DAIS ANALYTIC CORP
Form 10-Q
May 15, 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 March 31, 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.) |

**<u>11552 Prosperous Drive, Odessa, FL 33556</u>**

(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 | ¨ | Accelerated filer | ¨ |
| Non-accelerated filer | ¨ | 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 119,155,483 shares of the Registrant's $0.01 par value common stock outstanding as of May 10, 2015.

**Dais Analytic Corporation**

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**Part II. Other Information**

**PART I — FINANCIAL INFORMATION**

**DAIS ANALYTIC CORPORATION**

**BALANCE SHEETS**

| | March 31, 2015 (unaudited) | December 31, 2014 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS:** | | |
| Cash and cash equivalents | $ 1,946,257 | $ 2,343,523 |
| Accounts receivable, net | 179,717 | 191,641 |
| Other receivables | 95,439 | 41,079 |
| Inventory | 101,273 | 99,521 |
| Prepaid expenses | 62,000 | 16,542 |
| Total Current Assets | 2,384,686 | 2,692,306 |
| | | |
| Property and equipment, net | 58,807 | 64,551 |
| | | |
| **OTHER ASSETS:** | | |
| Deposits | 2,280 | 2,280 |
| Patents, net of accumulated amortization of $207,558 and $201,607 at March 31, 2015 and December 31, 2014, respectively | 117,182 | 113,672 |
| Total Other Assets | 119,462 | 115,952 |
| **TOTAL ASSETS** | $ 2,562,955 | $ 2,872,809 |
| | | |
| **LIABILITIES AND STOCKHOLDERS' DEFICIT** | | |
| **CURRENT LIABILITIES:** | | |
| Accounts payable, including related party payables of $116,772 and $501,396 at March 31, 2015 and December 31, 2014, respectively | $ 470,042 | $ 882,434 |
| Accrued expenses, other | 110,730 | 110,976 |
| Current portion of deferred revenue | 123,011 | 123,011 |
| Total Current Liabilities | 703,783 | 1,116,421 |
| | | |
| **LONG-TERM LIABILITIES:** | | |
| Accrued compensation and related benefits | 1,201,048 | 1,192,409 |
| Deferred revenue, net of current portion | 1,668,928 | 1,699,679 |
| Total Long-Term Liabilities | 2,869,976 | 2,892,088 |
| Total Liabilities | 3,573,759 | 4,008,509 |
| | | |
| **STOCKHOLDERS' DEFICIT** | | |
| Preferred stock; $0.01 par value; 10,000,000 shares authorized; 0 shares issued | | |

| | | |
|---|---|---|
| and outstanding | - | - |
| Common stock, $0.01 par value; 240,000,000 shares authorized; 119,366,247 and 101,366,247 shares issued and 119,109,034 and 101,109,034 shares outstanding, respectively | 1,193,663 | 1,013,663 |
| Common stock payable | - | 2,199,960 |
| Capital in excess of par value | 41,341,646 | 38,768,460 |
| Accumulated deficit | (42,274,001) | (41,845,671) |
| | 261,308 | 136,412 |
| Treasury stock at cost, 257,213 shares | (1,272,112) | (1,272,112) |
| Total Stockholders' Deficit | (1,010,804) | (1,135,700) |
| | | |
| **TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT** | $ 2,562,955 | $ 2,872,809 |

The accompanying notes are an integral part of these financial statements

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**DAIS ANALYTIC CORPORATION**
**STATEMENTS OF OPERATIONS (UNAUDITED)**

| | For the Three Months Ended March 31, 2015 | 2014 |
|---|---|---|
| **REVENUE:** | | |
| Sales | $ 314,028 | $ 220,411 |
| License fees | 30,753 | 31,170 |
| | 344,781 | 251,581 |
| | | |
| **COST OF GOODS SOLD** | 252,944 | 207,150 |
| | | |
| **GROSS MARGIN** | 91,837 | 44,431 |
| | | |
| **OPERATING EXPENSES** | | |
| Research and development expenses, net of government grant proceeds of $54,360 and $160,917, respectively | 196,930 | 108,026 |
| Selling, general and administrative expenses | 323,238 | 340,455 |
| **TOTAL OPERATING EXPENSES** | 520,168 | 448,481 |
| | | |
| **LOSS FROM OPERATIONS** | (428,331) | (404,050) |
| | | |
| **OTHER EXPENSE (INCOME)** | | |
| Interest expense | - | 374 |
| Interest income | (1) | (54) |
| **TOTAL OTHER EXPENSE (INCOME)** | (1) | 320 |
| | | |
| **NET LOSS** | $ (428,330) | $ (404,370) |
| | | |
| **NET LOSS PER COMMON SHARE, BASIC AND DILUTED** | $ (0.00) | $ (0.01) |
| | | |
| **WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC AND DILUTED** | 113,366,247 | 70,991,247 |

The accompanying notes are an integral part of these financial statements

**DAIS ANALYTIC CORPORATION**
**STATEMENTS OF STOCKHOLDERS' DEFICIT (UNAUDITED)**

| | Common Stock | | Common Stock Payable | Capital in Excess of Par Value | Accumulated Deficit | Treasury Stock | Total Stockholders' Deficit |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | | | | | |
| Balance, 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 | - | - | - | 3,186 | - | - | 3,186 |
| Issuance of common stock for cash | 18,000,000 | 180,000 | (2,199,960) | 2,570,000 | - | - | 550,040 |
| Net loss | - | - | - | - | (428,330) | - | (428,330) |
| Balance, March 31, 2015 | 119,366,247 | $ 1,193,663 | $ - | $ 41,341,646 | $ (42,274,001) | $ (1,272,112) | $ (1,010,804) |

The accompanying notes are an integral part of these financial statements

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**DAIS ANALYTIC CORPORATION**
**STATEMENTS OF CASH FLOWS (UNAUDITED)**

| | For the Three Months Ended March 31, 2015 | 2014 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Net loss | $ (428,330) | $ (404,370) |
| Adjustments to reconcile net loss to net cash and cash equivalents used by operating activities: | | |
| Depreciation and amortization | 16,358 | 18,135 |
| Stock based compensation expense | 3,186 | 11,492 |
| (Increase) decrease in: | | |
| Accounts receivable | 11,924 | (718) |
| Other receivables | (54,360) | 7,591 |
| Inventory | (1,752) | 4,660 |
| Prepaid expenses and other assets | (45,458) | 5,132 |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | (412,638) | (166,855) |
| Accrued compensation and related benefits | 8,639 | 14,640 |
| Deferred revenue | (30,751) | (115,269) |
| Net cash used by operating activities | (933,182) | (625,562) |
| | | |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Increase in patent costs | (9,461) | (8,923) |
| Purchases of property and equipment | (4,663) | (9,200) |
| Net cash used by investing activities | (14,124) | (18,123) |
| | | |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Payments on note payable, related party | - | (35,000) |
| Issuance of common stock, net of offering costs | 550,040 | 1,500,000 |
| Net cash provided by financing activities | 550,040 | 1,465,000 |
| | | |
| Net increase (decrease) in cash and cash equivalents | (397,266) | 821,315 |
| | | |
| **Cash and cash equivalents, beginning of period** | 2,343,523 | 27,125 |
| | | |
| **Cash and cash equivalents, end of period** | $ 1,946,257 | $ 848,440 |
| | | |
| **SUPPLEMENTAL CASH FLOW INFORMATION:** | | |
| Cash paid for interest | $ - | $ 374 |

The accompanying notes are an integral part of these financial statements

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**Dais Analytic Corporation**

**Notes to Financial Statements**

**Three Months Ended March 31, 2015**

**(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 of 1993 with its corporate headquarters located in Odessa, Florida.

The Company is 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 or increase our unit costs of production. Certain of the components contain proprietary products of our suppliers, or the processes used by our suppliers to manufacture these components are proprietary. If we are required to replace any of our suppliers, while we should be able to obtain comparable components from alternative suppliers at comparable costs, 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 month period ended March 31, 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 quarter ended March 31, 2015, the Company generated a net loss of $428,330 and the Company has incurred significant losses since inception. As of March 31, 2015, the Company has an accumulated deficit of $42,274,001 and a stockholders' deficit of $1,010,804 but positive working capital of $1,680,903 and $1,946,257 of cash and cash equivalents. The Company used $933,182 and $625,562 of cash in operations during the three months ended March 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 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 cash flow. 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, may have material adverse consequences on our 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.

**Dais Analytic Corporation**

**Notes to Financial Statements**

**Three Months Ended March 31, 2015**

**(Unaudited)**

**Note 3. Significant Accounting Policies**

In the opinion of management, all adjustments necessary for a fair statement of (a) the results of operations for the three month periods ended March 31, 2015 and 2014, (b) the financial position at March 31, 2015 and December 31, 2014, and (c) cash flows for the three month periods ended March 31, 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, we have recorded an allowance for doubtful accounts of $739 and $831 at March 31, 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 grant program (See Note 3- Research and development expenses, and grant proceeds). The Company prepares invoices as it meets grant program milestones. Based on management's review of other receivables, management has determined that no allowance for uncollectibilty is necessary at March 31, 2015 and December 31, 2014.

**Inventory -** Inventory consists of raw materials and work-in-process and is stated at the lower of cost, determined by first-in, first-out method, or market. Market is determined based on the net realizable value, with appropriate consideration given to obsolescence, excessive levels, deterioration and other factors. At March 31, 2015 and December 31, 2014, the Company had $5,260 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 March 31, 2015 and December 31, 2014.

**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 $10,407 and $10,436 the quarters ended at March 31, 2015 and March 31, 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.

**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 approximately $6,000 and $8,000 for the quarters ended at March 31, 2015 and March 31, 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 $23,000 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. During the quarters ended at March 31, 2015 and March 31, 2014, respectively, the Company did not recognize impairment on its long-lived assets.

**Dais Analytic Corporation**

**Notes to Financial Statements**

**Three Months Ended March 31, 2015**

**(Unaudited)**

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

**Government Grants -** Grants are recognized when there is reasonable assurance that the grant will be received and conditions associated with the grant are met. When grants 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. Grants 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 grant proceeds -** Expenditures for research, development, and engineering of products are expensed as incurred. For the quarters ended at March 31, 2015 and March 31, 2014, respectively, the Company incurred research and development costs of approximately $251,000 and $269,000, respectively. The Company accounts for proceeds received from government grants for research as a reduction in research and development costs. For quarters ended at March 31, 2015 and March 31, 2014, respectively, the Company recorded approximately $54,000 and $161,000, respectively, in proceeds against research and development expenses on the statements of operations.

**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.

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 Dais its distributor 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 March 31, 2015 and 2014, which is included in the line item for 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 $30,753 and $31,170 from license agreements for quarters ended at March 31, 2015 and March 31, 2014, respectively. The Company did not recognize revenue from royalties during the quarters ended March 31, 2015 or March 31, 2014.

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.

**Dais Analytic Corporation**

**Notes to Financial Statements**

**Three Months Ended March 31, 2015**

**(Unaudited)**

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

**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.

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.

**Dais Analytic Corporation**

**Notes to Financial Statements**

**Three Months Ended March 31, 2015**

**(Unaudited)**

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

**Income (loss) per share** - Basic income (loss) per share is computed by dividing net income (loss) attributable to common stockholders by the weighted average common shares outstanding for the period. Diluted 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. Common share equivalents of 35,836,512 and 38,801,745 were excluded from the computation of diluted earnings per share at March 31, 2105 and 2014, respectively, because their effect is anti-dilutive.

**Recent Accounting Pronouncements.**

There are new accounting pronouncements issued by the Financial Accounting Standards Board ("FASB") which are not yet effective. Management does not believe any of these accounting pronouncements will have a material impact on the Company's financial position or operating results.

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 April 2015, the FASB issued for comment an exposure draft, “Revenue Recognition – Deferral of the Effective Date of ASU 2014-09," which will delay implementation for 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 2017.

**Note 4. Accrued Expenses, Other**

Accrued expenses, other consists of the following:

| | | March 31, 2015 | | December 31, 2014 |
|---|---|---|---|---|
| Accrued expenses, other | $ | 19,200 | $ | 19,445 |
| Accrued warranty costs | | 91,530 | | 91,531 |
| | $ | 110,730 | $ | 110,976 |

**Note 5. Related Party Transactions**

Timothy N. Tangredi, our Chief Executive Officer and Chairman, is a founder and a member of the board of directors of Aegis BioSciences, LLC ("Aegis"). Mr. Tangredi currently owns 52% of Aegis' outstanding equity and spends approximately one to two days per month on Aegis business for which he is compensated by Aegis. Aegis has two exclusive, world-wide licenses from us under which it has the right to use and sell products containing our 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. To date Aegis has sold no such products nor has it received any licensing fees requiring a royalty payment be made to us. All obligations for such payments will end on the earlier of June 2, 2015 or upon the aggregate of all sums paid to us by Aegis under the agreement reaching $1 million. The term of each respective license runs for the duration of the patented technology.

**Dais Analytic Corporation**

**Notes to Financial Statements**

**Three Months Ended March 31, 2015**

**(Unaudited)**

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

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 of approximately $12,200 in each of the quarters ended March 31, 2015 and 2014.

The Company also has accrued compensation due to the Chief Executive Officer as of March 31, 2015 and December 31, 2014 of $1,301,048 and $1,292,409, respectively. The Company determined that the balance is a long term liability, as the Company does not believe it will be repaid within the next year. The Company did, however, classify $100,000 as a current liability in accounts payable at March 31, 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.

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.

The Company also has accrued compensation due to its former general counsel, Mr. Tangredi’s wife, for deferred salaries earned and unpaid equal to $16,772 and $400,772 as of March 31, 2015 and December 31, 2014, respectively. 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. The Company has $16,772 of payments remaining under this agreement as of March 31, 2015. The entire balance is included in accounts payable and classified as a current liability because the Company believes that there is a strong likelihood it will repay the amount within one year.

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 (the “Distributor”). Pursuant to the Distribution Agreement, in exchange for $500,000 to be paid by October 20, 2014, royalty payments and a commitment from the Distributor to purchase nano-material membrane and other products from Dais, the Distributor obtained the right to distribute and market Dais’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 the Distributor received an exclusive license in the Territory to use Dais’s intellectual property in the manufacture and sale of Dais’s products in the Field and Territory and to purchase its requirements of nano-material membrane only from Dais, subject to terms and conditions of the Distribution Agreement. There were no sales to the Distributor in the quarters ending March 31, 2015 and March 31, 2014. The Distributor is in breach of the Distribution Agreement and it is uncertain if the Distributor will be able to fulfill its obligations. The Distribution Agreement can be terminated under certain conditions as defined in the Distribution Agreement, such as breach of payment obligations. In addition to the above, upon legal registration of SoEX EPT, Dais will receive 25% ownership of SoEX EPT. As of March 31, 2015, SoEx EPT has been legally registered but the Distributor has not issued those shares to the Company. See Note 7 for additional related party transactions.

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.

**Dais Analytic Corporation**

**Notes to Financial Statements**

**Three Months Ended March 31, 2015**

**(Unaudited)**

**Note 6. Stock Options and Warrants**

***Options***

In June 2000 and November 2009, our Board of Directors adopted, and our 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 our 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.

There were no options awarded or exercised during the three months ended March 31, 2015 and 2014. The following summarizes the information relating to outstanding stock options activity with employees 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 |
| Expired/Forfeited | (150,000) | $ 0.13 | - | $ - |
| Outstanding at March 31, 2015 | 21,212,116 | $ 0.27 | 5.34 | $ 717,488 |
| | | | | |
| Exercisable at March 31, 2015 | 21,066,282 | $ 0.27 | 5.32 | $ 700,717 |

Stock compensation expense was approximately $3,200 and $11,500 for the three months ended March 31, 2015 and 2014, respectively. The total fair value of shares vested during the three months ended March 31, 2015 and 2014 was approximately $0 and $29,100, respectively.

As of March 31, 2015, there was approximately $8,500 of unrecognized employee stock-based compensation expense related to non vested stock options, which will be recognized for the remainder of the fiscal year ending December 31, 2015.

The following table represents our non vested share-based payment activity with employees for the three months ended March 31, 2015:

| | Number of Options | | Weighted Average Grant Date Fair Value |
|---|---|---|---|
| Nonvested options - December 31, 2014 | 179,167 | $ | 0.11 |
| Forfeited | (33,333) | $ | 0.13 |
| Nonvested options – March 31, 2015 | 145,834 | $ | 0.10 |

***Warrants***

At March 31, 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 | 0.98 | $ | 0.34 |
| Warrants-Consulting Agreement | 15,000 | 0.24 | $ | 0.30 |
| Warrants-Note Conversions | 1,061,538 | 0.96 | $ | 0.28 |
| Warrants-Stock Purchases | 6,547,858 | 2.53 | $ | 0.36 |
| Total | 14,624,396 | | | |

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**Dais Analytic Corporation**

**Notes to Financial Statements**

**Three Months Ended March 31, 2015**

**(Unaudited)**

**Note 7. Deferred Revenue**

On October 30, 2012, the Company and MG Energy LLC, a Delaware limited liability company ("MG Energy") , a company in which a shareholder of the Company holds a position , entered into a License and Supply Agreement (the "Agreement"), effective October 26, 2012, pursuant to which the Company licensed certain intellectual property and improvements thereto 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 approximately $30,000 for this Agreement during each of the quarters ended March 31, 2015 and 2014. The deferred revenue for this agreement was approximately $1,744,000 and $1,775,000 at March 31, 2015 and December 31, 2014, respectively.

MG Energy entered into a sublicense with Multistack, LLC. Michael Gostomski, one of the Company's shareholders with approximately 2,500,000 shares at March 15, 2015 and December 31, 2014, has an ownership interest in both MG Energy and Multistack, LLC. For the quarter ended March 31, 2015, Multistack LLC accounted for approximately 90% of the Company's revenue. For the quarters ended March 31, 2014, Multistack, LLC accounted for approximately 86% of the Company's revenue. At March 31, 2015 and December 31, 2014, amounts due from this customer were approximately 65% and 63%, respectively, of total accounts receivable.

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 (the “Distributor”). The initial term of this agreement is 15 years, with automatic consecutive extensions of 1 year each unless notice of termination is delivered. Pursuant to the Distribution Agreement, in exchange for $500,000 to be paid by October 20, 2014, royalty payments and a commitment from the Distributor to purchase nano-material membrane and other products from Dais, the Distributor obtained the right to distribute and market Dais’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 the Distributor received an exclusive license in the Territory to use Dais’s intellectual property in the manufacture and sale of Dais’s products in the Field and Territory and to purchase its requirements of nano-material membrane only from Dais, subject to terms and conditions of the Distribution Agreement. There were no sales to the Distributor in the quarters ending March 31, 2015 and March 31, 2014. The Company recognized license fee revenue of approximately $800 and $0 for this Agreement during the quarters ended March 31, 2015 and 2014, respectively. During 2014, $50,000 of the $500,000 license fee was received and recorded as deferred revenue and is being amortized over the 15-year term of the Distribution Agreement. Deferred revenue was approximately $48,000 and $49,000 at March 31, 2015 and December 31, 2014, respectively. The Company has not received the remaining $450,000 which was due on or before October 24, 2014. The Distributor is in breach of the Distribution Agreement and it is uncertain if the Distributor will be able to fulfill its obligations. The $450,000 has not been recorded in the accompanying financial statements.

The Company entered into a licensing agreement with a biomedical entity during the year ended December 31, 2005 and received an initial license fee of $50,000. This fee is deferred and recognized on a straight-line basis over the life of the license agreement of 10 years. The Company recognized revenue of $0 and $1,250 for this agreement during the quarters ended March 31, 2015 and 2014 with no remaining deferred revenue balance on December 31, 2014.

**Dais Analytic Corporation**

**Notes to Financial Statements**

**Three Months Ended March 31, 2015**

**(Unaudited)**

## 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 as of December 31, 2014 which is classified in the equity section as a common stock payable. The remaining $550,000 was received and the Company issued the 18,000,000 shares of common stock during the first quarter of 2015. Pursuant to terms of the 2014 SPA, the 2014 Investors signed a voting agreement which obligates the 2014 Investors to vote as recommended by the Company's board of directors through the earlier of the anniversary of the satisfaction of the certain conditions in the voting agreement or upon mutual written agreement of the Company and the 2014 Investors to terminate the voting agreement. The 2014 Investors will have the right to nominate a member to the Company's board as long as they own at least 9.99% of the Company's common stock. The Company is required to register the shares of the Company's common stock acquired by the 2014 Investors after certain conditions are met. 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. As of March 31, 2015, these conditions have not yet been met.

## Note 9. Litigation

In the ordinary course of business, the Company may become a party to various legal proceedings generally involving contractual matters, infringement actions, product liability claims and other matters. In March 2014, the Company received notice of a lawsuit against the Company and one of its customers for damages in connection with the installation of equipment by a contractor involved in a construction project. The contractor makes claims for breach or warranties, negligence and products liability. In the complaint, the contractor alleges that it paid $180,000 to the general contractor of the project for damages, primarily consequential and incidental damages, allegedly caused by an alleged failure of a subcontracted component of equipment provided by the Company and its customer. Further, the Company has made claims against its supplier for contribution and indemnification for any damages. The supplier then instituted a counterclaim against the Company. This lawsuit and countersuits were settled on May 11, 2015 as more fully discussed in Note 11 – Subsequent Event.

**Note 10. Stockholders' Meeting**

On February 27, 2015, the Company held its Annual Meeting, at which the Company's shareholders approved several proposals.

The shareholders approved an amendment to the Company's Certificate of Incorporation to effect a reverse stock split of common stock by a ratio of not less than 1-for-5 and not more than 1-for-20 (the "Reverse Stock Split") at any time prior to March 31, 2016, with the Board of Directors having the discretion as to whether or not the Reverse Stock Split is to be effected, and with the exact ratio of any Reverse Stock Split to be set at a whole number within the above range as determined by the Board in its discretion.

The shareholders approved an amendment to Certificate of Incorporation to increase the number of shares the corporation is authorized to issue to 250,000,000 shares, of which 240,000,000 shares of common stock and 10,000,000 shares of preferred stock shall be authorized.

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 2015 Plan authorized the grant to eligible individuals of (1) Stock Options (Incentive and Nonstatutory), (2) Restricted Stock, (3) Stock Appreciation Rights, or SARs, (4) Restricted Stock Units, (5) Other Stock-Based Awards, and (6) Cash-Based Awards. Unless otherwise determined by the Board, it will administer the 2015 Plan.

**Note 11. Subsequent Event**

No events have occurred since March 31, 2015 that require recognition or disclosure in the financial statements, except as follows:

On May 11, 2015, the Company reached an arbitration settlement in the lawsuit against the Company and one of its customers for damages in connection with the installation of equipment by a contractor involved in a construction project as further discussed in Note 9 above. The Company's portion of the settlement, and the related attorney's fees, will be paid for by the Company's insurance carrier. In response to the original lawsuit, the Company made claims against a supplier for contribution and indemnification for any damages. As part of the arbitration settlement of all claims and counterclaims, the parties entered into a settlement agreement where all claims were settled and released. The Company will be able to derecognize accounts payable of $50,000 to the supplier as a result of the settlement agreement.

**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 FILING, INCLUDING BUT NOT LIMITED TO "MANAGEMENT'S DISCUSSION AND ANALYSIS", CONTAINS FORWARD-LOOKING STATEMENTS. THE WORDS "ANTICIPATED," "BELIEVE," "EXPECT," "PLAN," "INTEND," "SEEK," "ESTIMATE," "PROJECT," "WILL," "COULD," "MAY," AND SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS. 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. IN LIGHT OF THESE RISKS AND UNCERTAINTIES 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. WE MAY NOT UPDATE THESE FORWARD-LOOKING STATEMENTS, EVEN THOUGH OUR SITUATION MAY CHANGE IN THE FUTURE.

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 subsequently changed our name to Dais Analytic Corporation on December 13, 1999. We were formed to develop new, cost-effective polymer materials for various applications, including providing a lower cost membrane material for Polymer Electrolyte Membrane ("PEM") 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, and we were re-named Dais Analytic Corporation.

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***

*Securities Purchase Agreement with Strategic Investors*

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 as of December 31, 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. 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. As of March 31, 2015, these conditions have not yet been met but we have signed a letter of intent with the 2014 Investors and a definitive agreement should be signed by the end of the second quarter.

*ConsERV™ Orders in China*

In November 2014, the Company completed its second delivery of Aqualyte membrane for use in ConsERV products to being assembled in China by Soex (Hong Kong) Industry & Investment Co., Ltd. (“Soex”). This delivery consisted of over 600,000 square feet of the Aqualyte nano-material or enough material to cover 10 football fields, meeting the growing demand in China for ConsERV energy recovery ventilation (ERV) systems.

The Aqualyte membrane is produced in the USA and shipped to China, where it is the key component in Dais’s ConsERV energy recovery ventilators assembled by Soex for distribution by Soex and others in greater China. ConsERV is a four-time award winning commercial engineered add-on product useful on most forms of Heating, Ventilation and Air-Conditioning (HVAC) equipment. Aqualyte™ allows ConsERV to improve Indoor Air Quality (IAQ) while reducing energy usage, operational and capital equipment costs, worker or student productivity, and reducing power plant emissions.

In 2013 the Company received an initial order for its ConsERV™ cores and systems useful in most forms of HVAC equipment built around Aqualyte™ nano-materials from a specialty engineering service company in Beijing, China. The deployment of the ConsERV™ technology is at the first building of a 45-building complex. Installation in the first building has been completed and the customer reports approximately 20% savings in energy usage. Since that time other installations of ConsERV have been completed in China including in schools, passive home projects, and factories. We believe selling ConsERV in China and Southeast Asia are our best route to increased sales and profitability. North American ConsERV revenues are showing a resurgence as the US economy continues to improve, and awareness of the value energy recovery systems, such as ConsERV, to save energy, lower capital expense, and reduce carbon emissions increases in the trades and with end-users.

*NanoClear™ Grant to Continue Research*

Dais is moving to introduce its first commercial water filtration module by the third quarter of 2015. In March 2015, the Company received a $1,000,000 two year grant entitled “Non-Fouling Water Reuse Technologies” to continue developing its NanoClear™ water clearing separation product, which uses Dais’s patented Aqualyte™ membrane to produce potable water from grey-water sources, using funds from a U.S. Army Small Business Innovation Research (SBIR) program. If successfully commercialized, the results from this grant will widen NanoClear’s applications in the burgeoning opportunity to separate clean water from most types of contaminated waste streams potentially beginning as early 2016.

*NanoAir™ Grant to Build Full-Size Prototype*

In May 2015, we have been selected to receive additional funding of $1.2 million 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 heating, ventilating, and air conditioning (HVAC) technologies. 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 Dais 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.

***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 and 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***

***ConsERV™***

We currently continue widening the channels of commercialization for 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. We expect ConsERV™ to continue to be our focused commercial product through 2015 with a growing emphasis on moving components of our Nano Clear technologies to commercialization.

***Composite Polymer Membrane (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.

***Membrane (Plastic Sheet Good)***

Until mid-2014 a thin coating of the liquid polymer material is applied on one side of the sheet good by a ‘tape casting’ firm of which there are many in the United States. The coated sheet good is heated in a process designed to bond the polymer solution and rolled sheet good together. The resulting ‘modified sheet good’ is then re-coiled into rolls and shipped to us. During 2014 the Company introduced, after extensive development and testing, a newer method of creating the membrane material, 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 the Company is working on this project to lower its exposure as well as its costs.

***The ConsERV™ Core***

The modified sheet good is cut into defined dimensions and glued to a spacer formed from a thin plastic sheet, typically a commodity thermoplastic. This combination of a ‘spacer glued to modified sheet good’ forms a single layer. Multiple layers are stacked one on top the other until a certain height is achieved. Once the proper height is achieved, these layers are then fitted with a galvanized sheet metal plates on the top and bottom of the stack along with galvanized sheet metal brackets on each of the four corners to form an assembly is called a ‘core’. The galvanized sheet metal is a world-wide commodity material formed to our specifications by local and out-of-town sheet metal forming companies. We have no long term contractual relationships with firms making the spacers, supplying the glue, supplying the rivets or forming the sheet metal hardware in our core.

***The ConsERV™ System***

For the complete ConsERV™ system, one or more cores are placed inside of aluminum or steel boxes built by a vendor, our licensees or us. The box may or may not also be fitted with an electric motor, fan, electric relay, and electrical disconnect. Inclusion or exclusion of the electric motor and fan is dictated by the customers’ needs and current HVAC system. Once outfitted with cores, the energy recovery ventilator is complete.

***NanoClear™ -Water treatment***

We expect this application, when development is completed, 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 des 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 Dais 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 have now extended the operating hours of the pilot facility on a 24-hour basis to test the materials and processes. This membrane evaporator will be an order of magnitude more compact, and have reduced manufacturing costs, than the existing membrane evaporator generations.

***NanoAir™ - Water-based packaged HVAC system***

We expect this application, when development is completed, 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. The Company has 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, the Company has 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 Company successfully demonstrated on time its major technical goals of showing membrane dehumidifier which met project targets, and is currently summarizing the technical, economic, and commercial impact of the developments to close out this ARPA-E program. The Company is 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. The Company has focused its 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 OEMs to create a partnership to potentially move this exciting energy storage medium ahead beginning during 2015.

***Other***

The Company has 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 the Company's materials and processes.

***RESULTS OF OPERATIONS***

***THREE MONTHS ENDED MARCH 31, 2015 COMPARED TO THREE MONTHS ENDED MARCH 31, 2014***

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

| | For the Three Months Ended March 31, | |
|---|---|---|
| | **2015** | **2014** |
| **REVENUE:** | | |
| Sales | $ 314,028 | $ 220,411 |
| License fees | 30,753 | 31,170 |
| **TOTAL REVENUE** | 344,781 | 251,581 |
| **COST OF GOODS SOLD** | 252,944 | 207,150 |
| **GROSS MARGIN** | 91,837 | 44,431 |
| **OPERATING EXPENSES** | | |
| Research and development expenses net of government grant proceeds of $54,360 and $160,917, respectively | 196,930 | 108,026 |
| Selling, general and administrative expenses | 323,238 | 340,455 |
| **TOTAL OPERATING EXPENSES** | 520,168 | 448,481 |
| **LOSS FROM OPERATIONS** | (428,331) | (404,050) |
| **OTHER EXPENSE (INCOME)** | (1) | 320 |
| **NET LOSS** | $ (428,330) | $ (404,370) |

***REVENUES***

We now generate our revenues primarily from the sale of our ConsERV™ cores and Aqualyte membrane. Product sales were $314,028 and $220,411 for the quarters ended March 31, 2015 and 2014, an increase of $93,617 or 42.5% due to generally weak sales in the first quarter of 2014. Revenues in the first quarter of 2015 were primarily all from the sales of ConsERV™ cores to MultiStack. While revenues from MultiStack accounted for approximately 86% of the Company’s revenue, we expect sales to a more diversified set of customers by the third and fourth quarters of 2015. Revenues from license fees were flat for the first quarters of 2014 and 2015.

***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 $252,944 and $207,150 for the quarters ended March 31, 2015 and 2014, respectively. The increase of $45,794 was equal to an increase of 22.1%, reflecting the increase in product sales partially offset by greater efficiency from the use of a new version of Aqualyte membrane in our ConsERV™ cores.

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 contain proprietary products of our suppliers, or the processes used by our suppliers to manufacture these components are proprietary. If we are required to replace any of our suppliers, while we should be able to obtain comparable components from alternative suppliers at comparable costs, it would create a delay in production.

***RESEARCH AND DEVELOPMENT COSTS***

The Company incurs research and development costs related to the commercialization and improvement of its products. Research and development expenses decreased 7% without taking into account offsetting reimbursements from government proceeds. Taking into account reimbursements from government proceeds, research and development expenses increased $88,904 or 82.3% as a result of increased product development. The Company expects greater reimbursements in the latter half of 2015.

***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 $323,238 for the quarter ended March 31, 2015, compared to $340,455 for the quarter ended March 31, 2014, a decrease of $17,217 or 5.0%.

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 first quarter of 2015 was due to lower payroll expenses for administration and engineering partially offset by higher professional costs and costs related to the Company’s shareholder meeting in the first quarter of 2015.

***NET LOSS:***

Net loss for the quarter ended March 31, 2015 was $428,330 compared to net loss of $404,370 for the quarter ended March 31, 2014. The greater loss in the quarter ended March 31, 2015 was a result of higher investments in research and development, partially offset by higher gross margin.

**Liquidity and Capital Resources**

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 as of December 31, 2014 which is classified in the equity section as a common stock payable. The remaining $550,000 was received and the Company issued the 18,000,000 shares of common stock during the first quarter of 2015. Pursuant to terms of the 2014 SPA, the 2014 Investors signed a voting agreement which obligates the 2014 Investors to vote as recommended by the Company’s board of directors through the earlier of the anniversary of the satisfaction of the certain conditions in the voting agreement or upon mutual written agreement of the Company and the 2014 Investors to terminate the voting agreement. The Company is required to register the shares of the Company’s common stock acquired by the Purchasers after certain conditions are met. . 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. As of March 31, 2015, these conditions have not yet been met.

In 2014, the Company sold 37.5 million shares of the Company's common stock, for $1.5 million, at $0.04 per share pursuant to Regulation S. The Company received the $1.5 million from the Investor on March 3, 2014 and issued the 37.5 million shares of common stock to the Investor

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. For the quarter ended March 31, 2015, the Company generated a net loss of $428,330 and the Company has incurred significant losses since inception. As of March 31, 2015, the Company has an accumulated deficit of $42,274,001 and a stockholders' deficit of $1,010,804 but positive working capital of $1,680,903 and $1,946,257 of cash. The Company used $933,182 and $625,562 of cash in operations during the three months ended March 2015 and 2014, respectively, which was funded by proceeds from equity financings. There is no assurance that such financing will be available in the future.

Management believes that the Company's current cash position and its probability of obtaining additional sources of cash flow through debt or equity financings are 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 cash flow. 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, 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 the Company. 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, selected cash flow information:

| | Three Months Ended March 31, 2015 | Three Months Ended March 31, 2014 |
|---|---|---|
| Cash flows used by operating activities | $ (933,182) | $ (625,562) |
| Cash flows used by investing activities | (14,124) | (18,123) |
| Cash flows provided by financing activities | 550,040 | 1,465,000 |
| Net increase (decrease) in cash and cash equivalents | $ (397,266) | $ 821,315 |

Cash and cash equivalents as of March 31, 2015 were $1,946,257 compared to $2,343,523 as of December 31, 2014. Cash is primarily used to fund our working capital requirements.

Net cash used in operating activities was $933,182 for the quarter ended March 31, 2015 compared to $625,562 for the same period in 2014. Although, there was a greater net loss in the quarter ended March 31, 2015, greater cash was used by operating activities in 2015 as a result of the increased payments of accounts payable in 2015 compared to 2014.

Net cash used in investing activities was relatively even with $14,124 used for the quarter ended March 31, 2015 compared to $18,123 used for the same period in 2014.

Net cash provided by financing activities was $550,040 for the quarter ended March 31, 2015 compared to approximately $1,465,000 for the same period in 2014. The difference is the timing of receipt of cash for equity sales described under Liquidity and Capital Resources.

**ECONOMY AND INFLATION**

Except as disclosed herein, we have not experienced any significant cancellation of orders due to the downturn in the economy and only a small number of customers requested delays in delivery or production of orders in process. 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.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

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, we have recorded an allowance for doubtful accounts of $739 and $831 at March 31, 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 grant program (See Note 3- Research and development expenses, and grant proceeds). The Company prepares invoices as it meets grant program milestones. Based on management's review of other receivables, management has determined that no allowance for uncollectibilty is necessary at March 31, 2015 and December 31, 2014.

**Inventory** - Inventory consists of raw materials and work-in-process and is stated at the lower of cost, determined by first-in, first-out method, or market. Market is determined based on the net realizable value, with appropriate consideration given to obsolescence, excessive levels, deterioration and other factors. At March 31, 2015 and December 31, 2014, the Company had $5,260 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 March 31, 2015 and December 31, 2014.

**Government Grants** - Grants are recognized when there is reasonable assurance that the grant will be received and conditions associated with the grant are met. When grants 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. Grants 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 grant proceeds** - Expenditures for research, development, and engineering of products are expensed as incurred. For the quarters ended at March 31, 2015 and March 31, 2014, respectively, the Company incurred research and development costs of approximately $251,000 and $269,000, respectively. The Company accounts for proceeds received from government grants for research as a reduction in research and development costs. For quarters ended at March 31, 2015 and March 31, 2014, respectively, the Company recorded approximately $54,000 and $161,000, respectively, in proceeds against research and development expenses on the statements of operations.

**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.

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 Dais its distributor 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 March 31, 2015 and 2014, which is included in the line item for 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 $30,753 and $31,170 from license agreements for quarters ended at March 31, 2015 and March 31, 2014, respectively. The Company did not recognize revenue from royalties during the quarters ended March 31, 2015 or March 31, 2014.

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.

**Recent Accounting Pronouncements.**

There are new accounting pronouncements issued by the Financial Accounting Standards Board ("FASB") which are not yet effective. Management does not believe any of these accounting pronouncements will have a material impact on the Company's financial position or operating results.

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). 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 2017.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not applicable.

**ITEM 4. CONTROLS AND PROCEDURES**

Evaluation of disclosure controls and procedures

Our Chief Executive Officer and Chief Financial Officer (collectively the “Certifying Officers”) maintain a system of disclosure controls and procedures that is designed to provide reasonable assurance that information, which is required to be disclosed, is accumulated and communicated to management timely. The Certifying Officers have concluded that the disclosure controls and procedures are effective at the “reasonable assurance” level. Under the supervision and with the participation of management, as of the end of the period covered by this report, the Certifying Officers evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act). Furthermore, the Certifying Officers concluded that our disclosure controls and procedures in place are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported on a timely basis in accordance with applicable Commission rules and regulations; and (ii) accumulated and communicated to our management, including our Certifying Officers and other persons that perform similar functions, if any, to allow us to make timely decisions regarding required disclosure in our periodic filings.

Changes in Internal Control Over Financial Reporting

During the three months ended March 31, 2015, the Company has not made any changes to our internal control over financial reporting.

**PART II — OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

In the ordinary course of business, the Company may become a party to various legal proceedings generally involving contractual matters, infringement actions, product liability claims and other matters.

In the ordinary course of business, the Company may become a party to various legal proceedings generally involving contractual matters, infringement actions, product liability claims and other matters. In March 2014, the Company received notice of a lawsuit against the Company and one of its customers for damages in connection with the installation of equipment by a contractor involved in a construction project. The contractor makes claims for breach or warranties, negligence and products liability. In the complaint, the contractor alleges that it paid $180,000 to the general contractor of the project for damages, primarily consequential and incidental damages, allegedly caused by an alleged failure of a subcontracted component of equipment provided by the Company and its customer. Further, the Company has made claims against its supplier for contribution and indemnification for any damages. The supplier then instituted a counterclaim against the Company.

On May 11, 2015, the Company reached an arbitration settlement in the lawsuit against the Company and one of its customers for damages in connection with the installation of equipment by a contractor involved in a construction project. The Company's portion of the settlement, and the related attorney's fees, will be paid for by the Company's insurance carrier. In response to the original lawsuit, the Company made claims against a supplier for contribution and indemnification for any damages. As part of the arbitration settlement of all claims and counterclaims, the parties entered into a settlement agreement where all claims were settled and released. The Company will be able to derecognize accounts payable of $50,000 to the supplier as a result of the settlement agreement.

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

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 as of December 31, 2014 which is classified in the equity section as a common stock payable. The remaining $550,000 was received and the Company issued the 18,000,000 shares of common stock during the first quarter of 2015.

The issuance was not a public offering based upon the following factors: (i) the issuance of the securities was an isolated private transaction; (ii) there was no public solicitation; (iii) the investment intent of the offerees; and (iv) the restriction on transferability of the securities issued. There was no underwriter used in the transaction. The proceeds from the private offering will be used for the repayment of an unsecured note, working capital and general corporate expenses. All of the foregoing securities were issued in reliance upon the exemption from registration pursuant to Rule 903 of Regulation S.

**ITEM 3. DEFAULT UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

| | |
|---|---|
| 31.1 | Certification of Chief Executive Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Chief Financial Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | Certification of Chief 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 |

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** 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**<br>(Registrant) |
| Date: May 15, 2015 | By:*/s/ Timothy N. Tangredi*<br>Timothy N. Tangredi<br>President and Chief Executive Officer<br>(Principal Executive Officer) |
| Date: May 15, 2015 | By:*/s/ Peter DiChiara*<br>Peter DiChiara<br>Chief Financial Officer and Treasurer<br>(Principal Financial and Accounting Officer) |