

DAIS ANALYTIC CORP  
Form 10-Q  
May 15, 2018

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

☒ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended **March 31, 2018**

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. **000-53554**

**DAIS ANALYTIC CORPORATION**

(Exact name of Registrant as specified in its charter)

**New York**  
(State or other jurisdiction of incorporation  
or organization)

**14-1760865**  
(IRS Employer Identification No.)

**11552 Prosperous Drive, Odessa, Florida**  
(Address of principal executive offices)

**33556**  
(Zip Code)

Registrant's telephone number, including area code: **(727) 375-8484**

Edgar Filing: DAIS ANALYTIC CORP - Form 10-Q

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for at least the past 90 days. Yes x No "

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No "

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "accelerated filer", "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="radio"/>	Accelerated filer	<input type="radio"/>
Non-accelerated filer	<input type="radio"/>	Smaller reporting company	<input checked="" type="radio"/>
Emerging Growth Company	<input type="radio"/>		

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  
" No x

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. "

There were 139,351,432 shares of the Registrant's \$0.01 par value common stock outstanding as of May 11, 2018.

**DAIS ANALYTIC CORPORATION**

**TABLE OF CONTENTS**

	<b>Page No.</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<b><u>Item 1. Financial Statements</u></b>	<b>3</b>
<u>Condensed Balance Sheets as of March 31, 2018 (unaudited) and December 31, 2017</u>	3
<u>Condensed Statements of Operations for the three months ended March 31, 2018 and 2017 (unaudited)</u>	4
<u>Condensed Statement of Stockholders' Deficit for the three months ended March 31, 2018 (unaudited)</u>	5
<u>Condensed Statements of Cash Flows for the three months ended March 31, 2018 and 2017 (unaudited)</u>	6
<u>Notes to Condensed Financial Statements (unaudited)</u>	7
<b><u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	<b>18</b>
<b><u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u></b>	<b>27</b>
<b><u>Item 4. Controls and Procedures</u></b>	<b>27</b>
<b><u>PART II. OTHER INFORMATION</u></b>	
<b><u>Item 1. Legal Proceedings</u></b>	<b>28</b>
<b><u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	<b>28</b>
<b><u>Item 3. Defaults Upon Senior Securities</u></b>	<b>28</b>
<b><u>Item 4. Mine Safety Disclosures</u></b>	<b>28</b>
<b><u>Item 5. Other Information</u></b>	<b>28</b>
<b><u>Item 6. Exhibits</u></b>	<b>29</b>
<b><u>Signatures</u></b>	<b>30</b>

**PART I – FINANCIAL INFORMATION****Item 1. Financial Statements**

**DAIS ANALYTIC CORPORATION**  
**CONDENSED BALANCE SHEETS**

	March 31,  2018 (Unaudited)	December 31,  2017
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 43,276	122,036
Accounts receivable, net	3,571	5,058
Other receivables	9,441	3,598
Inventory	80,435	101,607
Prepaid expenses	36,857	12,294
Total Current Assets	173,580	244,593
Property and equipment, net, including accumulated depreciation of \$372,082 and \$371,917 at March 31, 2018 and December 31, 2017, respectively	82,034	91,900
<b>OTHER ASSETS:</b>		
Deposits	5,080	5,080
Patents, net, including accumulated amortization of \$267,292 and \$266,915 at March 31, 2018 and December 31, 2017, respectively	125,521	117,606
Total Other Assets	130,601	122,686
<b>TOTAL ASSETS</b>	<b>\$ 386,215</b>	<b>459,179</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable, including related party payables of \$117,994 and \$104,543 at March 31, 2018 and December 31, 2017, respectively	\$ 475,076	\$ 353,193
Accrued expenses, other, including interest due to related party of \$39,413 and \$88,441 at March 31, 2018 and December 31, 2017, respectively	388,239	345,654
Accrued compensation and related benefits	1,776,612	1,727,259
Customer deposits	18,481	120,579
Note payable to related party	1,332,000	1,332,000
Current portion of deferred revenue	486,156	498,656
Derivative liabilities	645,026	243,501

Edgar Filing: DAIS ANALYTIC CORP - Form 10-Q

Convertible notes payable, net of unamortized debt discount and deferred debt issuance costs	138,485	3,788
<b>Total Current Liabilities</b>	<b>5,260,075</b>	<b>4,624,630</b>
<b>Total Liabilities</b>	<b>5,260,075</b>	<b>4,624,630</b>
<b>STOCKHOLDERS' DEFICIT</b>		
Preferred stock; \$0.01 par value; 10,000,000 shares authorized; no shares issued and outstanding	-	-
Common stock; \$0.01 par value; 240,000,000 shares authorized; 140,608,645 and 140,608,645 shares issued; and 139,351,432 and 139,351,432 shares outstanding at March 31, 2018 and December 31, 2017, respectively	1,406,087	1,406,087
Capital in excess of par value	43,003,003	43,003,003
Accumulated deficit	(47,820,838)	(47,112,429)
	(3,411,748)	(2,703,339)
Treasury stock at cost, 1,257,213 shares	(1,462,112)	(1,462,112)
Total Stockholders' Deficit	(4,873,860)	(4,165,451)
<b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>	<b>\$ 386,215</b>	<b>\$ 459,179</b>

See accompanying Notes to Unaudited Condensed Financial Statements.

Table of Contents

**DAIS ANALYTIC CORPORATION**  
**CONDENSED STATEMENTS OF OPERATIONS**  
**(Unaudited)**

	<b>For the Three Months Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>REVENUE</b>		
Sales	\$ 240,674	\$ 21,376
Royalty and license fees	12,500	-
Total revenue	253,174	21,376
<b>COST OF GOODS SOLD</b>	172,172	21,020
<b>GROSS MARGIN</b>	81,002	356
<b>OPERATING EXPENSES</b>		
Research and development expenses, net of government grant proceeds of \$8,666 and \$119,906 for the three months ended March 31, 2018 and 2017, respectively	75,463	66,918
Selling, general and administrative expenses	378,015	339,724
Total operating expenses	453,478	406,642
<b>LOSS FROM OPERATIONS</b>	(372,476)	(406,286)
<b>OTHER INCOME (EXPENSE)</b>		
Interest expense	(227,359)	(67,989)
Change in fair value of derivative liabilities	(108,574)	
Total other income (expense), net	(335,933)	(67,989)
<b>NET LOSS</b>	\$ (708,409)	\$ (474,275)
<b>NET LOSS PER COMMON SHARE, BASIC AND DILUTED</b>	\$ (0.01)	\$ (0.00)
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC AND DILUTED</b>	139,351,432	120,873,594

See accompanying Notes to Unaudited Condensed Financial Statements.



Table of Contents

**DAIS ANALYTIC CORPORATION**  
**CONDENSED STATEMENT OF STOCKHOLDERS' DEFICIT**  
**(Unaudited)**

	<b>Common Stock</b>		<b>Capital in</b>		<b>Accumulated</b>		<b>Treasury</b>	<b>Total</b>
	<b>Shares</b>	<b>Amount</b>	<b>Excess of</b>	<b>Par Value</b>	<b>Deficit</b>		<b>Stockholders'</b>	<b>Deficit</b>
Balance at December 31, 2017	140,608,645	\$ 1,406,087	\$ 43,003,003	\$ (47,112,429)	\$ (1,462,112)	\$ (4,165,451)		
Net loss	-	-	-	(708,409)	-	(708,409)		
Balance at March 31, 2018 (unaudited)	140,608,645	\$ 1,406,087	\$ 43,003,003	\$ (47,820,838)	\$ (1,462,112)	\$ (4,873,860)		

See accompanying Notes to Unaudited Condensed Financial Statements.



Table of Contents

**DAIS ANALYTIC CORPORATION**  
**CONDENSED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**

**For the Three Months  
Ended  
March 31,  
2018                      2017**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Net loss	\$ (708,409)	\$ (474,275)
Adjustments to reconcile net loss to net cash and cash equivalents used in operating activities:		
Amortization of deferred debt issue costs	2,614	-
Depreciation and amortization	10,242	16,841
Change in fair value of derivative liability	108,574	-
Non-cash interest expenses	117,951	-
Amortization of debt discount	57,084	51,434
Stock issued for services	-	12,000
Increase (decrease) in allowance for doubtful accounts	-	(3,647)
(Increase) decrease in:		
Accounts receivable	1,487	3,622
Inventory	21,172	(5,288)
Other receivables	(5,843)	5,908
Prepaid expenses/Other current assets	(24,563)	(43,899)
Increase (decrease) in:		
Accounts payable	121,883	142,958
Accrued related party	-	51,602
Accrued expenses	91,938	8,922
Customer Deposits	(102,098)	1,515
Deferred revenue	(12,500)	-
Net cash used in operating activities	(320,468)	(232,307)

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Increase in patent costs	(8,292)	(8,832)
Net cash used in investing activities	(8,292)	(8,832)

**CASH FLOWS FROM FINANCING ACTIVITIES:**

Proceeds from note payable – related party	-	225,000
Proceeds from note payable	250,000	-
Net cash provided by financing activities	250,000	225,000
Net decrease in cash and cash equivalents	(78,760)	(16,139)

<b>Cash and cash equivalents, beginning of period</b>	122,036	21,066
<b>Cash and cash equivalents, end of period</b>	\$ 43,276	\$ 4,927

**SUPPLEMENTAL CASH FLOW INFORMATION:**

Cash paid for interest	\$ 1,287	\$ 119
------------------------	----------	--------

**NON-CASH INVESTING AND FINANCING ACTIVITIES:**

Issuance of common stock for settlement of accrued expenses	\$ -	\$ 90,000
Issuance of common stock for settlement of interest due to related party	\$ -	\$ 17,200
Issuance of common stock for deferred debt issuance costs	\$ -	\$ -
Debt costs deducted from proceeds of notes	\$ 7,500	\$ -
Issuance of warrants for debt modification	\$ -	\$ 127,064
Initial derivative liability at issuance of note	\$ 292,951	\$ -
Initial debt discount at issuance of note	\$ 175,000	\$ -

See accompanying Notes to Unaudited Condensed Financial Statements.

Table of Contents

**Note 1. Background Information**

Dais Analytic Corporation (the “Company”), a New York corporation, has developed and is commercializing applications using its nanostructure polymer technology. The first commercial product is an energy recovery ventilator (“ERV”) (core and systems) for use in commercial Heating, Ventilating, and Air Conditioning (HVAC) applications. The second commercial product is NanoClear™, a water cleanup process useful in the creation of potable water from most forms of contaminated water including industrial process waste water (petrochemical, steel, etc.) sea, brackish, or waste water. In addition to direct sales, the Company licenses its nanostructures polymer technology to strategic partners in the aforementioned applications and is in various stages of development with regard to other applications employing its base technologies. The Company was incorporated in April 1993 and its corporate headquarters is located in Odessa, Florida.

The Company is dependent on third parties to manufacture the key components needed for its nanostructured based materials and some portion of the value-added products made with these materials. Accordingly, a suppliers’ failure to supply components in a timely manner, or to supply components that meet the Company’s quality, quantity and cost requirements or technical specifications, or the inability to obtain alternative sources of these components on a timely basis or on acceptable terms, would create delays in production of the Company’s products and/or increase its unit costs of production. Certain of the components or the processes of the Company’s suppliers are proprietary. If the Company was ever required to replace any of its suppliers, it should be able to obtain comparable components from alternative suppliers at comparable costs but this would create a delay in production.

The Company’s accompanying condensed financial statements are unaudited, but in the opinion of management reflect all adjustments necessary to fairly state the Company’s financial position, results of operations, stockholders’ deficit and cash flows as of and for the dates and periods presented. The financial statements of the Company are prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information.

The unaudited financial statements and notes are presented as permitted by Form 10-Q. Accordingly, certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted although the Company generally believes that the disclosures are adequate to ensure that the information presented is not misleading. The accompanying financial statements and notes should be read in conjunction with the audited financial statements and notes of the Company for the fiscal year ended December 31, 2017 included in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission on April 2, 2018. The results of operations for the three month period ended March 31, 2018 are not necessarily indicative of the results that may be expected for any future quarters or for the entire year ending December 31, 2018.

**Note 2. Going Concern and Management's Plans**

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. For the three months ended March 31, 2018, the Company generated a net loss of \$708,409 and the Company has incurred significant losses since inception. As of March 31, 2018, the Company had an accumulated deficit of \$47,820,838, a stockholders' deficit of \$4,873,860 and cash and cash equivalents of \$43,276. The Company used \$320,468 and \$232,307 of cash from operations during the three months ended March 31, 2018 and 2017, respectively, which was funded by proceeds from borrowings from notes and debentures. There is no assurance that such financing will be available in the future. These factors raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued. The Company is currently pursuing the following sources of short and long-term working capital:

1. The Company is holding preliminary discussions with parties who are interested in licensing, purchasing the rights to or establishing a joint venture to commercialize applications of the Company's technology.
2. The Company is seeking growth capital from certain strategic and/or government (grant) related sources. These sources may, pursuant to any agreements that may be developed in conjunction with such funding, assist in the product definition and design, roll-out and channel penetration of products.
3. The Company is holding discussions with investors and investment banks to obtain debt and/or equity financing.

Table of Contents

**Note 2. Going Concern and Management's Plans (Continued)**

Any failure by the Company to timely procure additional financing or investment adequate to fund the ongoing operations, including planned product development initiatives and commercialization efforts, will have material adverse consequences on the Company's financial condition, results of operations and cash flows as could any unfavorable terms. There are no assurances the Company will be able to obtain the financing and planned product development commercialization. Accordingly, the Company may not have the ability to continue as a going concern. The financial statements of the Company do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts and classifications of liabilities that might be necessary should the Company be unable to continue as a going concern.

**Note 3. Significant Accounting Policies**

In the opinion of management, all adjustments necessary for a fair statement of (a) the results of operations for the three-month periods ended March 31, 2018 and 2017, (b) the financial position at March 31, 2018 and December 31, 2017, and (c) the cash flows for the three month periods ended March 31, 2018 and 2017, have been made.

The significant accounting policies followed are:

**Use of estimates** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant estimates underlying the Company's reported financial position and results of operations include the allowance for doubtful accounts, fair value of unit based compensation, fair value impairment analysis, valuation allowance on deferred taxes and the warranty reserve.

**Cash and cash equivalents** – For the purposes of the Statements of Cash Flows, the Company considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents. Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. The Company has never experienced losses related to these balances.

**Fair Value of Financial Instruments** – The Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, deferred revenue, customer deposits and notes payable are carried at historical cost. At March 31, 2018 and 2017 the carrying amounts of these instruments approximated their fair values because of the short-term nature of these instruments.

**Inventory** – Inventory consists of raw materials, work-in-process and finished goods and is stated at the lower of cost, determined by first-in, first-out method, or market. Market is determined based on the net realizable value, with appropriate consideration given to obsolescence, excessive levels, deterioration and other factors. At March 31, 2018 and December 31, 2017, the Company had \$58,114 and \$85,173 of raw materials, \$8,258 and \$9,211 of in-process inventory, and \$14,063 and \$7,223 of finished inventory, respectively. A reserve is recorded for any inventory deemed excessive or obsolete. No reserve is considered necessary at March 31, 2018 and December 31, 2017.

**Property and equipment** – Property and equipment are recorded at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets ranging from 3 to 7 years. Leasehold improvements are amortized over the shorter of their estimated useful lives of 5 years or the related lease term. Depreciation expense was \$9,865 and \$10,502 for the three months ended March 31, 2018 and 2017, respectively. Gains and losses upon disposition are reflected in the Statements of Operations in the period of disposition. Maintenance and repair expenditures are charged to expense as incurred.

**Intangible assets** – Identified intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Company's existing intangible assets consist solely of patents. Patents are amortized over their estimated useful or economic lives of 17 to 20 years. Patent amortization expense was \$377 and \$6,339 for the three months ended March 31, 2018 and 2017, respectively. Based on current capitalized costs, total patent amortization expense is estimated to be approximately \$12,000 per year for the next four years.

Table of Contents

**Note 3. Significant Accounting Policies (Continued)**

**Research and development expenses and funding proceeds** – Expenditures for research and development are expensed as incurred. The Company incurred research and development costs of \$84,129 and \$186,824 for the three months ended March 31, 2018 and 2017, respectively. The Company accounts for proceeds received from government fundings for research as a reduction in research and development costs. The Company recorded proceeds against research and development expenses on the Statements of Operations of \$8,666 and \$119,906 for the three months ended March 31, 2018 and 2017, respectively.

**Revenue recognition** – The Company recognizes revenue when the following criteria have been met: persuasive evidence of an arrangement exists, no significant Company obligations remain, collection of the related receivable is reasonably assured, and the fees are fixed or determinable. The Company acts as a principal in its revenue transactions as the Company is the primary obligor in the transactions. Generally, the Company recognizes revenue for its products upon shipment to customers, provided no significant obligations remain and collection is probable.

In certain instances, the Company's ConsERV system product may carry a limited warranty of up to two years for all parts contained therein with the exception of the energy recovery ventilator core produced and sold by the Company. The distributor of the ConsERV system may carry a limited warranty of up to ten years. The limited warranty includes replacement of defective parts for the ConsERV system and includes workmanship and material failure for the ConsERV core. The Company recorded an accrual of \$91,531 for future warranty expenses at March 31, 2018 and December 31, 2017, which is included in accrued expenses, other.

Royalty revenue is recognized as earned. The Company recognized royalty revenue of \$0 for the three months ended March 31, 2018 and 2017, respectively. Revenue derived from the sale of licenses is deferred and recognized as license fee revenue on a straight-line basis over the life of the license, or until the license arrangement is terminated. The Company recognized license fee revenue of \$12,500 and \$0 for the three months ended March 31, 2018 and 2017, respectively.

The Company accounts for revenue arrangements with multiple elements under the provisions of the Financial Accounting Standards Boards (FASB) Accounting Standards Codification (ASC) Topic 605-25, "Revenue Recognition-Multiple-Element Arrangements." In order to account for these agreements, the Company must identify the deliverables included within the agreement and evaluate which deliverables represent separate units of accounting based on if certain criteria are met, including whether the delivered element has stand-alone value to the licensee. The consideration received is allocated among the separate units of accounting, and the applicable revenue recognition criteria are applied to each of the separate units.

**Derivative Liability** – The Company has financial instruments that are considered derivatives or contain embedded features subject to derivative accounting. Embedded derivatives are valued separately from the host instrument and are recognized as derivative liabilities in the Company’s balance sheet. The Company measures these instruments at their estimated fair value and recognizes changes in their estimated fair value in results of operations during the period of change.

**Fair Value Measurements** – The Company accounts for financial instruments in accordance with FASB Accounting Standards Codification (ASC) 820 “Fair value Measurement and Disclosures” (ASC 820). ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy that distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity’s own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs).



Table of Contents**Note 3. Significant Accounting Policies (Continued)**

The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

- Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability (e.g. interest rates); and inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 - Inputs that are both significant to the fair value measurement and unobservable.

A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. The Company has recorded a derivative liability for its convertible notes which contain variable conversion prices. The table below summarizes the fair values of our financial liabilities as of March 31, 2018:

	Fair Value at			
	March 31, 2018	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Derivative liability	\$ 645,026	\$ -	\$ -	\$ 645,026

The reconciliation of the derivative liability measured at fair value on a recurring basis using unobservable inputs (Level 3) is as follows for the three months ended March 31, 2018:

Balance at beginning of period	\$ 243,501
Additions to derivative instruments	292,951
Loss on change in fair value of derivative liability	108,574
Balance at end of period	\$ 645,026

**Earnings (loss) per share** – Basic income (loss) per share is computed by dividing net income (loss) attributable to common stockholders by the weighted average common shares outstanding for the period. Diluted loss per share is computed giving effect to all potentially dilutive common shares. Potentially dilutive common shares may consist of incremental shares issuable upon the exercise of stock options and warrants. In periods in which a net loss has been incurred, all potentially dilutive common shares are considered anti-dilutive and are excluded from the calculation. Common share equivalents of 76,692,403 and 28,287,916 were excluded from the computation of diluted earnings per share for the three ended March 31, 2018 and 2017, respectively, because their effect is anti-dilutive.

**Recent Accounting Pronouncements** – There are new accounting pronouncements issued by the Financial Accounting Standards Board (“FASB”) which have been adopted, or not yet effective as follows:

In May 2017, the FASB issued ASU 2017-09, “Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting”, which clarifies when to account for a change to the terms or conditions of a share-based payment award as a modification. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award changes as a result of the change in terms or conditions. If an award is not probable of vesting at the time a change is made, the new guidance clarifies that no new measurement date will be required if there is no change to the fair value, vesting conditions, and classification. This ASU will be applied prospectively and is effective for fiscal years beginning after December 15, 2017, and interim periods within those years, with early adoption permitted. The Company has adopted this standard as of the fiscal year beginning January 1, 2018 and does not expect this standard to have a material impact on its financial statements.

Table of Contents**Note 3. Significant Accounting Policies (Continued)**

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, Leases. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement.

The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently evaluating the impact of the pending adoption of the new standard on its financial statements.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers" (Topic 606). The core principle of the ASU is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: 1) identify the contract(s) with a customer, 2) identify the performance obligations in the contract, 3) determine the transaction price, 4) allocate the transaction price to the performance obligations in the contract, and 5) recognize revenue when (or as) the entity satisfies a performance obligation. The Company adopted this ASU in the first quarter of fiscal 2018 on a modified retrospective basis. The adoption of this ASU did not have a material effect on the Company's financial statements.

**Note 4. Accrued Expenses**

Accrued expenses consist of the following:

	<b>March 31,</b>		<b>December 31,</b>	
	<b>2018</b>		<b>2017</b>	
Accrued expenses, other	\$	146,540	\$	151,090
Accrued interest		150,168		103,033
Accrued warranty costs		91,531		91,531
	\$	388,239	\$	345,654

**Note 5. Related Party Transactions**

The Company rents a building that is owned by two stockholders of the Company, one of whom is the Chief Executive Officer. Rent expense for this building is \$4,066 per month, including sales tax. The Company recognized rent expense related to this lease of \$12,198 in each of the three months ended March 31, 2018 and 2017, respectively.

The Company has accrued compensation due to the Chief Executive Officer as of March 31, 2018 and December 31, 2017 of \$1,670,752 and \$1,631,147, respectively, included in accrued compensation and related benefits in the accompanying balance sheets.

Table of Contents

**Note 5. Related Party Transactions (Continued)**

On June 24, 2016, the Company entered into a Loan and Security Agreement (“Security Agreement”) with Patricia Tangredi (the “Holder”) pursuant to which the Company issued a Senior Secured Promissory Note for \$150,000 (the “Note”). The interest rate is 12% per annum compounded daily with a minimum interest payment of \$2,000. The Note grants the Holder a secured interest in the assets of the Company. Ms. Tangredi is the wife of Timothy Tangredi, the Company’s CEO and stockholder, and therefore is a related party of the Company. Pursuant to the Note, the Company is to pay the Holder the principal amount of \$150,000 plus all interest due thereon in accordance with terms and conditions of the Security Agreement on the earlier of: (i) the date upon which the Company secures funds, regardless of source, equal to or exceeding, in the aggregate, \$1,000,000 or (ii) October 31, 2016.

During 2016 to the period ended March 31, 2018, the Holder extended the Note pursuant to various amendments. Pursuant to the amendments, the principal amount due was increased to \$1,332,000 with an extended maturity date of April 10, 2018. As consideration for the additional proceeds and modification of the maturity date, the Company issued to the related party warrants to purchase an aggregate of 26,250,000 shares of common stock with an exercise price of \$0.01 with a ten year exercise period and 480,000 shares of common stock in 2017.

The Company is using the proceeds of the Note and related amendments for working capital purposes. Interest expense on the Note was \$39,413 and \$13,463 for the three month periods ended March 31, 2018 and 2017, respectively. Accrued interest on the Note was \$141,473 and \$102,068 at March 31, 2018 and December 31, 2017, respectively.

Timothy N. Tangredi, our Chief Executive Officer and Chairman, is a founder and a member of the board of directors of Aegis BioSciences, LLC ("Aegis"). Mr. Tangredi currently owns 52% of Aegis' outstanding equity and spends approximately one to two days per month on Aegis business for which he is compensated by Aegis. Aegis has two exclusive, world-wide licenses from the Company under which it has the right to use and sell products containing our polymer technologies in biomedical and health care applications.

Pursuant to the second license, Aegis is required to make royalty payments of 1.5% of the net sales price it receives with respect to any personal hygiene product, surgical drape or clothing products (the latter when employed in medical and animal related fields) and license revenue it receives should Aegis grant a sublicense to a third party. Aegis sold no such products nor has it received any licensing fees requiring a royalty payment be made to us. All obligations for such payments ended on June 2, 2015.

On February 27, 2015, the Company, and Timothy N. Tangredi, the Company's Chief Executive Officer entered into an amendment to Mr. Tangredi's Amended and Restated Employment Agreement. Currently, the Company has non-interest bearing accrued compensation due to the Chief Executive Officer for deferred salaries earned and unpaid as described above. The amendment provides that, if at any time during a calendar year, the unpaid compensation is greater than \$500,000, Mr. Tangredi must convert \$100,000 of unpaid compensation into the Company's common stock during such calendar year. The conversion rate shall be equal to 75% of the average closing price for the Company's common stock for the 30 trading days prior to the date of conversion. The Company shall also pay to Mr. Tangredi a cash payment equal to 20% of the compensation income incurred as a result of the conversion. The Company has waived the conversion requirement from 2015 to the present.

Further, at any time any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934) becomes the "beneficial owner" (as defined in Rules 13(d)-3 and 13(d)-5 under such Act) of greater of 40% of the then-outstanding voting power of the voting equity interests or a person or group initiate a tender offer for the Company's common stock, Mr. Tangredi may convert unpaid compensation to Class A Convertible Preferred Stock of the Company at \$1.50 per share. The Board of Directors waived the requirement to convert \$100,000 of unpaid compensation into common stock during 2016. No amounts have been converted under the terms of the Agreement to date.

The above terms and amounts are not necessarily indicative of the terms and amounts that would have been incurred had comparable transactions been entered into with independent parties.

## **Note 6. Equity Transactions**

### ***Preferred Stock***

At March 31, 2018 and December 31, 2017, the Company's Board of Directors has authorized 10,000,000 shares of preferred stock with a par value of \$0.01 to be issued in series with terms and conditions to be determined by the Board of Directors.

Table of Contents

**Note 6. Equity Transactions (Continued)**

2,000,000 of the shares of preferred stock has been designated as Class A Preferred Stock. Class A Preferred Stock shall entitle the holder thereof to 150 votes on all matters submitted to a vote of the stockholders of the Corporation. Upon any liquidation, dissolution or winding up of the Corporation, no distribution shall be made to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Class A Preferred Stock unless, prior thereto, the holders of shares of Class A Preferred Stock shall have received \$1.50 per share (the “Stated Amount”). The Class A Preferred Stock shall rank, with respect to the payment of liquidation, dividends and the distribution of assets, senior to the Corporation’s Common Stock. The Holder of the Class A Preferred Stock may convert all or part of the outstanding and unpaid Stated Amount into fully paid and non-assessable shares of the Corporation’s Common Stock at the Conversion Price. The number of shares receivable upon conversion equals the Stated Amount divided by the Conversion Price. The Conversion Price shall be equal to the 75% of the average closing price for the 30 trading days prior to the election to convert. At no time will the Corporation convert any of the Stated Amount into Common Stock if that would result in the Holder beneficially owning more than 49% of the sum of the voting power of the Company’s outstanding shares of Common Stock plus the voting power of the Class A Preferred Stock. No shares of Class A Preferred Stock have been issued.

***Common Stock***

At March 31, 2018 and December 31, 2017, the Company’s Board of Directors has authorized 240,000,000 shares of common stock with a par value of \$0.01 to be issued in series with terms and conditions to be determined by the Board of Directors.

On March 19, 2018, the parties amended the Loan and Security Agreement (“Thirteenth Amendment”) whereby the Maturity Date of the Note was extended to the earlier of (i) the date upon which the Company secures funds, regardless of source, equal to or exceeding, in the aggregate, \$1,000,000 or (ii) April 10, 2018. The Company is further obligated to issue 20,000 shares of \$0.01 par value common stock valued at \$800. The obligations to issue shares of common stock were recorded as interest expense and current liabilities at March 31, 2018.

***Options***

In June 2000, November 2009 and February 2015, the Company’s Board of Directors adopted, and the shareholders approved, the 2000 Plan, 2009 Plan and 2015 Plan, respectively (together the “Plans”). The Plans provide for the granting of options to qualified employees of the Company, independent contractors, consultants, directors, and other individuals. The Company’s Board of Directors approved and made available 11,093,886, 15,000,000 and 10,000,000

shares of common stock to be issued pursuant to the 2000 Plan, 2009 Plan and 2015 Plan, respectively. The Plans permit grants of options to purchase common shares authorized and approved by the Company's Board of Directors.

In the three months ended March 31, 2018, there were no options granted, 850,000 options expired/forfeited, and no options exercised. In the three months ended March 31, 2017, there were no options granted, 140,000 options expired/forfeited, and no options exercised. The Plans permit grants of options to purchase commons shares authorized and approved by the Company's Board of Directors.

Stock compensation expense was \$0 and \$0 for the three months ended March 31, 2018 and 2017, respectively. As of March 31, 2018 and 2017, there was no unrecognized employee stock-based compensation expense related to non-vested stock options.

### ***Warrants***

The Company had outstanding warrants of 27,337,288 and 9,585,358 to purchase the Company's common stock which were issued in connection with multiple financing arrangements and consulting agreements at March 31, 2018 and 2017, respectively.



Table of Contents**Note 7. Convertible Notes Payable**

The Company's convertible promissory notes at March 31, 2018 and December 31, 2017 are as follows:

	<b>March 31,</b>	<b>December 31,</b>
	<b>2018</b>	<b>2017</b>
Convertible notes payable, bearing interest at 8%-10%	\$ 375,000	\$ 100,000
Unamortized debt discount	(227,083)	(91,667)
Unamortized deferred debt issuance cost	(9,432)	(4,545)
Total	\$ 138,485	\$ 3,788
Current portion	138,485	3,788

## February 2018 Notes

On February 7, 2018, the Company issued two convertible notes, each with a face amount of \$87,500. The notes contain substantially the same terms. The notes and related accrued interest are convertible, at the option of the holders, into shares of the Company's common stock at a conversion price of 60% of the lowest trading price for 15 days prior to conversion. The notes bear interest at 8% per year and mature on February 7, 2019. The notes contain original issue discount aggregating \$17,500 which is being amortized over the life of the notes. The Company has also incurred aggregate legal costs of \$7,500 related to the notes. These costs are also being amortized over the life of the notes. The Company received cash proceeds of \$157,500.

## March 2018 Note

On March 12, 2018, the Company issued a convertible note, with a face amount of \$100,000. The note and related accrued interest are convertible, at the option of the holder, into shares of the Company's common stock at a conversion price of \$0.15 per share. The note provides for an interest payment of 10% of the principal amount of the note, payable before or upon maturity. The note matures six months from the effective date of March 12, 2018. The note contains original issue discount of \$20,000 which is being amortized over the life of the note. The Company has also incurred aggregate legal costs of \$6,000 related to the note. These costs are also being amortized over the life of the note. The Company received cash proceeds of \$80,000.

During the three months ended March 31, 2018, the Company amortized \$57,084 of debt discount and \$2,614 of debt issue costs to interest expense.

#### **Note 8. Derivative Liabilities**

The Company has identified certain embedded derivatives related to its convertible notes. Since the notes are convertible into a variable number of shares or have a price reset feature, the conversion features of those notes are recorded as derivative liabilities. The accounting treatment of derivative financial instruments requires that the Company record fair value of the derivatives as of the inception date and to adjust to fair value as of each subsequent balance sheet date.

##### **February 2018 Notes**

The Company identified embedded derivatives related to the conversion features of the February 2018 Notes. The accounting treatment of derivative financial instruments requires that the Company record the fair value of the derivatives as of the inception date of the note and to adjust the fair value as of each subsequent balance sheet date. The Company calculated the fair value of the embedded derivative at the inception of the notes as \$283,719, using the Black Scholes Model based on the following assumptions: (1) risk free interest rate of 1.91%; (2) dividend yield of 0%; (3) volatility factor of the expected market price of the Company's common stock of 420%; and (4) an expected life of 1 year. The initial fair value of the embedded debt derivative was allocated \$175,000 as debt discount, which will be amortized to interest expense over the original term of the note, with the balance of \$108,719 charged to expense at issue date as non-cash interest expense.

The Company has recorded additions to the derivative conversion liabilities related to the conversion feature attributable to interest accrued during the period. These additions totaled \$4,692 for the three months ended March 31, 2018 and were charged to interest expense.

Table of Contents

**Note 8. Derivative Liabilities (Continued)**

During the three months ended March 31, 2018, the Company recorded expense of \$120,183 related to the change in the fair value of the derivative. The fair value of the embedded derivative was \$408,594 at March 31, 2018, determined using the Black Scholes Model with the following assumptions: (1) risk free interest rate of 2.09%; (2) dividend yield of 0%; (3) volatility factor of the expected market price of the Company's common stock of 335%; and (4) an expected life of 10 months.

**October 2017 Note**

The Company identified embedded derivatives related to the conversion features of the October 2017 note. The accounting treatment of derivative financial instruments requires that the Company record the fair value of the Dais derivatives as of the inception date of the note and to adjust the fair value as of each subsequent balance sheet date. The Company calculated the fair value of the embedded derivative at the inception of the note as \$324,426, using the Black Scholes Model based on the following assumptions: (1) risk free interest rate of 1.61%; (2) dividend yield of 0%; (3) volatility factor of the expected market price of the Company's common stock of 407%; and (4) an expected life of 11 months. The initial fair value of the embedded debt derivative was allocated \$100,000 as debt discount, which will be amortized to interest expense over the original term of the note, with the balance of \$224,426 charged to expense at issue date as non-cash interest expense during the year ended December 31, 2017.

The Company has recorded additions to the derivative conversion liabilities related to the conversion feature attributable to interest accrued during the period. These additions totaled \$4,540 for the three months ended March 31, 2018 and were charged to interest expense.

During the three months ended March 31, 2018, the Company recorded income of \$11,609 related to the change in the fair value of the derivative. The fair value of the embedded derivative was \$236,432 at March 31, 2018, determined using the Black Scholes Model with the following assumptions: (1) risk free interest rate of 2.01%; (2) dividend yield of 0%; (3) volatility factor of the expected market price of the Company's common stock of 332%; and (4) an expected life of 7 months.

**Note 9. Deferred Revenue**

In December 2017, the Company and Zhejiang MENRED Environmental Tech Co, Ltd., Zhejiang Province, China ("Menred"), entered into a License and Supply Agreement (the "Agreement"), effective December 21, 2017. Pursuant to the Agreement, the Company licensed certain intellectual property and improvements to Menred, for use in the manufacture and sale of energy recovery ventilators ("ERV") and certain other HVAC systems for installation in commercial, residential or industrial buildings in China. Menred also agreed to purchase its requirements of certain products from the Company for Menred's use, pursuant to the terms and conditions of the Agreement. Menred will also pay royalties, as defined, to the Company on a quarterly basis, based on price and production volume as provided by Menred. No royalties are due within the first year of the Agreement. Also pursuant to the Agreement, the Company is required to purchase 50,000 square meters of Product from Menred for delivery as an annual minimum with a 10,000 square meter minimum order quantity per delivery. The Agreement has a ten-year term with mutually agreed upon five year extensions.

The Company recognized license revenue of \$12,500 for the period ended March 31, 2018. Deferred revenue for the agreement was \$486,156 and \$498,656 at March 31, 2018 and December 31, 2017, respectively. The Company recognized royalty revenue of \$0 and \$0 for March 31, 2018 and 2017, respectively.

#### **Note 10. Litigation**

From time to time, claims are made against the Company in the ordinary course of its business, which could result in litigation. Claims and associated litigation are subject to inherent uncertainties and unfavorable outcomes could occur, such as monetary damages, fines, penalties or injunctions prohibiting the Company from selling one or more products or engaging in other activities. The occurrence of an unfavorable outcome in any specific period could have a material adverse effect on the Company's results of operations for that period or future periods.

In the third quarter of 2015, the Company commenced an action for the cancellation of the 37,500,000 shares issued to Soex (the "Shares") in connection with a Securities Purchase Agreement, dated January 21, 2014 ("Soex SPA"), and 3,750,000 shares issued to Zan Investment Advisory Limited ("Zan"), which is affiliated with Soex through Aifan Liu, who was appointed as a Company board observer by SOEX and her husband, Xinghong Hua. Sharon Han, General Manager and Chairwoman of Soex, served on our board pursuant to the provisions of the Soex SPA. Ms. Han resigned from the Board of Directors effective February 1, 2016.

Table of Contents

**Note 10. Litigation (Continued)**

On April 24, 2014, we entered into a Distribution Agreement (the "Distribution Agreement"), with Soex to distribute certain of the Company's products in China. As reported in the Company's Form 10-K for the year ended December 31, 2014 and filed with the Securities and Exchange Commission on April 1, 2015, the Company was entitled to receive, pursuant to the Distribution Agreement, royalties and a \$500,000 payment, of which \$50,000 has been received, that was due on or before October 24, 2014. Further, the Company reported it had not received any royalties from Soex. Soex is in breach of the Distribution Agreement.

As first reported in the Company's Form 10-Q for the quarter ended June 30, 2015, the Company began pursuing legal action against Soex for breach of the Soex SPA and Distribution Agreement. On July 8, 2015, the Company filed a lawsuit in state courts in Florida against Soex and Zan.

Pursuant to the Distribution Agreement, Soex is in material breach of the following:

- (1) Section 1(a) of the Distribution Agreement for Soex's failure to make a \$225,000 payment to the Company for the appointment of Soex as the exclusive distributor of the Products in the Field and Territory (the "Distribution Payment Default") in accordance with the terms set forth in the Distribution Agreement. Such payment was due on October 20, 2014 (the "Payment Date").
- (2) Section 8(b) of the Distribution Agreement for Soex's failure to make a \$225,000 payment to the Company for the grant of the license and right to manufacture, sell, lease and distribute Products (excluding manufacture of MTM), and to use the Intellectual Property in connection therewith (the "License Payment Default" and, together with the Distribution Payment Default, the "Payment Default") in accordance with the terms set forth in the Distribution Agreement. Such payment was due on the Payment Date.
- (3) Section 15(b) of the Distribution Agreement for Soex's failure to issue to the Company 25% of the equity (the "Equity Default") of SOEX (Beijing) Environmental Protection Technology Company Limited (the "China Subsidiary").

Because of the material breaches, the Company terminated the Distribution Agreement. As provided in Section 14(e) of the Distribution Agreement, the Company has the right to enforce any obligation due to it by the Soex. As a result, Soex still must (a) pay the remaining \$450,000 due under the Distribution Agreement and the amount of royalties due, plus interest at 1.5% per month (18% per year) with interest accruing from the date that payment was due and (b) issue to the Company 25% of the equity of SOEX (Beijing) Environmental Protection Technology Company Limited. As provided in Section 14(b), neither the Company nor Soex shall be liable for compensation, reimbursement, or damages due to loss of profits on sales or anticipated sales or losses due to expenditures, investments or commitments made, or in connection with the establishment, development or maintenance of the business.

Further, in consideration of the issuance of the Shares to Soex and the equity to Zan under the Soex SPA was the covenant that Soex would enter into a Distribution Agreement and establish a subsidiary in China and issue shares to the Company in the China Subsidiary. With Soex's Equity Default, Soex breached the Soex SPA and the Company is seeking return of the Shares from Soex in the lawsuit filed in July 2015.

The litigation has been moved to the U.S. District Court for the Middle District of Florida where Soex has instituted a counterclaim (Civil Docket Case #: 8:15-CV-02362-MSS-EAJ). The Company believes it has a strong case against Soex because of its breaches of the agreements, however, the Company cannot make any predictions about the success of its action against Soex or whether or not Soex will have the assets to satisfy any judgment.

A mediation date of June 20, 2018 has been set by the Court, and agreed to by both Dais and Soex.

Table of Contents

**Note 11. Subsequent Event**

No material events have occurred after March 31, 2018 that requires recognition or disclosure in the financial statements except as follows:

On April 4, 2018, the Company issued a convertible note, with a face amount of \$75,000. The note and related accrued interest are convertible, at the option of the holder, into shares of the Company's common stock at a conversion price of \$0.15 per share. The note provides for an interest payment of 10% of the principal amount of the note, payable before or upon maturity. The note matures six months from the effective date of October 4, 2018. The note contains original issue discount of \$20,000 which is being amortized over the life of the note. The Company has also incurred aggregate legal costs of \$6,000 related to the note. These costs are also being amortized over the life of the note. The Company received cash proceeds of \$60,000.

On April 30, 2018, the Company issued a convertible note, with a face amount of \$150,000. The note and related accrued interest are convertible, at the option of the holder, into shares of the Company's common stock at a conversion price of \$0.15 per share. The note provides for an interest payment of 10% of the principal amount of the note, payable before or upon maturity. The note matures six months from the effective date of October 30, 2018. The note contains original issue discount of \$20,000 which is being amortized over the life of the note. The Company has also incurred aggregate legal costs of \$9,000 related to the note. These costs are also being amortized over the life of the note. The Company received cash proceeds of 130,000.

On May 7, 2018, the parties amended the Loan and Security Agreement ("Fourteenth Amendment") whereby the Maturity Date of the Note was extended to the earlier of (i) the date upon which the Company secures funds, regardless of source, equal to or exceeding, in the aggregate, \$1,000,000 or (ii) May 22, 2018. The Company is further obligated to issue 20,000 shares of \$0.01 par value common stock valued at \$600.

Table of Contents

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on April 2, 2018.*

This Quarterly Report on Form 10-Q includes forward-looking statements identified by the use of words such as “may”, “should”, “expect”, “anticipate”, “estimate”, “believe”, “intend” or “project” and similar expressions or the negative of these words or other variation on these words or comparable terminology. These statements include, among others, information regarding future operations, future capital expenditures and future net cash flow. Such statements reflect our current views with respect to future events and financial performance and involve risks and uncertainties, including, without limitation, general economic and business conditions, changes in foreign, political, social, and economic conditions, regulatory initiatives and compliance with governmental regulations, the ability to achieve further market penetration and additional customers, and various other matters, many of which are beyond our control. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of several factors, including the risks faced by us as described below and elsewhere in this Form 10-Q as well as in our Form 10-K filed with the Securities and Exchange Commission on April 2, 2018. There can be no assurance that the forward-looking statements contained in this Quarterly Report will occur. We have no obligation to publicly update or revise these forward-looking statements to reflect new information, future events, or otherwise, except as required by applicable Federal securities laws and we caution you not to place undue reliance on these forward-looking statements.

***Overview***

Dais Analytic Corporation is a nano-structured polymer technology materials company having developed and now commercializing applications using its family of nanomaterial called Aqualyte™. The first commercial product is called ConsERV™, a fixed plate energy recovery ventilator which we believe is useful in meeting building indoor fresh air requirements while saving energy and lowering emissions for most forms of heating, ventilation and air conditioning (HVAC) equipment. The second commercial product is NanoClear™, a water clean-up process useful in the creation of potable water from most forms of contaminated water including industrial process waste water (petrochemical, steel, etc.) sea, brackish, or waste water. We are developing other nano-structured polymer technology applications including NanoAir™, a water based no fluorocarbon refrigerant dehumidification, humidification, heating and cooling system. We believe our nano-structured polymer technology may be useful in developing a form of energy storage device capable of storing greater energy density and power per pound than traditional forms of energy storage such as capacitors or batteries.

***Formation History***



We were incorporated as a New York corporation on April 8, 1993 as Dais Corporation. We were formed to develop new, cost-effective polymer materials for various applications, including providing a lower cost membrane material for Polymer Electrolyte Membrane fuel cells. We believe our research on materials science has yielded technological advances in the field of selective ion transport polymer materials. In December 1999, we purchased the assets of Analytic Power Corporation, which was founded in 1984 to provide fuel cell and fuel processor design and consulting services, systems integration and analysis services to develop integrated fuel cell power systems. We subsequently changed our name to Dais Analytic Corporation on December 13, 1999.

In March 2002, we sold substantially all of our fuel cell assets to a large U.S. oil company for a combination of cash and the assumption by such company of certain of our obligations. After we sold a substantial portion of our fuel cell assets, we focused on expanding our nano-structured polymer platform, having already identified the Energy Recovery Ventilator (“ERV”) application as our first commercial product.

### ***Recent Developments***

#### *NanoClear™ - Product Commercialization*

We began accepting orders for delivery of our NanoClear™ industrial waste water cleaning product in late 2016. The product’s core strength, supported by company, customer, and third party generated information, is the cleanup of contaminated waste water created by a variety of manufacturing processes. NanoClear™ is designed to target the needs of the growing multi-billion dollar, worldwide waste cleaning industry’s drive to more efficiently reduce the draw on limited local fresh water supplies by large consuming industrial users, lower the impact of highly contaminated waste water on the local environment and people, and meeting the worldwide regulatory push to fully implement Zero Liquid Discharge (ZLD) standards.

Table of Contents

We continue to use a NanoClear™ pilot facility, commissioned in 2013 with the support of the local county government. This site serves as a showcase for potential commercial customers as well as a test-bed for newer materials and hardware prior to commercial deployment into the NanoClear™ product.

Through December 31, 2017, the Company shipped thirty-six NanoClear™ systems of various sizes to customers focused on bringing on-line cost effective industrial waste water treatment systems to China and the US.

In the quarter ending March 31, 2018, we:

- Used data from the pilot and other sources which led to the introduction in December 2017 of the advanced NanoClear™ M3 series Membrane Evaporator product. M3 has 25% greater throughput, is easier to assemble, test and maintain, and is viewed as the foundation for newer projected enhancements in 2018 and beyond.

*Shipments of Products to New Markets; New Manufacturing in China*

We are speaking with several companies in the European Union interested in buying and distributing ConsERV™ cores. To help us expand our capabilities in China, we have qualified a Chinese manufacturing company to produce ConsERV™ cores using Aqualyte™ membrane made in the U.S. and guided by Dais qualified manufacturing practices to meet the growing demand for ConsERV™ systems in Asia. Having cores manufactured in Asia supports our objective of expanding our distribution in the Asian market at projected lower costs and faster order fulfillment.

*Business and Infrastructure Development in China*

Dais is working with companies in China to build the capability to manufacture Membrane Evaporators in-country and project to begin using this capability by the third quarter of 2018.

In 2017, Dais signed a multi-year supply agreement with Haier Group, of China, for our Aqualyte™ membrane. Haier has been testing Aqualyte™ and concluded that Aqualyte™ offers unique characteristics that would be beneficial if incorporated in a select group of their products. We expect to generate revenue from this first Haier application starting in the second and third quarter of 2018 with other products projected to be adopted by Haier in 2018 and

beyond.

In 2017, Dais signed a multi-year license and supply agreement with Menred Group, Zhejiang province, China to provide its Aqualyte™ moisture transfer nanomaterial for use in a newer line of Menred energy recovery ventilators (ERV) to be sold into the growing Chinese heating, ventilation and air conditioning (HVAC) market. Menred will use the Company's Aqualyte™ nanomaterials, ConsERV™ core designs, and the ConsERV™ brand name with all their energy recovery ventilation products manufactured and sold into the residential and commercial heating, ventilation, and air-conditioning (HVAC) markets by its thirty sales offices in Greater China. The agreement contains provisions for sales minimums, royalties, product development, and allows for the sourcing of key components by the Company from Menred for the Company's use in its growing energy recovery ventilation business in other parts of the world at improved pricing. We expect to generate revenue from Menred starting in the second quarter of 2018.

*Table of Contents*

*NanoClear™ Funding to Continue – Product Development*

In March 2015, the U.S. Army Corps of Engineers approved our application for a \$1,000,000 Phase II Small Business Innovation Research (SBIR) award to continue developing NanoClear™ water cleaning technology for military use. The NanoClear™ funding project entitled "Non-Fouling Water Reuse Technologies" uses our patented Aqualyte™ membrane to produce potable water from grey-water sources. The potential product improvements from this award will widen NanoClear's applications in separating clean water from contaminated waste streams, potentially beginning as early as the early second quarter of 2018.

*NanoAir™ Funding to Build Full-Size Prototype*

In May 2015, we were selected to receive additional funding from the U.S. Department of Energy (DOE) to further commercialize the heating, ventilation, and air-conditioning (HVAC) membrane technology for our NanoAir™ product. The award is part of a total investment of nearly \$8,000,000 by the DOE to advance research and development of next-generation HVAC technologies. The total funding value is \$1,500,000 of which we will receive \$700,000. The project will build and test a full-size rooftop unit with 7.5 tons of refrigeration capacity. Project testing will take place at the renowned Oak Ridge National Laboratory, providing the HVAC industry with independently verified data demonstrating that our technology can improve rooftop unit energy efficiency by almost 50 percent over units installed today, reduce CO2 emissions, eliminate fluorocarbon refrigerants that accelerate climate change, and improve end-user comfort with independent management of temperature and humidity.

*Introduction of New Version of Aqualyte™ Membrane Technology*

We continue the development of Version 4 (V4) of our Aqualyte™ material by adding features and improving the manufacturability of the nanomaterial. These and other improvements will allow Aqualyte™ to serve a wider variety of uses in the ConsERV™ and NanoClear™ target markets. Aqualyte™ is the underlying technology for our family of products, including ConsERV™, fixed-plate Energy Recovery Ventilators (ERVs), and NanoClear™, a high-performance contaminated water cleaning process. Aqualyte™ represents the basis for a broad class of materials with unique features precisely managed by engineered processes. Features of the Aqualyte™ technology include the ability to create hermetic composite membranes possessing ion conduction, high moisture transfer and high molecular selectivity. Our engineering process manages these features to offer differentiated products like ConsERV™ and NanoClear™ that are targeting worldwide needs in the clean air, energy efficiency and clean water markets. We expect to launch V4 in stages during 2018.

***Technology***

We use proprietary nanotechnology to reformulate thermoplastic materials called polymers. Nanotechnology involves studying and working with matter on an ultra-small scale. One nanometer is one-millionth of a millimeter. A single human hair is around 80,000 nanometers in width. Polymers are chemical, plastic-like compounds used in diverse products such as Dacron, Teflon, and polyurethane. A thermoplastic is a material that is plastic or deformable, melts to a liquid when heated and to a brittle, glassy state when cooled sufficiently.

These reformulated polymers have properties that allow them to be used in unique ways. We transform polymers from a hard, water impermeable substance into a material which water and similar liquids can, under certain conditions, diffuse (although there are no openings in the material) as molecules as opposed to liquid water. Water and similar liquids penetrate the thermoplastic material at the molecular level without oxygen and other atmospheric gases penetrating the material. It is believed this selectivity is dependent on the size and type of a particular molecule. We call this specialized material Aqualyte™.

Table of Contents

**Products**

*Aqualyte™ Membrane*

Aqualyte™ membrane is the foundation of the Dais product line. It is made from commercially available polymer resin in flake form and industrial grade solvents which are mixed together using a proprietary process involving heat, industrial equipment, and solvents. The resin and the solvents are commercially available from any number of chemical supply houses, or firms such as Dow and Kraton (formerly Shell Elastomers then part of Royal Dutch Shell). Our process changes the molecular properties of the starting polymer resins such that in their final form they selectively allow molecules through the plastic, including water molecules.

Currently, one vendor creates the final membrane form of Aqualyte™ used in ConsERV™ and NanoClear™. We have, however, identified other entities making similar types of products and believe such entities and products may provide alternatives should one be required. As noted above, we are working on this project to lower our exposure as well as our costs.

We have been working with an automotive Original Equipment Manufacturer on a product utilizing Aqualyte™ to be sold to the transportation market. Testing has been completed and the product is being commercialized.

*ConsERV™*

We continue widening the channels of commercialization for the ConsERV™ product. ConsERV™ is an HVAC energy conservation product which should, according to various tests, save an average of up to 30% on HVAC ventilation air operating costs, lower CO2 emissions and allow HVAC equipment to be up to 30% smaller, reducing peak energy usage by up to 20% while simultaneously improving indoor air quality. This product makes most forms of HVAC systems operate more efficiently and results, in many cases, in energy and cost savings. ConsERV™ generally attaches onto existing HVAC systems, typically in commercial buildings, to provide improved ventilation air within the structure. ConsERV™ pre-conditions the incoming air by passing over our nanotechnology polymer which has been formed into a full enthalpy heat exchanger core. The nanotechnology heat exchanger uses the stale building air that must be simultaneously exhausted to transfer heat and moisture into or out of the incoming air. For summer air conditioning, the “core” removes some of the heat and humidity from the incoming air, transferring it to the exhaust air stream thereby, under certain conditions, saving energy. For winter heating, the “core” transfers a portion of the heat and humidity into the incoming air from the exhaust air stream thereby often saving energy.

ConsERV<sup>TM</sup> sales were negatively impacted at the beginning of 2017 from the December 2016 termination of the licensing agreement with Multistack LLC which required minimum monthly purchases of cores and related products by Multistack LLC and related entities. The Company is working diligently to re-set ConsERV sales in the effected North American market with initiatives aimed at the architect/engineer specified sales channels as well as establishing relationships with key regional sales channels. It is believed revenues will begin to grow from this intense effort throughout 2018 and 2019. The Company is working diligently to re-set ConsERV sales in the effected North American market with initiatives aimed at the architect/engineer specified sales channels as well as establishing relationships with key regional sales channels. It is believed revenues will begin to grow from this intense effort throughout 2018 and 2019.

When compared to similar competitive products, we believe, based on test results conducted by the Air-Conditioning, Heating and Refrigeration Institute (AHRI), a leading industry association, ConsERV<sup>TM</sup> maintains an industry leading position in the management of latent heat.

#### *NanoClear<sup>TM</sup> – Water Treatment*

We have commercially introduced the first NanoClear<sup>TM</sup> membrane evaporators, which remove quantities of metals, acids, salt and other impurities from various contaminated water sources, producing potable water using an environmentally friendly, low maintenance design that is competitive with industry leaders in terms of electrical consumption. We constructed and operate a pilot plant installed at a local county waste water treatment facility that was commissioned in May 2013 and updated to the current generation of membrane evaporator in November 2016. This site has served as a showcase for potential commercial customers as well as a test-bed for newer materials and hardware readying for commercialization. The accumulated test data, analyzed by an independent 3rd party firm, shows the quality of the water being produced has not diminished since system start-up. Total Dissolved Solids (TDS) measurements are holding steady at less than 10 parts per million (ppm). The evolving NanoClear<sup>TM</sup> product line purifies contaminated water, created largely during cooling of key manufacturing and utility processes. These sorts of applications are the Company's primary focus. This includes higher salt concentrations and low pH waste streams.

Table of Contents

Follow up activity is ongoing to build and operate larger pilot installations featuring commercially available M3 membrane evaporators. Fifteen (15) different NanoClear™ pilots and demonstrations have either been brought online or are in advanced stages of fabrication at customer sites as of the end of 2017. These systems are expected to demonstrate continuous, long term treatment of customer's wastewater as a precursor to larger installations.

Dais introduced its third-generation NanoClear™ membrane evaporator product line in December 2017.

*NanoAir™ – Water-based packaged HVAC system*

When development is completed, we expect this application will function to dehumidify and cool air in warm weather or humidify and heat air in cold weather. This NanoAir™ application can replace a traditional, refrigerant-based, vapor compression heating/cooling system. We have a small prototype showing fundamental cooling, humidification and dehumidification operation of this evolving product. The NanoAir™ product is in the middle stage of prototype development. Since October 1, 2010, we have been working with the U.S. Department of Energy (DOE) to develop an energy-efficient dehumidification system using Aqualyte™ polymer membranes to selectively transfer moisture. The Advanced Research Projects Agency – Energy (ARPA-E) branch of the DOE awarded up to \$681,322 in initial federal funding to Dais, provided we contributed a 20% cost share (up to \$171,500) towards the total project cost of \$852,822. ARPA-E provided a second award of up to \$800,000 in federal funding on May 1, 2013, provided we contributed a 20% cost share toward the proposed total project cost of \$1,000,000. We successfully demonstrated our major goal of testing a membrane dehumidifier which met project performance targets.

The Building Technology Office (BTO) of the DOE's Office of Energy Efficiency and Renewable Energy (EERE), provided a third award with up to \$700,000 in federal funding, provided we contribute a 20% cost share toward the proposed total project cost of \$1,500,000 (\$500,000 in federal funding is provided directly to project partners at the Oak Ridge National Laboratory, a federally funded research and development center). We are currently working with select potential original equipment manufacturers and engineers at Oak Ridge to produce a 7.5-ton roof-top unit prototype that moves NanoAir™ toward commercialization and revenue generation.

Independently, BTO engaged Navigant Consulting to evaluate 17 alternative HVAC technologies beyond the traditional vapor compression systems. The Navigant study, "Energy Savings Potential and RD&D Opportunities for Non-Vapor-Compression HVAC Technologies", was released in March 2014 and ranked NanoAir™ membrane heat pump technology with a composite score of 4.35 on a scale of 0 – 5, one of only two technologies to exceed the 4.0 threshold marking the technology as "Most Promising".

*PolyCool™*



PolyCool™ technology offers strategic advantages over existing cooling tower systems. The process water being cooled is separated from the air stream by a solid Aqualyte™ nanotechnology membrane that establishes a selective barrier, allowing evaporation of water molecules while preventing transmission of microbes and other contaminants. In effect, the process water is isolated in a largely closed system (similar to dry cooling technology) and initial testing shows it reduces the likelihood of dangerous germs and viruses such as Legionella becoming airborne. In-house testing has shown the ability to generate cooling effects comparable to today's existing cooling towers while largely isolating the process water from the air stream. PolyCool™ systems are expected to use up to 37% less energy and water than a conventional cooling tower while reducing or eliminating the need for expensive chemical biocide application programs to prevent the spread of risk of spreading dangerous diseases. We believe these savings can reduce the operating expenses of a cooling tower by up 74% versus conventional technology. We are seeking a strategic partner who has the requisite skills to complement our nanomaterial expertise while developing this application and market access for distribution.

Table of Contents*NanoCap™*

Based on initial material tests conducted by two third parties, we believe that by applying a combination of our nano-materials we may be able to construct a device which stores energy as an electrical charge in a device with projected increases in energy density, endurance and usefulness relative to traditional battery technology called NanoCap™. We project the key applications for such a device would be in transportation and/or grid energy storage. We have focused our resources on revenue producing items or uses closer to producing revenue and have not invested significant resources to date in the development of this application beyond the prototype stage. We are seeking a strategic partner for this application who has the requisite skills to complement our nanomaterial expertise in addition to having access to distribution.

*Other*

We have identified other potential products for our materials and processes as well as accumulating basic data to support the needed functionality and market differentiation of these products based on using our nano-technology based inventions. These other products are based, in part, upon known functionality of our materials and processes.

**RESULTS OF OPERATIONS****THREE MONTHS ENDED MARCH 31, 2018 COMPARED TO MARCH 31, 2017**

The following table sets forth, for the periods indicated, certain data derived from our Statements of Operations:

	<b>For the Three Months Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>REVENUE</b>		
Sales	\$ 240,674	\$ 21,376
Royalty and license fees	12,500	-
Total revenue	253,174	21,376
<b>COST OF GOODS SOLD</b>	172,172	21,020

<b>GROSS MARGIN</b>	81,002	356
<b>OPERATING EXPENSES</b>		
Research and development expenses, net of government grant proceeds of \$8,666 and \$119,906 for the three months ended March 31, 2018 and 2017, respectively	75,463	66,918
Selling, general and administrative expenses	378,015	339,724
Total operating expenses	453,478	406,642
<b>LOSS FROM OPERATIONS</b>	(372,476)	(406,286)
<b>OTHER INCOME (EXPENSE)</b>		
Interest expense	(227,359)	(67,989)
Change in fair value of derivative liabilities	(108,574)	
Total other income (expense), net	(335,933)	(67,989)
<b>NET LOSS</b>	\$ (708,409)	\$ (474,275)
<b>NET LOSS PER COMMON SHARE, BASIC AND DILUTED</b>	\$ (0.01)	\$ (0.00)
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC AND DILUTED</b>	139,351,432	120,873,594

*Table of Contents*

***Revenue***

We generate our revenues primarily from the sale of our ConsERV™ cores, Aqualyte™ membrane and NanoClear™ evaporators. Product sales were \$240,674 and \$21,376 for the three months ended March 31, 2018 and 2017, respectively, an increase of \$219,298 or 1026%. The increase in product sales resulted from a 387% increase in ConsERV™ sales in 2018 and 100% increase in Aqualyte™ membrane sales. We are focusing on creating sustainable revenues to a more diversified set of customers with the expectation that this will occur in 2018. Revenues from royalty and license fees were \$12,500 and \$0 for the three months ended March 31, 2018 and 2017, respectively, an increase of \$12,500 or 100%, due to the recognition of license fees for the new license agreement with Menred as of December 2017.

***Cost of sales***

Our cost of sales consists primarily of materials (including freight), direct labor, and outsourced manufacturing expenses incurred to produce our ConsERV™ cores and NanoClear™ evaporators and Aqualyte™ membrane. Cost of goods sold were \$172,172 and \$21,020 for the three months ended March 31, 2018 and 2017, respectively, an increase of \$151,152 or 719%. This reflects the increased cost of manufacturing the increased sales volume.

We are dependent on third parties to manufacture the key components needed for our nano-structured based materials and some portion of the value added products made with these materials. Accordingly, a supplier's failure to supply components in a timely manner, or to supply components that meet our quality, quantity and cost requirements or technical specifications, or the inability to obtain alternative sources of these components on a timely basis or on acceptable terms, would create delays in production of our products and/or increase the unit costs of production. Certain of the components or the processes of our suppliers are proprietary. If we were ever required to replace any of our suppliers, we should be able to obtain comparable components from alternative suppliers at comparable costs but this would create a delay in production.

***Gross margin***

Gross margin from the sales of products was 28% and 2% for the three months ended March 31, 2018 and 2017. The gross margin increase reflects the upward trend of sales received during the 2018 period.

***Research and development costs***

Expenditures for research and development are expensed as incurred. We incurred research and development costs of \$84,129 and \$186,824 for the three months ended March 31, 2018 and 2017, a decrease of \$102,695 or 55%. We account for proceeds received from government funding for research and development as a reduction in research and development costs. We recorded proceeds against research and development expenses on the Statements of Operations of \$8,666 and \$119,906 for three months ended March 31, 2018 and 2017, a decrease of \$111,240 or 93%. Variances in grant expenditures and reimbursements are due to the timing of the completion of various tasks under the grants.

***Selling, general and administrative expenses***

Our selling, general and administrative expenses consist primarily of payroll and related benefits, share-based compensation, professional fees, marketing and channel support costs, and other infrastructure costs such as insurance, information technology and occupancy expenses. Selling, general and administrative expenses were \$378,015 and \$339,724 for the three months ended March 31, 2018 and 2017, an increase of \$38,291 or 11%

Our selling, general and administrative expenses may fluctuate due to a variety of factors, including, but not limited to:

- Additional infrastructure needed to support the expanded commercialization of our ConsERV™ and NanoClear™ products and/or new product applications of our polymer technology for, among other things, administrative personnel, physical space, marketing and channel support and information technology;
- The issuance and recognition of expenses related to fair value of new share-based awards, which is based on various assumptions including, among other things, the volatility of our stock price; and
- Additional expenses as a result of being an SEC reporting company, including, but not limited to, director and officer insurance, director fees, SEC compliance expenses, transfer agent fees, additional staffing, professional fees and similar expenses.

The increase in selling, general and administrative expenses for the three months ended March 31, 2018 compared to the same period in 2017 is due to increased travel expenses offset by lower auditing and legal fees.

Table of Contents

***Other Income (Expense)***

Other expenses were \$335,933 and \$67,989 for the three months ended March 31, 2018 and 2017, respectively, an increase of \$267,944 or 394%. The increase in other expense is due to interest expense associated with equity financing agreements and related expenses due to the change in fair value of derivative liabilities.

***Net Loss***

Net loss for the three months ended March 31, 2018 was \$708,409 compared to a net loss of \$474,275 for the three months ended March 31, 2017. The higher loss in the three months ended March 31, 2018 was the result of an increase in interest expense on the related-party notes and equity financing agreements.

**Liquidity and Capital Resources**

The accompanying financial statements have been prepared assuming that we will continue as a going concern. For the three months ended March 31, 2018, we generated a net loss of \$708,409 and have incurred significant losses since inception. As of March 31, 2018, we had an accumulated deficit of \$47,820,838, a stockholders' deficit of \$4,873,860 and cash and cash equivalents of \$43,276. We used \$320,468 and \$232,307 of cash from operations during the three months ended March 31, 2018 and 2017, respectively, which was funded primarily by proceeds from equity financings and borrowings from notes and debentures. There is no assurance that such financing will be available in the future. These factors raise substantial doubt about our ability to continue as a going concern within one year after the date that the financial statements are issued. We are currently pursuing the following sources of short and long-term working capital:

1. We are holding preliminary discussions with parties who are interested in licensing, purchasing the rights to or establishing a joint venture to commercialize applications of our technology.
2. We are seeking growth capital from certain strategic and/or government (grant) related sources. These sources may, pursuant to any agreements that may be developed in conjunction with such funding, assist in the product definition and design, roll-out and channel penetration of products.
3. We are holding discussions with investors and investment banks to obtain debt and/or equity financing.

Management believes that our current cash position and our ability to obtain additional sources of cash flow given the structural growth in 2017 in manufacturing and newer products both in ConsERV™ (newer core types, move into complete ERV systems in China) and NanoClear™ (M3) is sufficient to fund our working capital requirements for the next year. However, there can be no assurance that we will be successful in our efforts to secure such additional sources of product revenue or capital.

Any failure by us to timely procure additional financing or investment adequate to fund the ongoing operations, including planned product development initiatives and commercialization efforts, will have material adverse consequences on our financial condition, results of operations and cash flows as could any unfavorable terms. There are no assurances we will be able to obtain the financing and planned product development commercialization. Accordingly, we may not have the ability to continue as a going concern. The financial statements of the Company do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts and classifications of liabilities that might be necessary should we be unable to continue as a going concern.

### ***Statement of Cash Flows***

Cash and cash equivalents as of March 31, 2018 were \$43,276 compared to \$122,036 as of December 31, 2017. Cash is primarily used to fund our working capital requirements.

Net cash used in operating activities was \$320,468 for the three months ended March 31, 2018 compared to \$232,307 for the same period in 2017. The increase in net cash used was primarily due to a higher net loss partially offset by non-cash interest expense and change in fair value of derivative liability.

Net cash used in investing activities was \$8,292 for the three months ended March 31, 2018 compared to \$8,832 for the same period in 2017, driven by decreased spending on capital items.

Net cash provided by financing activities was \$250,000 for the three months ended March 31, 2018 compared to \$225,000 for the same period in 2017, resulting from loans from a related party and convertible notes.

Table of Contents

**Financing and Capital Transactions**

On June 24, 2016, the Company entered into a Loan and Security Agreement (“Security Agreement”) with Patricia Tangredi (the “Holder”) pursuant to which the Company issued a Senior Secured Promissory Note for \$150,000 (the “Note”). The interest rate is 12% per annum compounded daily with a minimum interest payment of \$2,000. The Note grants the Holder a secured interest in the assets of the Company. Ms. Tangredi is the wife of Timothy Tangredi, the Company’s CEO and stockholder, and therefore is a related party of the Company. Pursuant to the Note, the Company is to pay the Holder the principal amount of \$150,000 plus all interest due thereon in accordance with terms and conditions of the Security Agreement on the earlier of: (i) the date upon which the Company secures funds, regardless of source, equal to or exceeding, in the aggregate, \$1,000,000 or (ii) October 31, 2016.

During 2016 through the period ended March 31, 2018, the Holder extended the Note pursuant to various amendments. Pursuant to the amendments, the principal amount due was increased to \$1,332,000 with an extended maturity date of April 10, 2018. As consideration for the additional proceeds and modification of the maturity date, the Company issued to the related party warrants to purchase an aggregate of 26,250,000 shares of common stock with an exercise price of \$0.01 with a ten year exercise period and 480,000 shares of common stock.

For the nine months ended September 30, 2017, the Company had issued as an inducement to modify the terms of a related party note, warrants exercisable into shares of common stock of the Company. The warrants provide for the purchase of an aggregate of 11,250,000 shares of common stock with an exercise price of \$0.01 with a ten-year exercise period.

On February 7, 2018, the Company issued two convertible notes, each with a face amount of \$87,500. The notes contain substantially the same terms. The notes and related accrued interest are convertible, at the option of the holders, into shares of the Company’s common stock at a conversion price of 60% of the lowest trading price for 15 days prior to conversion. The notes bear interest at 8% per year and mature on February 7, 2019. The notes contain original issue discount aggregating \$17,500 which is being amortized over the life of the notes. The Company has also incurred aggregate legal costs of \$7,500 related to the notes. These costs are also being amortized over the life of the notes. The Company received cash proceeds of \$157,500.

On March 12, 2018, the Company issued a convertible note, with a face amount of \$100,000. The note and related accrued interest are convertible, at the option of the holder, into shares of the Company’s common stock at a conversion price of \$0.15 per share. The note provides for an interest payment of 10% of the principal amount of the note, payable before or upon maturity. The note matures six months from the effective date of March 12, 2018. The note contains original issue discount of \$20,000 which is being amortized over the life of the note. The Company has also incurred aggregate legal costs of \$6,000 related to the note. These costs are also being amortized over the life of the note. The Company received cash proceeds of \$80,000.





Table of Contents

**ECONOMY AND INFLATION**

Except as disclosed herein, we have not experienced any significant cancellation of orders due to the downturn in the economy. We do not believe that inflation has had a material impact on our business, revenues or operating results during the periods presented.

**OFF-BALANCE SHEET ARRANGEMENTS**

We do not have any off balance sheet arrangements that are reasonably likely to have a current or future effect on our financial condition, revenues, results of operations, liquidity or capital expenditures.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Not applicable.

**Item 4. Controls and Procedures**

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the Exchange Act)). Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are not effective in alerting them in a timely manner to material information required to be disclosed in our periodic reports filed with the SEC as a result of limited resources, and a lack of segregation of duties.

During our most recent quarter, there has not been any change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.



*Table of Contents*

**PART II – OTHER INFORMATION**

**Item 1. Legal Proceedings**

The information required by this Item is incorporated herein by reference to Notes to Financial Statements—*Note 10. Litigation* in Part I, Item 1, of this Quarterly Report on Form 10-Q.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

None.

**Item 5. Other Information**

Other than our facility lease of approximately \$50,000 per year, we have no other contractual obligations.



Table of Contents

**Item 6. Exhibits**

<u>31.1</u>	<u>Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
<u>32</u>	<u>Certification by Chief Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase
101.DEF**	XBRL Taxonomy Extension Definition Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase

---

\*\*XBRL (Extension Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

*Table of Contents*

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**DAIS ANALYTIC CORPORATION**  
(Registrant)

Date: May 15, 2018

By: */s/ Timothy N. Tangredi*  
Timothy N. Tangredi  
President and Chief Executive Officer  
(Principal Executive Officer)  
(Principal Financial and Accounting  
Officer)