DAIS ANALYTIC CORP
Form 10-Q
November 13, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2015

¨ **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	**14-1760865**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

11552 Prosperous Drive, Odessa, FL 33556

(Address of principal executive offices) (Zip Code)

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

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 Web site, 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. (Check one):

Large accelerated filer	o	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	x

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

There were 119,411,459 shares of the Registrant's $0.01 par value common stock outstanding as of November 12, 2015.

DAIS ANALYTIC CORPORATION
TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

DAIS ANALYTIC CORPORATION

BALANCE SHEETS

	September 30, 2015 (unaudited)	December 31, 2014
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,128,991	$ 2,343,523
Accounts receivable, net	171,455	191,641
Other receivables	1,750	41,079
Inventory	127,522	99,521
Prepaid expenses	93,868	16,542
Total Current Assets	1,523,586	2,692,306
Property and equipment, net	113,706	64,551
OTHER ASSETS:		
Deposits	4,080	2,280
Patents, net of accumulated amortization of $219,460 and $201,607	108,970	113,672
Total Other Assets	113,050	115,952
TOTAL ASSETS	$ 1,750,342	$ 2,872,809
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Accounts payable, including related party payables of $100,000 and $501,396	$ 348,656	$ 882,434
Accrued expenses, other	146,825	110,976
Current portion of deferred revenue	119,678	123,011
Total Current Liabilities	615,159	1,116,421
LONG-TERM LIABILITIES:		
Accrued compensation and related benefits	1,218,325	1,192,409
Deferred revenue, net of current portion	1,564,089	1,699,679
Total Long-Term Liabilities	2,782,414	2,892,088
Total Liabilities	3,397,573	4,008,509
STOCKHOLDERS' DEFICIT		
	-	-

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; 119,668,672 and 101,366,247 shares issued and 119,411,459 and 101,109,034 shares outstanding, respectively		1,196,688		1,013,663
Common stock payable		-		2,199,960
Capital in excess of par value		41,380,798		38,768,460
Accumulated deficit		(42,952,605)		(41,845,671)
		(375,119)		136,412
Treasury stock at cost, 257,213 shares		(1,272,112)		(1,272,112)
Total Stockholders' Deficit		(1,647,231)		(1,135,700)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$	1,750,342	$	2,872,809

See accompanying Notes to Financial Statements

3

DAIS ANALYTIC CORPORATION

STATEMENTS OF OPERATIONS

(Unaudited)

	For the Three Months Ended September 30, 2015	For the Three Months Ended September 30, 2014	For the Nine Months Ended September 30, 2015	For the Nine Months Ended September 30, 2014
REVENUE				
Sales	$ 246,032	$ 405,815	$ 864,751	$ 1,114,579
Royalty and License fees	70,732	36,226	199,658	101,644
	316,764	442,041	1,064,409	1,216,223
COST OF GOODS SOLD	147,549	281,966	552,773	796,541
GROSS MARGIN	169,215	160,075	511,636	419,682
OPERATING EXPENSES				
Research and development expenses, net	142,107	100,583	555,695	318,877
Selling, general and administrative expenses	337,340	414,659	1,063,392	1,120,062
TOTAL OPERATING EXPENSES	479,447	515,242	1,619,087	1,438,939
LOSS FROM OPERATIONS	(310,232)	(355,167)	(1,107,451)	(1,019,257)
OTHER EXPENSE (INCOME)				
Other income	-	-	(11)	(1,500)
Interest income	(299)	(94)	(678)	(485)
Interest expense	5	321	172	695
TOTAL OTHER EXPENSE (INCOME)	(294)	227	(517)	(1,290)
NET LOSS	$ (309,938)	$ (355,394)	$ (1,106,934)	$ (1,017,967)
NET LOSS PER COMMON SHARE, BASIC AND DILUTED	$ 0.00	$ 0.00	$ (0.01)	$ (0.01)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC AND DILUTED	119,668,672	101,366,247	117,552,177	91,352,511

See accompanying Notes to Financial Statements

DAIS ANALYTIC CORPORATION

STATEMENT OF STOCKHOLDERS' DEFICIT

(Unaudited)

	Common Stock Shares	Common Stock Amount	Common Stock Payable	Capital in Excess of Par Value	Accumulated Deficit	Treasury Stock	Total Stockholders' Deficit
Balance at December 31, 2014	101,366,247	$ 1,013,663	$ 2,199,960	$ 38,768,460	$ (41,845,671)	$ (1,272,112)	$ (1,135,700)
Stock based compensation	-	-	-	55,363		-	55,363
Issuance of common stock for cash and satisfaction of common stock payable, net of offering costs	18,000,000	180,000	(2,199,960)	2,560,000	-	-	540,040
Cashless exercise of stock options	302,425	3,025		(3,025)			-
Net loss	-	-	-	-	(1,106,934)	-	(1,106,934)
Balance at September 30, 2015	119,668,672	$ 1,196,688	$ -	$ 41,380,798	$ (42,952,605)	$ (1,272,112)	$ (1,647,231)

See accompanying Notes to Financial Statements

DAIS ANALYTIC CORPORATION

STATEMENTS OF CASH FLOWS

(Unaudited)

	For the Nine Months Ended September 30, 2015		For the Nine Months Ended September 30, 2014	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net loss	$	(1,106,934)	$	(1,017,967)
Adjustments to reconcile net loss to net cash used by operating activities:				
Depreciation and amortization		46,015		50,700
Stock based compensation expense		55,363		60,352
(Increase) decrease in:				
Accounts receivable		20,186		(54,611)
Other receivables		39,329		81,216
Inventory		(28,001)		(34,733)
Prepaid expenses and other assets		(79,126)		(35,397)
Increase (decrease) in:				
Accounts payable and accrued expenses		(497,929)		(197,297)
Accrued compensation and related benefits		25,916		30,119
Deferred revenue		(138,923)		(48,960)
Net cash used by operating activities		(1,664,104)		(1,166,578)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Increase in patent costs		(13,151)		(19,039)
Purchases of property and equipment		(77,317)		(9,200)
Net cash used by investing activities		(90,468)		(28,239)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Payments on note payable, related party		-		(35,000)
Issuance of common stock, net of offering costs		540,040		1,500,000
Net cash provided by financing activities		540,040		1,465,000
Net (decrease) increase in cash and cash equivalents		(1,214,532)		270,183
Cash and cash equivalents, beginning of period		2,343,523		27,125
Cash and cash equivalents, end of period	$	1,128,991	$	297,308
SUPPLEMENTAL CASH FLOW INFORMATION				
Cash paid for interest	$	5	$	321

See accompanying Notes to Financial Statements

6

DAIS ANALYTIC CORPORATION

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

Note 1. Background Information

Dais Analytic Corporation (the "Company"), a New York corporation, has developed and is commercializing applications using its nano-structure polymer technology. The first commercial product is an energy recovery ventilator ("ERV") (cores and systems) for use in commercial Heating, Ventilating, and Air Conditioning (HVAC) applications. In addition to direct sales, the Company licenses its nano-structured polymer technology to strategic partners in the aforementioned application 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 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 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.

On March 5, 2015, the Company amended its Certificate of Incorporation to increase the number of authorized shares to 250,000,000, consisting of 240,000,000 shares of common stock and 10,000,000 shares of preferred stock, and to cancel the designated but unissued Series A-D Preferred Stock and create a new series of preferred stock designated as the "Class A Preferred Stock". There are no shares of Class A Preferred Stock currently issued by the Company. Any holder of the Class A Preferred Stock shall not be entitled to any dividends. Each share of Class A Preferred Stock shall entitle the holder thereof to 150 votes on all matters submitted to a vote of the stockholders of the Company. The Class A Preferred Stock is convertible into common stock at a conversion price equal to 75% of the average closing price of the Company's common stock for the 30 trading days prior to the holder's election to convert.

The accompanying financial statements of the Company 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, 2014 included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on April 1, 2015. The results of operations for the three and nine month periods ended September 30, 2015 are not necessarily indicative of the results that may be expected for any future quarters or for the entire year ending December 31, 2015.

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 nine months ended September 30, 2015, the Company generated a net loss of $1,106,934 and the Company has incurred significant losses since inception. As of September 30, 2015, the Company has an accumulated deficit of $42,952,605 and a stockholders' deficit of $1,647,231 but positive working capital of $908,427 and $1,128,991 of cash and cash equivalents. The Company used $1,664,104 and $1,166,578 of cash from operations during the nine months ended September 2015 and 2014, respectively, which was funded primarily by proceeds from equity financings. There is no assurance that such financing will be available in the future.

DAIS ANALYTIC CORPORATION

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

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

Management believes that the Company's current cash position and its ability to obtain additional sources of cash flow is sufficient to fund its working capital requirements for the next year. However, there can be no assurance that the Company will be successful in its efforts to secure such additional sources of product revenue or capital. Any failure to timely procure additional financing or investment adequate to fund ongoing operations, including planned or currently underway product development initiatives and commercialization efforts, may have material adverse consequences on the Company's financial condition, results of operations and cash flows.

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 and nine month periods ended September 30, 2015 and 2014, (b) the financial position at September 30, 2015 and December 31, 2014, and (c) cash flows for the nine month periods ended September 30, 2015 and 2014, 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.

Cash and cash equivalents - For 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 any losses related to these balances.

Accounts receivable - Accounts receivable consist primarily of receivables from the sale of our ERV products and royalties due under license and supply agreements. The Company regularly reviews accounts receivable for any bad debts based on an analysis of the Company's collection experience, customer credit worthiness and current economic trends. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. Based on management's review of accounts receivable, an allowance for doubtful accounts of $500 and $739 has been recorded at September 30, 2015 and December 31, 2014, respectively.

Other receivables - Other receivables consist primarily of receivables from the U.S. Department of Defense and the U.S. Department of Energy ARPA-E funding program (See Note 3 - Research and development expenses and funding proceeds). The Company prepares invoices as it meets funding program milestones. Based on management's review of other receivables, management has determined that no allowance for uncollectibilty is necessary at September 30, 2015 and December 31, 2014.

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 September 30, 2015 and December 31, 2014, the Company had $656 and $5,325 of in-process inventory, respectively. A reserve is recorded for any inventory deemed excessive or obsolete. No reserve is considered necessary at September 30, 2015 and December 31, 2014.

DAIS ANALYTIC CORPORATION

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

Note 3. Significant Accounting Policies (Continued)

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 $8,430 and $10,407 for the three months ended and $28,162 and $31,222 for the nine months ended September 30, 2015 and September 30, 2014, respectively. Gains and losses upon disposition are reflected in the Statement of Operations in the period of disposition. Maintenance and repair expenditures are charged to expense as incurred.

During the three months ended September 30, 2015, the Company reviewed the fixed assets and removed $120,331 of assets no longer in service. These assets were fully depreciated resulting in a reduction of the fixed asset cost and accumulated depreciation.

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 $5,951 for each of the three months ended and $17,853 and $19,478 for the nine months ended September 30, 2015 and September 30, 2014, respectively. Based on current capitalized costs, total patent amortization expense is estimated to be approximately $18,000 per year for the next five years and $21,000 thereafter.

Long-lived assets - Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the book value of the asset may not be recoverable. The Company periodically evaluates whether events and circumstances have occurred that indicate possible impairment. When impairment indicators exist, the Company uses market quotes, if available, or an estimate of the future undiscounted net cash flows of the related asset or asset group over the remaining life in measuring whether or not the asset values are recoverable. The Company did not recognize impairment on its long-lived assets during the three and nine months ended September 30, 2015 and September 30, 2014.

Government Funding - Fundings are recognized when there is reasonable assurance that the funding will be received and conditions associated with the funding are met. When fundings are received related to property and equipment, the Company reduces the basis of the assets on the balance sheet, resulting in lower depreciation expense over the life of the associated asset. Fundings received related to expenses are reflected as a reduction of the associated expense in the period in which the expense is incurred.

Research and development expenses and funding proceeds - Expenditures for research, development and engineering of products are expensed as incurred. The Company incurred research and development costs of $173,685 and $161,686 for the three months ended and $664,964, and $639,985 for the nine months ended September 30, 2015 and September 30, 2014, 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 $31,578 and $61,103 for the three months ended and $109,269 and $321,108 for the nine months ended September 30, 2015 and September 30, 2014, respectively.

Stock issuance costs - Stock issuance costs are recorded as a reduction of the related proceeds through a charge to stockholders' equity.

Common stock - The Company records common stock issuances when all of the legal requirements for the issuance of such common stock have been satisfied.

Revenue recognition - Generally, the Company recognizes revenue for its products upon shipment to customers, provided no significant obligations remain and collection is probable.

9

DAIS ANALYTIC CORPORATION

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

Note 3. Significant Accounting Policies (Continued)

In certain instances, our 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 has recorded an accrual of approximately $91,500 for future warranty expenses at September 30, 2015 and December 31, 2014, which is included in accrued expenses, other.

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. Royalties are recognized as earned. The Company recognized license fee revenue of $29,919 and $30,753 for the three months ended and $138,925 and $92,016 for the nine months ended at September 30, 2015 and September 30, 2014, respectively. The Company recognized royalty revenue of $40,813 and $5,473 for the three months ended and $60,733 and $9,628 for the nine months ended at September 30, 2015 and September 30, 2014, respectively.

The Company accounts for revenue arrangements with multiple elements under the provisions of the Financial Accounting Standards Board (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.

Financial instruments - The Company accounts for financial instruments in accordance with FASB Accounting Standards Codification (ASC) 820 "*Fair Value Measurements 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). 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.

The Company does not have any level 1, 2 or 3 financial instruments. The respective carrying values of certain on-balance sheet financial instruments approximated their fair values due to the short-term nature of these instruments. These financial instruments include cash and cash equivalents, accounts receivable, other receivables, accounts payable, accrued compensation and accrued expenses.

Income taxes - Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes resulting from temporary differences. Such temporary differences result from differences in the carrying value of assets and liabilities for tax and financial reporting purposes. The deferred tax assets and liabilities represent the future tax consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

DAIS ANALYTIC CORPORATION

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

Note 3. Significant Accounting Policies (Continued)

The Company identifies and evaluates uncertain tax positions, if any, and recognizes the impact of uncertain tax positions for which there is a less than more-likely-than-not probability of the position being upheld when reviewed by the relevant taxing authority. Such positions are deemed to be unrecognized tax benefits and a corresponding liability is established on the balance sheet. The Company has not recognized a liability for uncertain tax positions. If there were an unrecognized tax benefit, the Company would recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. The Company's remaining open tax years subject to examination by the Internal Revenue Service generally remain open for three years from the date of filing.

Derivative Financial Instruments - The Company does not use derivative instruments to hedge exposure to cash flow, market or foreign currency risk. Terms of convertible promissory note instruments are reviewed to determine whether or not they contain embedded derivative instruments that are required under ASC 815 "*Derivative and Hedging"* (ASC 815) to be accounted for separately from the host contract, and recorded on the balance sheet at fair value. The fair value of derivative liabilities, if any, is required to be revalued at each reporting date, with corresponding changes in fair value recorded in current period operating results.

Freestanding warrants issued by the Company in connection with the issuance or sale of debt and equity instruments are considered to be derivative instruments and are evaluated and accounted for in accordance with the provisions of ASC 815. Pursuant to ASC 815, an evaluation of specifically identified conditions is made to determine whether fair value of warrants issued is required to be classified as equity or as a derivative liability.

Net income (loss) per share - Basic net 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 income (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 and the conversion of notes payable to common stock. In periods in which a net loss has been incurred, all potentially dilutive common shares are considered anti-dilutive and thus are excluded from the calculation. For the three and nine months ended September 30, 2015 and 2014, the Company had 34,320,454 and 35,479,012, respectively potentially dilutive common shares that were excluded from the computation of net income (loss) per share.

Recent Accounting Pronouncements - There are new accounting pronouncements issued by the Financial Accounting Standards Board ("FASB") which are not yet effective as follows:

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (ASU 2014-09), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP.

The standard is effective for annual periods beginning after December 15, 2016, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). In July 2015, the FASB voted to defer the effective date of ASU 2014-09 for all entities by one year. The Company is currently evaluating the impact of the adoption of ASU 2014-09 on its financial statements and has not yet determined the method by which it will adopt the standard in 2018.

DAIS ANALYTIC CORPORATION

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

Note 4. Accrued Expenses, Other

Accrued expenses, other consists of the following:

	September 30, 2015	December 31, 2014
Accrued expenses, other	$ 55,294	$ 19,445
Accrued warranty costs	91,531	91,531
	$ 146,825	$ 110,976

Note 5. Related Party Transactions

Timothy N. Tangredi, the Company's 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 the Company's polymer technologies in biomedical and health care applications. As a result of a $150,000 payment made by Aegis, the first license is considered fully paid and as such no additional license revenue will be forthcoming. Pursuant to the second license, Aegis made an initial one-time payment of $50,000 and is 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 the Company. All obligations for such payments ended on June 2, 2015. The term of each respective license runs for the duration of the patented technology.

The Company rents a building that is owned by two stockholders of the Company, one of which 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 and $36,594 in each of the nine months ended September 30, 2015 and 2014, respectively.

The Company has accrued compensation due to the Chief Executive Officer as of September 30, 2015 and December 31, 2014 of $1,318,325 and $1,292,409, respectively. The Company classified $100,000 as a current liability in accounts payable at September 30, 2015 and December 31, 2014 as the Chief Executive Officer is required to convert $100,000 of the outstanding amount into the Company's common stock within 12 months. The remainder of the balance is a long term liability, as the Company does not believe it will be repaid within the next year.

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. 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 Company's 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.

At December 31, 2014, the Company had accrued compensation due to its former general counsel, Mr. Tangredi's wife, for deferred salaries earned and unpaid equal to $400,772. Ms. Tangredi retired as of October 10, 2014. The Company agreed to pay her on a payment schedule over the next three years with (a) payments of $50,000 on October 17, 2014 and February 15, 2015, (b) 36 monthly payments ranging from $7,000 to $7,500 over the next three years and (c) a $50,772 lump-sum payment on October 17, 2017, if a balance remains. Under certain circumstances, such as completion of a financing, the Company agreed to make accelerated payments under the agreement. All amounts due to Ms. Tangredi were paid in the first half of 2015.

DAIS ANALYTIC CORPORATION

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

Note 5. Related Party Transactions (Continued)

On April 24, 2014, the Company entered into a Distribution Agreement (the "Distribution Agreement") with SoEX (Hong Kong) Industry & Investment Co., Ltd., a Hong Kong corporation ("Soex"). The Distribution Agreement was a covenant included in a Securities Purchase Agreement, dated January 21, 2014, between the Company and Soex, pursuant to which Soex purchased 37,500,000 shares of the Company's commons stock, equal to approximately 31% of the Company's issued and outstanding shares of Common Stock as of September 30, 2015. Pursuant to the Distribution Agreement, in exchange for $500,000 to be paid by October 20, 2014, royalty payments and a commitment from Soex to purchase nano-material membrane and other products from the Company, Soex obtained the right to distribute and market the Company's products for incorporation in energy recovery ventilators sold and installed in commercial, industrial and residential buildings, transportation facilities and vehicles (the "Field") in mainland China, Hong Kong, Macao and Taiwan (the "Territory"). Further, Soex received an exclusive license in the Territory to use the Company's intellectual property in the manufacture and sale of the Company's products in the Field and Territory and to purchase its requirements of nano-material membrane only from the Company, subject to terms and conditions of the Distribution Agreement. There were no sales to Soex in the nine months ended September 30, 2015 and 2014. During 2014, $50,000 of the $500,000 license fee was received. Pursuant to the Distribution Agreement, Soex was required to pay the Company $500,000, issue the Company 25% of the equity of a newly-created company, Soex (Beijing) Environmental Protection Technology Company Limited and pay the Company royalties. Soex only paid the Company $50,000 of the required $500,000, did not issue the required equity and did not pay any required royalties. Effective June 12, 2015, the Company's Board of Directors ratified the termination of the Distribution Agreement as a result of a breach of the Distribution Agreement by Soex (See Note 9). As a result of the termination, the Company recognized the entire deferred balance in June 2015. The Company recognized license fee revenue of $0 and $833 for this Agreement during the three months ended and $49,167 and $833 for the nine months ended September 30, 2015 and 2014, respectively. There are no early termination penalties for the termination of the Distribution Agreement. The Company is pursuing legal action against Soex for breach of the Distribution Agreement (See Note 9).

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. Stock Options and Warrants

Options

In June 2000 and November 2009, the Company's Board of Directors adopted, and the shareholders approved, the 2000 Plan and 2009 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 and 15,000,000 shares of common stock to be issued pursuant to the 2000 Plan and the 2009 Plan, respectively. On February 27, 2015, the shareholders approved the Dais Analytic Corporation 2015 Stock Incentive Plan (the "2015 Plan"). The number of shares of common stock reserved for issuance under the 2015 Plan is 10,000,000. The Plans and the 2015 Plan permit grants of options to purchase common shares authorized and approved by the Company's Board of Directors.

13

DAIS ANALYTIC CORPORATION

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

Note 6. Stock Options and Warrants (Continued)

The following summarizes the information relating to outstanding stock options activity during 2015:

	Common Shares		Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)		Aggregate Intrinsic Value
Outstanding at December 31, 2014	21,362,116	$	0.27	5.57	$	1,579,657
Granted	250,000	$	0.19	-	$	-
Expired/Forfeited	(1,305,000)	$	0.22	-	$	-
Exercised	(596,058)	$	0.12	-	$	-
Outstanding at September 30, 2015	19,711,058	$	0.27	5.01	$	289,065
Exercisable at September 30, 2015	19,633,280	$	0.27	5.01	$	283,232

Stock compensation expense was $48,988 and $4,451 for the three months ended and $55,363 and $60,354 for the nine month ended September 30, 2015 and 2014, respectively. The total fair value of shares vested during the nine months ended September 30, 2015 and 2014 was $0 and $32,730, respectively. The weighted average grant date fair value of options granted during the nine months ended September 30, 2015 was $.19.

As of September 30, 2015, there was $1,133 of unrecognized employee stock-based compensation expense related to non vested stock options, which will be recognized over the remainder of the fiscal year ending December 31, 2015.

The following table represents our non vested share-based payment activity for the nine months ended September 30, 2015:

	Number of Options	Weighted Average Grant

		Date Fair Value
Nonvested options at December 31, 2014	179,167	$ 0.11
Forfeited	(101,389)	$ 0.13
Nonvested options at September 30, 2015	77,778	$ 0.10

Warrants

At September 30, 2015, the Company had outstanding warrants to purchase the Company's common stock which were issued in connection with multiple financing arrangements and consulting agreements. Information relating to these warrants is summarized as follows:

Warrants	Remaining Number Outstanding	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price
Warrants-Financing	7,000,000	0.48	$ 0.34
Warrants-Note Conversions	1,061,538	0.45	$ 0.28
Warrants-Stock Purchases	6,547,858	2.02	$ 0.36
Total	14,609,396		

DAIS ANALYTIC CORPORATION

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

Note 7. Deferred Revenue

On October 30, 2012, the Company and MG Energy LLC, a Delaware limited liability company ("MG Energy"), entered into a License and Supply Agreement (the "Agreement"), effective October 26, 2012. Pursuant to the Agreement, the Company licensed certain intellectual property and improvements to MG Energy, 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 North America and South America in exchange for the cancellation of $2,034,521 of debt due to MG Energy. MG Energy also agreed to purchase its requirements of certain ConsERV products from the Company for MG Energy's use, pursuant to the terms and conditions of the Agreement. MG Energy will also pay royalties, as defined, to the Company on the net sales of each product or system sold. The term of the Agreement will expire upon the last to expire of the underlying patent rights for the licensed technology.

The Company has identified all of the deliverables under the Agreement and has determined significant deliverables to be the license for the intellectual property and the supply services. In determining the units of accounting, the Company evaluated whether the license has stand-alone value to MG Energy based upon consideration of the relevant facts and circumstances of the Agreement. The Company determined that the license does not have stand-alone value to the licensee and, therefore, should be combined with the supply agreement as one unit of accounting. The initial payment for the license agreement will be treated as an advance payment and recognized over the performance period of the supply agreement. Royalties will be recognized as revenue when earned. The Company recognized license revenue of $29,919 in each of the three months ended and $89,757 in each of the nine months ended September 30, 2015 and 2014. Deferred revenue for this agreement was $1,683,767 and $1,773,525 at September 30, 2015 and December 31, 2014, respectively.

MG Energy entered into a sublicense with Multistack, LLC. For the three and nine months ended September 30, 2015, Multistack LLC accounted for approximately 100% and 96% of the Company's sales revenue. For the three and nine months ended September 30, 2014, Multistack, LLC accounted for approximately 80% and 78% of the Company's sales revenue. At September 30, 2015 and December 31, 2014, amounts due from this customer were approximately 59% and 67%, respectively, of total accounts receivable.

On April 24, 2014, the Company entered into a Distribution Agreement with SoEX (Hong Kong) Industry & Investment Co., Ltd., as discussed in Note 5 Related Party Transactions. The deferred revenue for this Distribution Agreement was $49,167 as of December 31, 2014. The remaining amount of deferred revenue was recognized as income upon the termination of the Distribution Agreement in June 2015. The Company recognized license fee revenue of $0 and $833 for this Agreement during the three months ended and $49,167 and $833 for the nine months ended September 30, 2015 and 2014, respectively.

Note 8. Securities Purchase Agreement

On December 15, 2014, the Company entered into a Securities Purchase Agreement (the "2014 SPA") with two investors with principal offices in Hong Kong ("2014 Investors"). Pursuant to the 2014 SPA, the Company agreed to sell 18,000,000 shares of the Company's common stock for $2,750,000, at approximately $0.153 per share. The Company received approximately $2,200,000 of the cash proceeds in December 2014. The remaining $550,000 was received and the Company issued the 18,000,000 shares of common stock during the first quarter of 2015. As a result of the investment, the two investors own 13,304,348 and 4,695,652, respectively, of the Company's common stock, equal to an aggregate of approximately 15% of the Company's issued and outstanding common stock as of September 30, 2015. The 2014 Investors will have the right to nominate a member to the Company's board as long as they own an aggregate of at least 9.99% of the Company's common stock. An additional 20,333,334 shares of the Company's common shares may be issued to the 2014 Investors in connection with the purchase of 51% of the equity of an existing company in the People's Republic of China ("PRC") with assets of at least $3,000,000 if the 2014 Investors capitalize the existing PRC company with $3,000,000, issue the Company 51% of the existing PRC company's equity and arrange an HVAC services agreement of $60,000,000 in sales over a three year period. The Company is required to register the shares of the Company's common stock acquired by the 2014 Investors after the aforementioned conditions are met. The conditions have not been fully met as of September 30, 2015 but the Company and the 2014 Investors are working together to fully satisfy all conditions.

DAIS ANALYTIC CORPORATION

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

Note 9. Litigation

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 (see Note 5), 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, serves on the Company's board pursuant to the provisions of the Soex SPA.

On April 24, 2014, the Company entered into a Distribution Agreement (the "Distribution Agreement" – See Note 5), with Soex to distribute certain of the Company's products in China. As the Company reported in its 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, it reported the Company has not received any royalties from Soex. Soex is in breach of the Distribution Agreement.

As reported in the Company's Form 10-Q for the quarter ended June 30, 2015, the Company began pursuing legal action against Soex. 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").

As a result of the above, the Company terminated the Distribution Agreement effective June 12, 2015. As provided in Section 14(e) of the Distribution Agreement, the Company still has the right to enforce any obligation due to it by the Soex. As a result, Soex still must (a) pay the Company 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.

While the Company believes it has a strong case against Soex as a result of its breaches of the agreements with the Company, 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.

Note 10. Subsequent Event

No events have occurred since September 30, 2015 that require recognition or disclosure in the financial statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and the notes thereto included 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 1, 2015.

This Quarterly Report on Form 10-Q includes forward-looking statements, identified by words such as "anticipated," "believe," "expect," "plan," "intend," "seek," "estimate," "project," "will," "could," "may," and similar expressions These statements include, among others, information regarding future operations, future capital expenditures, and future net cash flow. Such statements reflect the Company's 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 the Company's 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 1, 2015. There can be no assurance that the forward-looking statements contained in this form 10-Q 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 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. We are developing other nano-structured polymer technology applications including (i) "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 and (ii) NanoAir, a water based no fluorocarbon based refrigerant dehumidification, humidification, heating and cooling system. We further believe our nano-structure 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™ Funding to Continue Research

In March 2015, the US 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 most types of contaminated waste streams potentially beginning as early as 2016.

Introduction of New Version of Aqualyte Membrane Technology

We are preparing to release Version 4 (V4) of our Aqualyte material by adding features and improving the manufacturability of the revolutionary Aqualyte material. Key additions found in V4 include integrated web casting and the availability of material in wider roll widths. These and other improvements will allow Aqualyte to serve a wider variety of uses in the ConsERV or NanoClear target markets. Aqualyte, the underlying technology for our family of products, including ConsERV, fixed-plate Energy Recovery Ventilator (ERV), and NanoClear, a high performance contaminated water clearing process, 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 excellent 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 energy and water markets.

Participation in Trade Mission to China

In April 2015, we participated as a delegation member of the Official Presidential Business Development Trade Mission to China which has historically been sponsored jointly by the U.S. Department of Commerce and U.S. Department of Energy. We were selected along with major US-based companies including Alcoa, General Electric, Honeywell, Lockheed Martin, and others, due to a commitment to developing and commercializing technologies focused on energy efficiency and sustainability. According to the Department of Commerce, this trade mission was coordinated to help U.S. companies launch or increase their business operations in China for Smart Cities - Smart Growth products and services, such as smart buildings, green data centers, carbon capture utilization and storage, energy efficiency technologies, clean air and water technologies, waste treatment technologies, smart grid and green transportation.

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 million by the DOE to advance research and development of next-generation HVAC technologies. The total funding value is $1.5m of which we will receive $0.7m. 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 90 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.

Advances in NanoClear Development

A NanoClear water cleaning system demonstration unit was built by us in June 2015 and is now functional in Beijing, China. The unit is designed to showcase our Aqualyte™ based nanomaterial and engineered process to potential partners, key influencers, and consumers. This demonstration unit, with our other activities is building recognition and demand for NanoClear. In April 2015, we were prominently featured in an article in USA Today, emphasizing our commercialized nanotechnology as a potential solution for California's water crisis.

Securities Purchase Agreement with Strategic Investors

On December 15, 2014, we entered into a Securities Purchase Agreement (the "2014 SPA") with two investors with principal offices in Hong Kong ("2014 Investors"). Pursuant to the 2014 SPA, we agreed to sell 18,000,000 shares of our common stock for $2,750,000, at approximately $0.153 per share. We received approximately $2,200,000 of the cash proceeds as of December 31, 2014. The remaining $550,000 was received and we issued the 18,000,000 shares of common stock during the first quarter of 2015. An additional 20,333,334 shares of our common shares may be issued to the 2014 Investors in connection with the purchase of 51% of the equity of an existing company in the People's Republic of China ("PRC") with assets of at least $3,000,000 if the 2014 Investors capitalize the existing PRC company with $3,000,000, issue to us 51% of the existing PRC company's equity and arrange an HVAC services agreement of $60,000,000 in sales over a three year period. We are required to register the shares of our common stock acquired by the 2014 Investors after the aforementioned conditions are met. The conditions have not been fully met as of September 30, 2015 but we and the 2014 Investors are working together to fully satisfy all conditions.

Business Development in China

In July 2015, our business affiliate in China, Dais (Beijing) New Energy Technology Co., Ltd. ("Dais Beijing"), entered into an agreement with COFCO, a prominent investment holding company in China. Dais Beijing has been engaged to perform a feasibility study on over 80 properties throughout China using an energy contract management model to determine applicable newer technology products, including our ConsERV™ technology. We expect that this engagement and similar projects will generate revenues for us in 2016.

Distribution Agreement with SoEX

Effective June 12, 2015, our Board of Directors ratified the termination of the Distribution Agreement, dated April 24, 2014, with SoEX (Hong Kong) Industry & Investment Co., Ltd. ("Soex") as a result of a breach of the Distribution Agreement by Soex. Pursuant to the Distribution Agreement, Soex was required to pay us $500,000, issue us 25% of the equity of a newly-created company, Soex (Beijing) Environmental Protection Technology Company Limited and pay us royalties. Soex only paid $50,000 of the $500,000 required payments, did not issue the required equity and did not pay any required royalties. There are no early termination penalties for the termination of the Distribution Agreement. We are pursuing legal action against Soex for breach of the Distribution Agreement (see Part II, Item I, Legal Proceedings).

Technology

We use proprietary nano-technology to reformulate thermoplastic materials called polymers. Nano-technology 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 are using the name "Aqualyte" for these materials as we continue their commercialization.

We have recently introduced an upgraded version of our Aqualyte™ nanomaterial. The improved material set provides a shorter supply chain resulting in better inventory management as well as improved physical characteristics potentially offering wider commercial adoption and applications in the future.

Products

Modified Polymer Resin (Aqualyte™)

Commercially available polymer resin in flake form and industrial grade solvents 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 into a liquid material which we believe gives the attribute of being selective in what molecules it will allow through the plastic, which includes water molecules. This process, called 'sulfonation', is done at toll processing facilities around the world that specialize in contract manufacture of small batches (by industry standards) of specialty chemicals.

Until mid-2014, the membrane material was created using a thin coating of the liquid polymer material applied on one side of a sheet good by a 'tape casting' firm of which there are many in the United States. The coated sheet good was heated in a process designed to bond the polymer solution and rolled sheet good together. During 2014 after extensive development and testing, we introduced a newer method of creating the membrane material that eliminated two vendor steps, increased yield, produced a stronger material, and set the direction for future innovations. Currently, one vendor creates the final membrane form of Aqualyte™ used in ConsERV and NanoClear. We have not sought additional vendors for this component. However, we have 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.

ConsERV™

We currently 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 CO_2 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 nano-technology polymer which has been formed into a full enthalpy heat exchanger core. The nano-technology 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.

Our ConsERV™ product has been the primary focus of our resources and commercialization efforts. 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™ maintains an industry leading position in the management of latent heat.

NanoClear™ - Water treatment

When development is completed, we expect this application will function to remove quantities of metals, acids, salt and other impurities from various contaminated water sources to produce potable water using an environmentally friendly, low maintenance design that is competitive with industry leaders in terms of electrical consumption. We have constructed a pilot plant that was installed at a local County waste water treatment facility and commissioned in May 2013. This site has served as a showcase for potential commercial customers. The accumulated test data, analyzed by an independent 3rd party firm, shows the water quality of the water being produced has not diminished since system start-up. Total Dissolved Solids (TDS) measurements are holding steady at 6 parts per million (ppm). The experience and generated data from the pilot facility combined with manufacturing techniques and improvements pioneered by us are forming the first next generation of Aqualyte™ based membrane evaporators which we believe will be the initial commercial product for NanoClear targeting to be introduced in 2015. We are now preparing to upgrade the pilot to accept the newer membrane evaporator (M2), and when complete, extend the operating hours of the pilot facility to 24-hour per day to continue testing materials and the process as well as being used to show potential clients a functioning system. The 2nd generation membrane evaporator is designed to be an order of magnitude more compact and have reduced manufacturing costs than the existing membrane evaporator generations.

We worked with partners at Dais Beijing, China Electronics Technology Group Corporation (CETC), and the China Research Academy for the Environmental Sciences (CRAES) to build and commission a sales demonstration tool for NanoClear located in Beijing. This self-contained unit entered operation in the second quarter of 2015 and allows us to bring potential customers in one of the largest water treatment markets in the world for a sales demonstration of a fully functional, aesthetically pleasing NanoClear system. Follow up activity is ongoing to build a much larger pilot installation featuring the next-generation M2 membrane evaporator as it enters service in the second half of 2015. This system is expected to be located at an industrial partner's location in or near Beijing, where it will demonstrate continuous treatment of an actual customer's wastewater with a commercially viable product that will be offered for sale.

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 in cold weather. This NanoAir application may be capable of replacing a traditional, refrigerant-based, vapor compression heating/cooling system. We have a small prototype showing fundamental heating, cooling, humidification, and dehumidification operation of this evolving product. The NanoAir product is in the middle stage of prototype development. Since May 1, 2013, we have been working with the Advanced Research Projects Agency - Energy (ARPA-E) branch of the U.S. Department of Energy (DOE) to develop an energy-efficient dehumidification system using Aqualyte™ polymer membranes to selectively transfer moisture. The award provided up to $800,000 in federal funding to us, provided we contribute a 20% cost share toward the proposed total project cost of $1,000,000. We successfully demonstrated our major technical goals of showing membrane dehumidifier which met project targets, and are currently summarizing the technical, economic, and commercial impact of the developments to close out this ARPA-E program. We are working with select potential OEMs and the DOE focused on moving NanoAir to initial commercialization and revenue generation.

NanoCap™ - Energy Storage

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 electrical charge in a device with projected increases in energy density, endurance, and usefulness relative to traditional battery technology. We believe 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. We have not invested significant resources to date in the development of this application beyond the prototype stage. We are following strong and continued interest from key renewable energy opportunities from mainly renewable energy projects or companies to create a partnership to potentially move this energy storage medium ahead during the latter half of 2015.

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 the known functionality of our materials and processes.

RESULTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 2015 COMPARED TO SEPTEMBER 30, 2014

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

	For the Three Months Ended September 30, 2015	For the Three Months Ended September 30, 2014
REVENUE		
Sales	$ 246,032	$ 405,815
Royalty and License fees	70,732	36,226
	316,764	442,041
COST OF GOODS SOLD	147,549	281,966
GROSS MARGIN	169,215	160,075
OPERATING EXPENSES		
Research and development expenses, net	142,107	100,583
Selling, general and administrative expenses	337,340	414,659
TOTAL OPERATING EXPENSES	479,447	515,242
LOSS FROM OPERATIONS	(310,232)	(355,167)
OTHER EXPENSE (INCOME)		
Other income	-	-
Interest income	(299)	(94)
Interest expense	5	321
TOTAL OTHER EXPENSE (INCOME)	(294)	227
NET LOSS	$ (309,938)	$ (355,394)

REVENUES

We generate our revenues primarily from the sale of our ConsERV™ cores and Aqualyte™ membrane. Product sales were $246,032 and $405,815 for the three months ended September 30, 2015 and 2014, a decrease of $159,783 or 39.4%, due to weak sales in 2015. Revenues in the three months ended September 30, 2015 were primarily from the sales of ConsERV™ cores to MultiStack, which we expect will continue in the fourth quarter. We are focusing on creating sustainable revenues to a more diversified set of customers with the expectation this will occur in 2016. Revenues from royalty and license fees were $70,732 and $36,226 for the three months ended September 30, 2015 and 2014, an increase of $34,506 or 95.3%, primarily due to the recognition of royalties paid in the quarter for prior periods.

COST OF SALES

Our cost of sales consists primarily of materials (including freight), direct labor, and outsourced manufacturing expenses incurred to produce our ConsERV™ products. Cost of goods sold were $147,549 and $281,966 for the three months ended September 30, 2015 and 2014, a decrease of $134,417 or 47.7%. This reflects the decrease in product sales and sales of products with a higher per unit cost.

We are dependent on third parties to manufacture the key components needed for our nano-structured based materials and 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 our technical specifications, or the inability to obtain alternative sources of these components on a timely basis or on terms acceptable to us, would create delays in production of our products and/or increase our 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 was 53% and 36% for the three months ended September 30, 2015 and 2014, an increase of 17%, due to an increase in royalties received in September 2015 for previous periods offset by the sale of products with a higher per unit cost to build.

RESEARCH AND DEVELOPMENT COSTS

Expenditures for research and development costs related to the commercialization and improvement of our products are expensed as incurred. We incurred research and development costs of $173,685 and $161,686 for the three months ended September 30, 2015 and September 30, 2014, an increase of $11,999 or 7.4%. 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 $31,578 and $61,103 for the three months ended at September 30, 2015 and September 30, 2014, a decrease of $29,525 or 48.3% due to the timing of the grant activities.

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 $337,340 and $414,659 for the three months ended September 30, 2015 and 2014, a decrease of $77,319 or 18.6%.

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

- 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;
- Additional infrastructure needed to support the expanded commercialization of our ConsERV™ 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; and
- The issuance and recognition of expense 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.

The decrease in selling general and administrative expenses in the three months ended September 30, 2015 compared to the same period in 2014 resulted from lower professional costs and personnel costs and the adjustment of accounts payable partially offset by higher stock compensation costs in 2015.

NET LOSS

Net loss for the three months ended September 30, 2015 was $309,938 compared to a net loss of $355,394 for the three months ended September 30, 2014. The lower loss in the three months ended September 30, 2015 was a result of decreased selling, general and administrative costs and higher gross margin offset by higher investments in research and development.

NINE MONTHS ENDED SEPTEMBER 30, 2015 COMPARED TO SEPTEMBER 30, 2014

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

	For the Nine Months Ended September 30, 2015	2014
REVENUE		
Sales	$ 864,751	$ 1,114,579
Royalty and License fees	199,658	101,644
	1,064,409	1,216,223
COST OF GOODS SOLD	552,773	796,541
GROSS MARGIN	511,636	419,682
OPERATING EXPENSES		
Research and development expenses, net	555,695	318,877
Selling, general and administrative expenses	1,063,392	1,120,062
TOTAL OPERATING EXPENSES	1,619,087	1,438,939
LOSS FROM OPERATIONS	(1,107,451)	(1,019,257)
OTHER EXPENSE (INCOME)		
Other income	(11)	(1,500)
Interest income	(678)	(485)
Interest expense	172	695
TOTAL OTHER EXPENSE (INCOME)	(517)	(1,290)
NET LOSS	$ (1,106,934)	$ (1,017,967)

REVENUES

We generate our revenues primarily from the sale of our ConsERV™ cores and Aqualyte™ membrane. Product sales were $864,751 and $1,114,579 for the nine months ended September 30, 2015 and 2014, a decrease of $249,828 or 22.4%, due to weak sales in 2015. Revenues in the first nine months of 2015 were primarily from the sales of ConsERV™ cores to MultiStack. Revenues from MultiStack accounted for approximately 96% of our product revenue during the nine months ended September 30, 2015 which we expect will continue in the fourth quarter. We are focusing on creating sustainable revenues to a more diversified set of customers with the expectation this will occur in 2016. Revenues from royalty and license fees were $199,658 and $101,644 for the nine months ended September 30, 2015 and 2014, an increase of $98,014 or 96.4%, due an increase in royalty amounts recognized from MultiStack and the recognition of $48,334 deferred revenue related to the June 2015 Soex agreement termination.

COST OF SALES

Our cost of sales consists primarily of materials (including freight), direct labor, and outsourced manufacturing expenses incurred to produce our ConsERV™ products. Cost of goods sold were $552,773 and $796,541 for the nine months ended September 30, 2015 and 2014, a decrease of $243,768 or 30.6%. This reflects the decrease in product sales and sales of products with a higher per unit cost.

GROSS MARGIN

Gross margin was 48% and 35% for the nine months ended September 30, 2015 and 2014, an increase of 8%, due to an increase in royalties received in September 2015 for previous periods offset by the sale of products with a higher per unit cost to build.

RESEARCH AND DEVELOPMENT COSTS

Expenditures for research and development costs related to the commercialization and improvement of our products are expensed as incurred. We incurred research and development costs of $664,964 and $639,985 for the nine months ended September 30, 2015 and 2014, an increase of $24,979 or 3.9%. 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 $109,269 and $321,108 for the nine months ended at September 30, 2015 and 2014, a decrease of $211,839 or 66.0% due to the timing of the grant activities.

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 $1,063,392 and $1,120,062 for the nine months ended September 30, 2015 and 2014, a decrease of $56,670 or 5.1%.

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

- 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;
- Additional infrastructure needed to support the expanded commercialization of our ConsERV™ 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; and
- The issuance and recognition of expense 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.

The decrease in selling, general and administrative expenses in the nine months ended September 30, 2015 compared to the same period in 2014 resulted from the extinguishment of payables as the result of a litigation settlement, lower payroll and advertising costs and the adjustment of accounts payable, partially offset by higher professional and recruiting fees.

NET LOSS

Net loss for the nine months ended September 30, 2015 was $1,106,934 compared to a net loss of $1,017,967 for the nine months ended September 30, 2014. The higher loss in the nine months ended September 30, 2015 was a result of higher investments in research and development, offset by higher gross margin and decreased selling, general and administrative costs.

Liquidity and Capital Resources

On December 15, 2014, we entered into a Securities Purchase Agreement (the "2014 SPA") with two investors with principal offices in Hong Kong ("2014 Investors"). Pursuant to the 2014 SPA, we agreed to sell 18,000,000 shares of our common stock for $2,750,000, at approximately $0.153 per share. We received approximately $2,200,000 of the cash proceeds as of December 31, 2014. The remaining $550,000 was received and we issued the 18,000,000 shares of common stock during the first quarter of 2015. An additional 20,333,334 shares of our common shares may be issued to the 2014 Investors in connection with the purchase of 51% of the equity of an existing company in the People's Republic of China ("PRC") with assets of at least $3,000,000 if the 2014 Investors capitalize the existing PRC company with $3,000,000, issue to us 51% of the existing PRC company's equity and arrange an HVAC services agreement of $60,000,000 in sales over a three year period. We are required to register the shares of our common stock acquired by the 2014 Investors after the aforementioned conditions are met. The conditions have not been fully met as of September 30, 2015 but we are working with the 2014 Investors to fully satisfy all conditions.

The accompanying financial statements have been prepared assuming we will continue as a going concern. For the nine months ended September 30, 2015, we generated a net loss of $1,106,934 and incurred significant losses since inception. As of September 30, 2015, we have an accumulated deficit of $42,952,605 and a stockholders' deficit of $1,647,231 but positive working capital of $908,427 and $1,128,991 of cash and cash equivalents. We used $1,664,104 and $1,166,578 of cash from operations during the nine months ended September 2015 and 2014, respectively, which was funded primarily by proceeds from equity financings. There is no assurance that such financing will be available in the future.

Management believes that our current cash position and our ability to obtain additional sources of cash flow 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 our ongoing operations, including planned or currently underway product development initiatives and commercialization efforts, may have material adverse consequences on our financial condition, results of operations and cash flows.

Any future financing may result in substantial dilution to existing shareholders, and future debt financing, if available, may include restrictive covenants or may require us to grant a lender a security interest in any of our assets not already subject to an existing security interest. If we secure debt financing in the future, we may not be able to repay all or any of such debt when due without severely impacting our ability to continue operations and we may not be able to secure additional financing to repay such financing on acceptable terms, if at all. Should we be unable to repay or renegotiate any such financing, as an alternative, management could attempt to renegotiate the repayment terms and seek extension of the maturity dates. There is no guarantee that, if we should need to renegotiate any such future debt, any negotiated terms we may be able to secure would be favorable to us. To the extent that we attempt to raise additional funds through third party collaborations and/or licensing arrangements, we may be required to relinquish some rights to our technologies or products currently in various stages of development or grant licenses or other rights on terms that are not favorable to us. Any failure by us to timely procure additional financing or investment adequate to fund our 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.

Statement of Cash Flows

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

	For the Nine Months Ended September 30, 2015	For the Nine Months Ended September 30, 2014
Cash flows used by operating activities	$ (1,664,104)	$ (1,166,578)
Cash flows used by investing activities	(90,468)	(28,239)
Cash flows provided by financing activities	540,040	1,465,000
Net (decrease) increase in cash and cash equivalents	$ (1,214,532)	$ 270,183

Cash and cash equivalents as of September 30, 2015 were $1,128,991 compared to $2,343,523 as of December 31, 2014. Cash is primarily used to fund our working capital requirements.

26

Net cash used by operating activities was $1,664,104 for the nine months ended September 30, 2015 compared to $1,166,578 for the same period in 2014. The increase in net cash used was due primarily to a decrease in accounts payable for amounts paid to related parties, amounts settled in litigation and the adjustment of accounts payable, a decrease in deferred revenue resulting from the monthly amortization and due to the net loss in the nine months ended September 30, 2015 exceeding the same period in 2014.

Net cash used by investing activities was $90,468 for the nine months ended September 30, 2015 compared to $28,239 for the same period in 2014, driven by increased spending on capital items.

Net cash provided by financing activities was $540,040 for the nine months ended September 30, 2015 compared to $1,465,000 for the same period in 2014. The difference is the timing of receipt of cash for equity sales.

ECONOMY AND INFLATION

Except as disclosed herein, we have not experienced any significant cancellation of orders due to the downturn in the economy. Our management believes that inflation has not had a material effect on our results of operations.

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, and 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 effective in alerting them in a timely manner to material information required to be disclosed in our periodic reports filed with the Securities and Exchange

Commission.

During our most recent fiscal 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.

27

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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, serves on the Company's board pursuant to the provisions of the Soex SPA.

On April 24, 2014, the Company entered into a Distribution Agreement (the "Distribution Agreement"), with Soex to distribute certain of the Company's products in China. As the Company reported in its 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, it reported the Company has not received any royalties from Soex. Soex is in breach of the Distribution Agreement.

As reported in the Company's Form 10-Q for the quarter ended June 30, 2015, the Company began pursuing legal action against Soex. 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").

As a result of the above, the Company terminated the Distribution Agreement. As provided in Section 14(e) of the Distribution Agreement, the Company still has the right to enforce any obligation due to it by the Soex. As a result, Soex still must (a) pay the Company 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.

While the Company believes it has a strong case against Soex as a result of its breaches of the agreements with the Company, 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.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULT UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

10.34	License and Supply Agreement by and between Dais Analytic Corporation and MG Energy LLC dated October 26, 2012 (amended)
31.1	Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification by Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	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
101.INS **	XBRL Instance Document
101.SCH **	XBRL Taxonomy Extension Schema Document
101.CAL **	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF **	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB **	XBRL Taxonomy Extension Label Linkbase Document
101.PRE **	XBRL Taxonomy Extension Presentation Linkbase Document

** XBRL (Extensible 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.

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: November 13, 2015

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

Date: November 13, 2015

By: */s/ Judith M. Aldrovandi*
Judith M. Aldrovandi
Controller and Treasurer
(Principal Financial and Accounting Officer)