/2016	Option Grant	Officer	250,000	1.69	—	Yes
5/2/2016	Option Grant	Officer	53,333	1.69	—	Yes
5/23/2016	Option Exercise	Non-Employee	710	1.21	—	Yes
6/5/2016	Restricted Stock Grant	Former Officer	69,000	1.93	—	Yes
6/7/2016	Option Grant	4 Directors	100,000	1.67	—	Yes
6/21/2016	Option Grant	Officer	500,000	1.67	—	Yes
6/27/2016	Option Grant	Employee	25,000	1.62	—	Yes
8/15/2016	Option Grant	Director	30,000	1.44	—	Yes
8/19/2016	Option Exercise	Former Officer	15,972	1.21	—	Yes
9/1/2016	Option Grant	Employee	10,000	1.42	—	Yes
10/24/2016	Option Exercise	Former Employee	650	1.21	—	Yes
10/24/2016	Option Exercise	Former Employee	52	1.55	—	Yes
11/3/2016	Warrants Exercise (a)	Warrant Holder	1,864	1.66	—	Yes
11/23/2016	Warrants Exercise (a)	Warrant Holder	3,133	1.63	—	Yes
12/5/2016	Warrants Exercise (a)	Warrant Holder	17,233	1.48	—	Yes
12/15/2016	Warrants Exercise (a)	Warrant Holder	1,381	1.61	—	Yes
12/19/2016	Warrants Exercise (a)	Former Director	2,094	1.61	—	Yes
12/27/2016	Warrants Exercise (a)	Warrant Holder	10,552	1.62	—	Yes
12/30/2016	Warrants Exercise (a)	4 Warrant Holders	85,055	1.63	—	Yes

Date	Nature of Offering	Party Shares Issued To	Number of Shares Issued	Exercise or Grant Price	Trading Status of Shares	Restrictive Legends (b)
1/3/2017	Options Grant	5 Directors	250,000	1.63	—	Yes
1/3/2017	Options Grant	2 Officers	224,667	1.63	—	Yes
1/3/2017	Options Grant	3 Non-Employee	115,000	1.63	—	Yes
1/3/2017	Options Grant	4 Employees	20,890	1.63	—	Yes
1/3/2017	Option Exercise	Non-Employee	6,250	0.15	—	Yes
8/28/2017	Options Grant	Directors	50,000	1.43	—	Yes

Notes:

a. In connection with the closing of the DuPont Transaction, all of Dyadic's outstanding debt has been repaid or converted into shares of Dyadic's common stock. A total of $8,110,787 in convertible debt and $170,387 in accrued interest was exchanged for 6,117,694 shares of Dyadic's common stock and 1,052,496 warrants with a $1.48 per share strike price and a December 31, 2016 expiration date. A total of $550,000 in convertible debt and $11,090 in accrued interest was repaid in cash and 94,780 warrants with a $1.48 per share strike price and a December 31, 2016 expiration date to those convertible debt holders who elected not to convert. All of such warrants were exercised and issued with Dyadic's common stock in December 2016.

b. Shares contain a legend that states this certificate has not been registered under the Securities Act of 1933, as amended and may not be sold, transferred, pledged, hypothecated or otherwise disposed of in the absence of an effective registration statement for such securities under said Act or an opinion of Company counsel that such registration is not required.

In addition to these issuances of common stock, the total number of shares outstanding was affected, from time to time, by repurchase of shares by the Company pursuant to its stock repurchase programs as described in Note 7 to our Consolidated Financial Statements included in *Item 12* of this Annual Report.

PART F. EXHIBITS

Item 18 Material Contracts

Below are descriptions of our material agreements:

DuPont Agreement

On December 31, 2015, the Company completed the sale of substantially all of the assets of its industrial technology business to DuPont's (NYSE: DD) industrial biosciences business for $75.0 million in cash (the "DuPont Transaction"). In connection with the DuPont Transaction, DuPont and Dyadic (the "Parties") entered into a license agreement whereby DuPont granted back to Dyadic co-exclusive rights to the C1 technology for use in human and animal pharmaceutical applications, with the exclusive ability to enter into sub-license agreements in that field (the "Pharma License Agreement"). DuPont will retain certain rights to utilize the C1 technology in pharmaceutical applications, including development and production of pharmaceutical products, for which it will make royalty payments to Dyadic upon commercialization. In certain circumstances, Dyadic may owe a royalty to either DuPont or certain licensor's of DuPont depending upon whether Dyadic elects to utilize certain patents either owned by DuPont or DuPont's licensors. In addition, under the Pharma License Agreement, Dyadic agreed to engage DuPont to provide contract research services to Dyadic for up to three years based on the full time equivalent rate set forth in the agreement

with a minimum of $250,000 USD per quarter. The research services provided by DuPont were concluded in September 2017.

Prime Contract Research Organization ("CRO") Agreement

On September 5, 2016, the Company entered into a service agreement with our Prime CRO, to further develop Dyadic's C1 fungal expression system for therapeutic protein development and production (the "CRO Agreement"). The duration of the CRO Agreement is 30 months with Dyadic retaining the sole right to terminate the CRO Agreement after the first annual anniversary date with 90 days' notice. However, the 90 day notice must be given no earlier than one week prior to the first annual anniversary date of the CRO Agreement.

The CRO Agreement contains three work packages: (WP1) Improving C1's platform robustness, (WP2) Production of target proteins in C1, and (WP3) Glycoengineering of C1. The CRO Agreement also contains structured milestones to monitor and measure the progress of the project work packages and provides for acceptance and go / no decisions by the Company in connection with the development strains, milestones and bonus targets set forth in the three work packages. Intellectual property ("IP") ownership, all Dyadic background (including genetic materials, molecular tools, data and proprietary information) and foreground (all improvements, any inventions, discoveries and all intellectual property related there to) that arise out of the CRO Agreement or relate to Dyadic background will be solely owned by Dyadic. Under the CRO Agreement, if the CRO is successful with the research and achieves all the milestones in the CRO Agreement, Dyadic will be obligated to pay a total of €4.3 million EURO throughout the contract period principally reflecting €2.1 million EURO for research and €2.2 million EURO for milestone achievement bonus payments. The CRO Agreement is subject to certain restrictive covenants, mutual non-disclosure for five years following the date of execution of the agreement, a material transfer agreement for two years following the effective date, and typical CRO representations and warranties to Dyadic.

BDI Research and Collaboration Agreement

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

For additional information, see Note 3, *Research and Collaboration Agreement* to our Consolidated Financial Statements, included in *Item 12* of this Annual Report.

Facility Leases

Jupiter, Florida Headquarters

The Company's corporate headquarters are located in Jupiter, Florida. The Company occupies approximately 4,900 square feet with a monthly rental rate and common area maintenance charges of approximately $9,400. The lease expires on June 30, 2018, and thereafter, the Company will reconsider the square footage of the leased space to align with the staffing requirements of the future operations of the Company.

The Netherlands Office

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

Equity Compensation Plans

2006 Stock Option Plan

The 2006 Stock Option Plan (the "2006 Plan") was adopted by the Company in April 2006, and amended in December, 2009. The purpose of the 2006 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 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 Plan, 4,700,000 shares of common stock were initially reserved for issuance.

On April 18, 2016, the 2006 Plan expired, according to the initial terms of the plan, on the day immediately preceding the tenth anniversary of its effective date. However, 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 outstanding stock option awards shall be unaffected by the approval of the 2011 Equity Incentive Plan by the Company's stockholders, or the expiration of the 2006 Plan.

2011 Equity Incentive Plan

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

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.

Authorized Shares

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. Shares issued pursuant to awards under the 2011 Equity Incentive Plan that we repurchase or that are forfeited, will become available for future grant under the 2011 Equity Incentive Plan on the same basis as the award initially counted against the share reserve. In addition, to the extent that an award is paid out in cash rather than shares, such cash payment will not reduce the number of shares available for issuance under the 2011 Equity Incentive Plan. The term of any stock option awards under the 2011 Equity Incentive Plan is no more than ten years.

As of December 31, 2017, there were 2,712,390 stock options outstanding and 2,006,711 shares of common stock were available for grant under the Company's Equity Compensation Plans.

Plan Administration

The 2011 Equity Incentive Plan will be administered by our compensation committee (or another committee or a subcommittee of the board of directors). In the case of awards intended to qualify as "performance-based compensation" within the meaning of Code Section 162(m), the compensation committee will consist of two or more "outside directors" within the meaning of Code Section 162(m).

Subject to the provisions of our 2011 Equity Incentive Plan, the administrator has the power to determine the terms of awards, including the recipients, the exercise price, if any, the number of shares subject to each award, the fair market value of a share of our common stock, the vesting schedule applicable to the awards, together with any vesting acceleration, and the form of consideration, if any, payable upon exercise of the award and the terms of the award agreement for use under the 2011 Equity Incentive Plan. The administrator also has the authority, subject to the terms of the 2011 Equity Incentive Plan, to amend existing awards, to prescribe rules and to construe and interpret the 2011 Equity Incentive Plan and awards granted thereunder.

Stock Options

The administrator may grant incentive and/or non-statutory stock options under our 2011 Equity Incentive Plan; provided that incentive stock options are only granted to employees. The exercise price of such options must equal at least the fair market value of our common stock on the date of grant. The term of an option may not exceed ten years. Provided, however, that an incentive stock option held by a participant who owns more than 10% of the total combined voting power of all classes of our stock, or of certain of our subsidiary corporations, may not have a term in excess of five years and must have an exercise price of at least 110% of the fair market value of our common stock on the grant date. The administrator will determine the methods of payment of the exercise price of an option, which may include cash, shares or other property acceptable to the plan administrator. Subject to the provisions of our 2011 Equity Incentive Plan, the administrator determines the remaining terms of the options (e.g., vesting). After the termination of service of an employee, director or consultant, the participant may exercise his or her option, to the extent vested as of such date of termination, for the period of time stated in his or her option agreement. Generally, if termination is due to death or disability, the option will remain exercisable for twelve months. In all other cases, the option will generally remain exercisable for three months following the termination of service. However, in no event may an option be exercised later than the expiration of its term.

Stock Appreciation Rights

Stock appreciation rights may be granted under our 2011 Equity Incentive Plan. Stock appreciation rights allow the recipient to receive the appreciation in the fair market value of our common stock between the exercise date and the date of grant. Subject to the provisions of our 2011 Equity Incentive Plan, the administrator determines the terms of stock appreciation rights, including when such rights vest and become exercisable and whether to settle such awards in cash or with shares of our common stock, or a combination thereof, except that the per share exercise price for the shares to be issued pursuant to the exercise of a stock appreciation right will be no less than 100% of the fair market value per share on the date of grant. The specific terms will be set forth in an award agreement.

Restricted Stock

Restricted stock may be granted under our 2011 Equity Incentive Plan. Restricted stock awards are grants of shares of our common stock that are subject to various restrictions, including restrictions on transferability and forfeiture provisions. Shares of restricted stock will vest and the restrictions on such shares will lapse, in accordance with terms and conditions established by the administrator. Such terms may include, among other things, vesting upon the achievement of specific performance goals determined by the administrator and/or continued service to us. The administrator, in its sole discretion, may accelerate the time at which any restrictions will lapse or be removed. Recipients of restricted stock awards generally will have voting and dividend rights with respect to such shares upon grant without

regard to vesting, unless the administrator provides otherwise. Shares of restricted stock that do not vest for any reason will be forfeited by the recipient and will revert to us. The specific terms will be set forth in an award agreement.

Restricted Stock Units

Restricted stock units may be granted under our 2011 Equity Incentive Plan, which may include the right to dividend equivalents, as determined in the discretion of the administrator. Each restricted stock unit granted is a bookkeeping entry representing an amount equal to the fair market value of one share of our common stock. The administrator determines the terms and conditions of restricted stock units including the vesting criteria, which may include achievement of specified performance criteria or continued service to us, and the form and timing of payment. The administrator, in its sole discretion, may accelerate the time at which any restrictions will lapse or be removed. The administrator determines in its sole discretion whether an award will be settled in stock, cash or a combination of both. The specific terms will be set forth in an award agreement.

Performance Awards

Performance awards may be granted under our 2011 Equity Incentive Plan. Performance awards are awards that will result in a payment to a participant only if performance goals established by the administrator are achieved or the awards otherwise vest. The administrator will establish organizational or individual performance goals in its discretion, which, depending on the extent to which they are met, will determine the value of performance awards to be paid out to participants. The specific terms will be set forth in an award agreement, including the performance goals, which may be based on the performance criteria set forth in the 2011 Equity Incentive Plan.

Transferability of Awards

Unless the administrator provides otherwise, our 2011 Equity Incentive Plan generally does not allow for the transfer of awards and only the recipient of an option or stock appreciation right may exercise such an award during his or her lifetime.

Certain Adjustments

In the event of certain changes in our capitalization, to prevent diminution or enlargement of the benefits or potential benefits available under the 2011 Equity Incentive Plan, the administrator will make adjustments to one or more of the number and class of shares that may be delivered under the plan and/or the number, class and price of shares covered by each outstanding award and the numerical share limits contained in the plan.

Merger or Change in Control

Our 2011 Equity Incentive Plan provides that in the event of a merger or change in control, as defined under the 2011 Equity Incentive Plan, each outstanding award will be treated as the administrator determines, except that if a successor corporation or its parent or subsidiary does not assume or substitute an equivalent award for any outstanding award, then such award will fully vest, all restrictions on such award will lapse, and such award will become fully exercisable, if applicable, for a specified period prior to the transaction. The award will then terminate upon the expiration of the specified period of time.

Plan Amendment, Termination

Our board of directors has the authority to amend, suspend or terminate the 2011 Equity Incentive Plan provided such action does not impair the existing rights of any participant. Our 2011 Equity Incentive Plan will automatically terminate in 2021, unless we terminate it sooner.

For further information and a description of our management employment agreements, see Item 11.

Item 19 Articles of Incorporation and Bylaws

Copies of our articles of incorporation and bylaws were posted to the OTC Markets website as Exhibits 1.1 and 1.2 dated March 15, 2017.

Item 20 Purchases of Equity Securities by the Issuer and Affiliated Purchasers

See details in Note 7: *Shareholder's Equity* under caption "Share Repurchase and Buybacks" to the Consolidated Financial Statements included in *Item 12* of this Annual Report.

Item 21 Certifications

Certification

I, Mark A. Emalfarb, certify that:

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

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

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

Dated March 27, 2018

_____/s/ Mark A. Emalfarb_____

By: Mark A. Emalfarb
Title: Chief Executive Officer

Certification

I, Ping W. Rawson, certify that:

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

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

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

Dated March 27, 2018

/s/ Ping W. Rawson

By: Ping W. Rawson
Title: Chief Accounting Officer