

DAIS ANALYTIC CORP
Form 10-Q
November 14, 2018

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

FORM 10-Q

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

For the quarterly period ended September 30, 2018

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

For the transition period from _____ to _____

Commission File No. 000-53554

DAIS ANALYTIC CORPORATION

(Exact name of Registrant as specified in its charter)

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

14-1760865
(IRS Employer Identification No.)

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

33556
(Zip Code)

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

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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 every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No "

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

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

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

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

There were 147,900,182 shares of the Registrant's common stock, par value \$0.01 per share, outstanding as of November 10, 2018.

DAIS ANALYTIC CORPORATION

TABLE OF CONTENTS

| | Page No. |
|-----------------------------------------------------------------------------------------------------------------------|-----------------|
| <u>PART I. FINANCIAL INFORMATION</u> | |
| <u>Item 1. Financial Statements</u> | 3 |
| <u>Condensed Balance Sheets as of September 30, 2018 (unaudited) and December 31, 2017</u> | 3 |
| <u>Condensed Statements of Operations for the three and nine months ended September 30, 2018 and 2017 (unaudited)</u> | 4 |
| <u>Condensed Statement of Stockholders' Deficit for the nine months ended September 30, 2018 (unaudited)</u> | 5 |
| <u>Condensed Statements of Cash Flows for the nine months ended September 30, 2018 and 2017 (unaudited)</u> | 6 |
| <u>Notes to Condensed Financial Statements (unaudited)</u> | 7 |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 22 |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u> | 33 |
| <u>Item 4. Controls and Procedures</u> | 33 |
| <u>PART II. OTHER INFORMATION</u> | |
| <u>Item 1. Legal Proceedings</u> | 34 |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | 35 |
| <u>Item 3. Defaults Upon Senior Securities</u> | 35 |
| <u>Item 4. Mine Safety Disclosures</u> | 35 |
| <u>Item 5. Other Information</u> | 35 |
| <u>Item 6. Exhibits</u> | 36 |
| <u>Signatures</u> | 37 |

Table of Contents**PART I – FINANCIAL INFORMATION****Item 1. Financial Statements**

DAIS ANALYTIC CORPORATION
CONDENSED BALANCE SHEETS

| | September 30, 2018 (Unaudited) | December 31, 2017 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 204,264 | 122,036 |
| Accounts receivable, net | 19,839 | 5,058 |
| Other receivables | 11,270 | 3,598 |
| Inventory | 40,422 | 101,607 |
| Prepaid expenses | 63,906 | 12,294 |
| Total Current Assets | 339,701 | 244,593 |
| Property and equipment, net, including accumulated depreciation of \$391,811 and \$371,917 at September 30, 2018 and December 31, 2017, respectively | 62,306 | 91,900 |
| OTHER ASSETS: | | |
| Deposits | 4,780 | 5,080 |
| Patents, net, including accumulated amortization of \$284,050 and \$266,915 at September 30, 2018 and December 31, 2017, respectively | 147,503 | 117,606 |
| Total Other Assets | 152,283 | 122,686 |
| TOTAL ASSETS | \$ 554,290 | 459,179 |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| CURRENT LIABILITIES: | | |
| Accounts payable, including related party payables of \$150,096 and \$104,543 at September 30, 2018 and December 31, 2017, respectively | \$ 564,011 | \$ 353,193 |
| Accrued expenses, other, including interest due to related party of \$221,612 and \$102,059 at September 30, 2018 and December 31, 2017, respectively | 624,598 | 345,654 |
| Accrued compensation and related benefits | 1,874,603 | 1,727,259 |
| Customer deposits | 215,117 | 120,579 |
| Note payable to related party | 1,332,000 | 1,332,000 |
| Current portion of deferred revenue | 461,156 | 498,656 |
| Derivative liabilities | 600,832 | 243,501 |

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| | | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
| Convertible notes payable, net of unamortized debt discount and deferred debt issuance costs | 709,060 | 3,788 |
| Total Current Liabilities | 6,381,377 | 4,624,630 |
| Total Liabilities | 6,381,377 | 4,624,630 |
| STOCKHOLDERS' DEFICIT | | |
| Preferred stock; \$0.01 par value; 10,000,000 shares authorized; no shares issued and outstanding | - | - |
| Common stock; \$0.01 par value; 240,000,000 shares authorized; 148,957,395 and 140,608,645 shares issued; and 147,700,182 and 139,351,432 shares outstanding at September 30, 2018 and December 31, 2017, respectively | 1,489,575 | 1,406,087 |
| Capital in excess of par value | 43,282,440 | 43,003,003 |
| Accumulated deficit | (49,136,990) | (47,112,429) |
| | (4,364,975) | (2,703,339) |
| Treasury stock at cost, 1,257,213 shares | (1,462,112) | (1,462,112) |
| Total Stockholders' Deficit | (5,827,087) | (4,165,451) |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT | \$ 554,290 | \$ 459,179 |

See accompanying Notes to Unaudited Condensed Financial Statements.

Table of Contents

DAIS ANALYTIC CORPORATION
CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|--------------------------------------------------------------------------------|---------------------------------------------|--------------|--------------------------------------------|----------------|
| | 2018 | 2017 | 2018 | 2017 |
| REVENUE | | | | |
| Sales | \$ 342,058 | \$ 112,686 | \$ 878,336 | \$ 249,086 |
| Royalty and license fees | 12,500 | - | 37,500 | - |
| | 354,558 | 112,686 | 915,836 | 249,086 |
| COST OF GOODS SOLD | | | | |
| | 213,661 | 91,767 | 607,163 | 207,776 |
| GROSS MARGIN | | | | |
| | 140,897 | 20,919 | 308,673 | 41,310 |
| OPERATING EXPENSES | | | | |
| Research and development, net | 56,983 | 66,053 | 197,195 | 229,074 |
| Selling, general and administrative | 401,910 | 341,082 | 1,492,330 | 1,241,484 |
| TOTAL OPERATING EXPENSES | 458,893 | 407,135 | 1,689,525 | 1,470,558 |
| LOSS FROM OPERATIONS | | | | |
| | (317,996) | (386,216) | (1,380,852) | (1,429,248) |
| OTHER INCOME (EXPENSE) | | | | |
| Interest expense, net income | (387,398) | (200,117) | (877,110) | (777,870) |
| Change in fair value of derivative liabilities | (94,713) | 9,307 | (116,320) | 204,482 |
| Gain on extinguishment of debt | 154,047 | - | 349,721 | - |
| TOTAL OTHER INCOME (EXPENSE), NET | | | | |
| | (328,064) | (190,810) | (643,709) | (573,388) |
| NET LOSS | | | | |
| | \$ (646,060) | \$ (577,026) | \$ (2,024,561) | \$ (2,002,636) |
| NET LOSS PER COMMON SHARE, BASIC AND DILUTED | | | | |
| | \$ (0.01) | \$ (0.01) | \$ (0.01) | \$ (0.02) |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC AND DILUTED | | | | |
| | 147,678,443 | 127,901,432 | 143,222,751 | 124,792,864 |

See accompanying Notes to Unaudited Condensed Financial Statements.

Table of Contents

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

| | Common Stock | | Capital in | | Treasury | Total |
|------------------------------------------------------------------------|---------------------|---------------|--------------------------------|--------------------------------|-----------------|----------------------------------|
| | Shares | Amount | Excess of Par Value | Accumulated Deficit | Stock | Stockholders' Deficit |
| Balance at December 31, 2017 | 140,608,645 | \$ 1,406,087 | \$ 43,003,003 | \$ (47,112,429) | \$ (1,462,112) | \$ (4,165,451) |
| S h a r e s issued for services and a c c r u e d expenses | 8,348,750 | 83,488 | 279,437 | | | 362,925 |
| Net loss | - | - | - | (2,024,561) | - | (2,024,561) |
| Balance at September 30, 2018 (unaudited) | 148,957,395 | \$ 1,489,575 | \$ 43,282,440 | \$ (49,136,990) | \$ (1,462,112) | \$ (5,827,087) |

See accompanying Notes to Unaudited Condensed Financial Statements.

Table of Contents

DAIS ANALYTIC CORPORATION
CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

For the Nine Months Ended

| | September 30, | |
|--------------------------------------------------------------------------------------------------|----------------------|----------------|
| | 2018 | 2017 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (2,024,561) | \$ (2,002,636) |
| Adjustments to reconcile net loss to net cash and cash equivalents used in operating activities: | | |
| Amortization of deferred debt issue costs | 21,345 | 8,226 |
| Depreciation and amortization | 46,729 | 47,288 |
| Gain on extinguishment of debt | (349,721) | - |
| Change in fair value of derivative liability | 116,320 | (204,482) |
| Non-cash interest expenses | 323,669 | 372,389 |
| Fair value of warrant for debt modification | - | 212,457 |
| Amortization of debt discount | 207,579 | 115,673 |
| Stock issued for finance cost | - | 1,800 |
| Stock compensation | 300,000 | 180,000 |
| (Increase) decrease in: | | |
| Accounts receivable | (14,781) | 374 |
| Inventory | 61,185 | (67,373) |
| Other receivables | - | - |
| Prepaid expenses/Other current assets | (59,284) | (3,277) |
| Deposits | 300 | - |
| Increase (decrease) in: | | |
| Accounts payable | 210,818 | 206,102 |
| Accrued related party | - | - |
| Accrued expenses | 466,288 | 331,030 |
| Customer Deposits | 94,538 | 152,219 |
| Deferred revenue | (37,500) | (7,741) |
| Net cash used in operating activities | (637,076) | (657,952) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Increase in patent costs | (47,032) | (16,560) |
| Purchases of property and equipment | - | (2,237) |
| Net cash used in investing activities | (47,032) | (18,797) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from note payable – related party | - | 405,000 |
| Proceeds from note payable | 1,189,132 | 277,000 |

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| | | |
|--------------------------------------------------------------------------|------------|------------|
| Repayment of note | (422,796) | - |
| Net cash provided by financing activities | 766,336 | 682,000 |
| Net decrease (increase) in cash and cash equivalents | 82,228 | 5,252 |
| Cash and cash equivalents, beginning of period | 122,036 | 21,066 |
| Cash and cash equivalents, end of period | \$ 204,264 | \$ 26,318 |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | |
| Cash paid for interest | \$ 143,215 | \$ 119 |
| NON-CASH INVESTING AND FINANCING ACTIVITIES: | | |
| Payment of accrued expense with note payable | \$ - | \$ 43,000 |
| Payment of accrued expense with common stock | \$ 40,000 | \$ - |
| Issuance of common stock for settlement of accrued expenses | \$ - | \$ 102,000 |
| Issuance of common stock for settlement of interest due to related party | \$ - | \$ 15,400 |
| Issuance of common stock for deferred debt issuance costs | \$ 22,925 | \$ 22,500 |
| Debt costs deducted from proceeds of notes | \$ 23,000 | \$ 16,750 |
| Issuance of warrants for debt modification | \$ - | \$ 212,457 |
| Initial derivative liability at issuance of note | \$ 604,219 | \$ 709,140 |
| Initial debt discount at issuance of note | \$ 513,000 | \$ 371,425 |

See accompanying Notes to Unaudited Condensed Financial Statements.

Table of Contents

DAIS ANALYTIC CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Background Information

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

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

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

The unaudited financial statements and notes are presented as permitted by Form 10-Q. Accordingly, certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted although the Company believes that

the disclosures are adequate to ensure that the information presented is not misleading. The accompanying financial statements and notes should be read in conjunction with the audited financial statements and notes of the Company for the fiscal year ended December 31, 2017 included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on April 2, 2018. The results of operations for the three and nine month periods ended September 30, 2018 are not necessarily indicative of the results that may be expected for any future periods or for the entire year ending December 31, 2018.

Note 2. Going Concern and Management's Plans

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. For the nine months ended September 30, 2018, the Company generated a net loss of \$2,024,561 and the Company has incurred significant losses since inception. As of September 30, 2018, the Company had an accumulated deficit of \$49,136,990, a stockholders' deficit of \$5,827,087 and cash and cash equivalents of \$204,264. The Company used \$637,076 and \$657,951 of cash from operations during the nine months ended September 30, 2018 and 2017, respectively, which was funded by proceeds from borrowings from notes and debentures. There is no assurance that such financing will be available in the future. These factors raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued. The Company is currently pursuing the following sources of short and long-term working capital:

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

Table of Contents

DAIS ANALYTIC CORPORATION
NOTES TO CONDENSED FINANCIAL STATEMENTS
(Unaudited)

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

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

Note 3. Significant Accounting Policies

In the opinion of management, all adjustments necessary for a fair statement of (a) the results of operations for the three and nine month periods ended September 30, 2018 and 2017, (b) the financial position at September 30, 2018 and December 31, 2017, and (c) the cash flows for the nine month periods ended September 30, 2018 and 2017, have been made.

The significant accounting policies followed are:

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

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

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

Fair Value of Financial Instruments – The Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, deferred revenue, customer deposits and notes payable are carried at historical cost. At September 30, 2018 and 2017 the carrying amounts of these instruments approximated their fair values because of the short-term nature of these instruments.

Inventory – Inventory consists of raw materials, work-in-process and finished goods and is stated at the lower of cost, determined by first-in, first-out method, or market. Market is determined based on the net realizable value, with appropriate consideration given to obsolescence, excessive levels, deterioration and other factors. At September 30, 2018 and December 31, 2017, the Company had \$25,958 and \$85,173 of raw materials, \$9,859 and \$9,211 of in-process inventory, and \$4,605 and \$7,223 of finished inventory, respectively. A reserve is recorded for any inventory deemed excessive or obsolete. No reserve is considered necessary at September 30, 2018 and December 31, 2017.

Property and equipment – Property and equipment are recorded at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets ranging from 3 to 7 years. Leasehold improvements are amortized over the shorter of their estimated useful lives of 5 years or the related lease term. Depreciation expense was \$9,863 and \$10,356 for the three months ended and \$29,594 and \$31,314 for the nine months ended September 30, 2018 and 2017, respectively. Gains and losses upon disposition are reflected in the Statements of Operations in the period of disposition. Maintenance and repair expenditures are charged to expense as incurred.

Table of Contents

DAIS ANALYTIC CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS

(Unaudited)

Note 3. Significant Accounting Policies (Continued)

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 \$4,833 and \$4,206 for the three months ended and \$17,135 and \$15,974 for the nine months ended September 30, 2018 and 2017, respectively. Based on current capitalized costs, total patent amortization expense is estimated to be approximately \$12,000 per year for the next four years.

Research and development expenses and funding proceeds – Expenditures for research and development are expensed as incurred. The Company incurred research and development costs of \$81,272 and \$80,891 for the three months ended and \$246,499 and \$376,388 for the nine months ended September 30, 2018 and 2017, respectively. The Company accounts for proceeds received from government fundings for research as a reduction in research and development costs. The Company recorded proceeds against research and development expenses on the Statements of Operations of \$24,289 and \$14,838 for the three months ended and \$49,304 and \$147,314 for the nine months ended September 30, 2018 and 2017, respectively.

Revenue recognition – The Company has adopted the new revenue recognition guidelines in accordance with ASC 606, Revenue from Contracts with Customers (ASC 606), commencing from the period under this report. The Company analyzes its contracts to assess that they are within the scope and in accordance with ASC 606. In determining the appropriate amount of revenue to be recognized as the Company fulfills its obligations under each of its agreements, whether for goods and services or licensing, the Company performs the following steps: (i) identification of the promised goods or services in the contract; (ii) determination of whether the promised goods or services are performance obligations including whether they are distinct in the context of the contract; (iii) measurement of the transaction price, including the constraint on variable consideration; (iv) allocation of the transaction price to the performance obligations based on estimated selling prices; and (v) recognition of revenue when (or as) the Company satisfies each performance obligation. The Company acts as a principal in its revenue transactions as the Company is the primary obligor in the transactions. Generally, the Company recognizes revenue for its products upon shipment to customers, provided no significant obligations remain and collection is probable.

In certain instances, the Company's ConsERV system product may carry a limited warranty of up to two years for all parts contained therein with the exception of the energy recovery ventilator core produced and sold by the Company. The distributor of the ConsERV system may carry a limited warranty of up to ten years. The limited warranty includes replacement of defective parts for the ConsERV system and includes workmanship and material failure for the ConsERV core. The Company recorded an accrual of \$91,531 for future warranty expenses at September 30, 2018 and December 31, 2017, which is included in accrued expenses, other.

Royalty revenue is recognized as earned. The Company recognized royalty revenue of \$0 for the three and nine months ended September 30, 2018 and 2017, respectively. Revenue derived from the sale of licenses is deferred and recognized as license fee revenue on a straight-line basis over the life of the license, or until the license arrangement is terminated. The Company recognized license fee revenue of \$12,500 and \$0 for the three months and \$37,500 and \$0 for the nine months ended September 30, 2018 and 2017, respectively.

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

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

Table of Contents

DAIS ANALYTIC CORPORATION
NOTES TO CONDENSED FINANCIAL STATEMENTS
(Unaudited)

Note 3. Significant Accounting Policies (Continued)

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

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

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

A financial asset or liability’s classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. The Company has recorded a derivative liability for its convertible notes which contain variable conversion prices. The table below summarizes the fair values of our financial liabilities as of September 30, 2018:

Fair Value at

| | September 30, 2018 | Fair Value Measurement Using | | |
|----------------------|-----------------------|------------------------------|---------|------------|
| | | Level 1 | Level 2 | Level 3 |
| Derivative liability | \$ 600,832 | \$ - | \$ - | \$ 600,832 |

The reconciliation of the derivative liability measured at fair value on a recurring basis using unobservable inputs (Level 3) is as follows for the nine months ended September 30, 2018:

| | |
|------------------------------------------------------|------------|
| Balance at beginning of period | \$ 243,501 |
| Additions to derivative instruments | 819,167 |
| Extinguished derivative liabilities | (578,156) |
| Loss on change in fair value of derivative liability | 116,320 |
| Balance at end of period | \$ 600,832 |

Earnings (loss) per share – Basic income (loss) per share is computed by dividing net income (loss) attributable to common stockholders by the weighted average common shares outstanding for the period. Diluted loss per share is computed giving effect to all potentially dilutive common shares. Potentially dilutive common shares may consist of incremental shares issuable upon the exercise of stock options and warrants. In periods in which a net loss has been incurred, all potentially dilutive common shares are considered anti-dilutive and are excluded from the calculation. Common share equivalents of 69,964,573 and 35,487,916 were excluded from the computation of diluted earnings per share for the three and nine months ended September 30, 2018 and 2017, respectively, because their effect is anti-dilutive.

Table of Contents

DAIS ANALYTIC CORPORATION
NOTES TO CONDENSED FINANCIAL STATEMENTS
(Unaudited)

Note 3. Significant Accounting Policies (Continued)

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

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

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

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

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers" (Topic 606). The core principle of the ASU is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those

goods or services. To achieve that core principle, an entity should apply the following steps: 1) identify the contract(s) with a customer, 2) identify the performance obligations in the contract, 3) determine the transaction price, 4) allocate the transaction price to the performance obligations in the contract, and 5) recognize revenue when (or as) the entity satisfies a performance obligation. The Company adopted this ASU in the first quarter of fiscal 2018 on a modified retrospective basis. The adoption of this ASU did not have a material effect on the Company's financial statements.

Note 4. Accrued Expenses

Accrued expenses consist of the following:

| | September 30, | | December 31, | |
|-------------------------|---------------|---------|--------------|---------|
| | 2018 | | 2017 | |
| Accrued expenses, other | \$ | 164,283 | \$ | 151,090 |
| Accrued interest | | 368,784 | | 103,033 |
| Accrued warranty costs | | 91,531 | | 91,531 |
| | \$ | 624,598 | \$ | 345,654 |

Note 5. Related Party Transactions

The Company leases a building, per lease agreement entered into on March 18, 2005, that is owned by two stockholders of the Company, one of whom is the Company's Chief Executive Officer. The rental expense for this building is \$4,066 per month, including sales tax. The Company recognized rent expense related to this lease of \$12,198 and \$36,594 for the three months and the nine months ended September 30, 2018 and 2017, respectively.

The Company has accrued compensation due to the Chief Executive Officer as of September 30, 2018 and December 31, 2017 of \$1,747,290 and \$1,631,147, respectively, included in accrued compensation and related benefits in the accompanying balance sheets.

Table of Contents

DAIS ANALYTIC CORPORATION
NOTES TO CONDENSED FINANCIAL STATEMENTS
(Unaudited)

Note 5. Related Party Transactions (Continued)

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

During 2016 to the period ended September 30, 2018, the Holder extended the Note pursuant to various amendments. Pursuant to the amendments, the principal amount due was increased to \$1,332,000 with an extended maturity date of November 16, 2018. As consideration for the additional proceeds and modification of the maturity date, the Company issued to the related party warrants to purchase an aggregate of 26,250,000 shares of common stock with an exercise price of \$0.01 with a ten year exercise period, from the date of issuance and 480,000 shares of common stock in 2017.

The Company is using the proceeds of the Note and related amendments for working capital purposes. Interest expense on the Note was \$40,289 and \$21,719 for the three months and \$119,553 and \$52,685 for the nine month periods ended September 30, 2018 and 2017, respectively. Accrued interest on the Note was \$221,612 and \$102,059 at September 30, 2018 and December 31, 2017, respectively.

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

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

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

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

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

Table of Contents

DAIS ANALYTIC CORPORATION
NOTES TO CONDENSED FINANCIAL STATEMENTS
(Unaudited)

Note 6. Equity Transactions

Preferred Stock

At September 30, 2018 and December 31, 2017, the Company's Board of Directors has authorized 10,000,000 shares of preferred stock with a par value of \$0.01 to be issued in series with terms and conditions to be determined by the Board of Directors.

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

Common Stock

At September 30, 2018 and December 31, 2017, the Company's Board of Directors has authorized 240,000,000 shares of common stock with a par value of \$0.01 to be issued in series with terms and conditions to be determined by the

Board of Directors.

On March 19, 2018, the parties amended the Loan and Security Agreement (“Thirteenth Amendment”) whereby the Maturity Date of the Note was extended to the earlier of (i) the date upon which the Company secures funds, regardless of source, equal to or exceeding, in the aggregate, \$1,000,000 or (ii) April 10, 2018. The Company is further obligated to issue 20,000 shares of common stock valued at \$800. The obligations to issue shares of common stock were recorded as interest expense and current liabilities at September 30, 2018.

On April 23, 2018, the Company entered into a consulting agreement with an outside business consultant. Under the terms of the consulting agreement, services commenced on April 23, 2018 and continued for three months. The Company issued to the consultant 3,000,000 shares of common stock, valued at \$120,000. All shares earned under the agreement are considered earned in full and beneficially owned as of April 25, 2018.

On May 7, 2018, the parties amended the Loan and Security Agreement (“Fourteenth Amendment”) whereby the Maturity Date of the Note was extended to the earlier of (i) the date upon which the Company secures funds, regardless of source, equal to or exceeding, in the aggregate, \$1,000,000 or (ii) May 22, 2018. The Company is further obligated to issue 20,000 shares of \$0.01 par value common stock valued at \$600. The obligations to issue shares of common stock were recorded as interest expense and current liabilities at September 30, 2018.

On May 15, 2018, the Company issued 2,000,000 shares of common stock as consideration towards past services rendered, valued at \$40,000, in accordance with the License and Supply Agreement with Zhejiang MENRED Environmental Tech Co, Ltd. effective December 21, 2017. The value of the shares issued was included in accrued expenses at December 31, 2017.

On June 15, 2018, the Company issued 3,000,000 shares of common stock, valued at \$180,000, pursuant to an agreement with an outside business consultant.

On June 20, 2018, the Company issued 148,750 shares of common stock, valued at \$8,925, as further incentive to an outside investor to issue a convertible note with a face amount of \$89,250. (See Note 7. – Convertible Notes Payable).

Table of Contents

DAIS ANALYTIC CORPORATION
NOTES TO CONDENSED FINANCIAL STATEMENTS
(Unaudited)

Note 6. Equity Transactions (Continued)

On July 11, 2018, the Company issued 200,000 shares of common stock, valued at \$14,000, as further incentive to an outside investor to issue a convertible note with a face amount of \$100,000. (See Note 7. – Convertible Notes Payable).

On July 31, 2018, the parties amended the Loan and Security Agreement (“Fifteenth Amendment”) whereby the Maturity Date of the Note was extended to the earlier of (i) the date upon which the Company secures funds, regardless of source, equal to or exceeding, in the aggregate, \$1,000,000 or (ii) August 22, 2018. The Company is further obligated to issue 20,000 shares of \$0.01 par value common stock valued at \$1,200. The obligations to issue shares of common stock were recorded as interest expense and current liabilities at September 30, 2018.

Options

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

In the nine months ended September 30, 2018, there were no options granted, 1,250,000 options expired/forfeited, and no options were exercised. In the nine months ended September 30, 2017, there were no options granted, 1,150,000 options expired/forfeited, and no options were exercised. The Plans permit grants of options to purchase shares of common stock authorized and approved by the Company’s Board of Directors.

Stock compensation expense was \$0 for the three and nine months ended September 30, 2018 and 2017, respectively. As of September 30, 2018, and 2017, there was no unrecognized employee stock-based compensation expense related

to non-vested stock options.

Warrants

The Company had outstanding warrants of 26,250,000 and 16,835,358 to purchase the Company's common stock which were issued in connection with multiple financing arrangements and consulting agreements at September 30, 2018 and December 31, 2017, respectively.

Note 7. Convertible Notes Payable

The Company's convertible promissory notes at September 30, 2018 and December 31, 2017 are as follows:

| | September 30, | December 31, |
|-------------------------------------------------------|----------------------|---------------------|
| | 2018 | 2017 |
| Convertible notes payable, bearing interest at 8%-10% | \$ 995,500 | \$ 100,000 |
| Unamortized debt discount | (262,869) | (91,667) |
| Unamortized deferred debt issuance cost | (23,571) | (4,545) |
| Total | \$ 709,060 | \$ 3,788 |
| Current portion | 709,060 | 3,788 |

October 2017 Note

On October 31, 2017, the Company issued a convertible note (the "October Note") in the amount of \$100,000. This note and accrued interest were convertible, at the option of the holder, into shares of the Company's common stock at a conversion price of 60% of the lowest trading price for 15 days prior to conversion. This note bore interest at 8% per year and matured on October 31, 2018. The Company incurred legal costs of \$5,000 related to this note which have been amortized over the life of the note. The Company also recorded debt discount of \$100,000 related to the embedded derivative, as described in Note 8, which has been amortized over the life of this note.

The note was redeemed during the second quarter of 2018. As a result of the extinguishment of the debt and the related derivative liabilities, we recorded a gain of \$195,675.

Table of Contents

DAIS ANALYTIC CORPORATION
NOTES TO CONDENSED FINANCIAL STATEMENTS
(Unaudited)

Note 7. Convertible Notes Payable (Continued)

February 2018 Notes

On February 7, 2018, the Company issued two convertible notes (the “February 2018 Notes”), each in the principal amount of \$87,500. The February 2018 Notes contained substantially the same terms. The February 2018 Notes and accrued interest were convertible, at the option of the holders, into shares of the Company’s common stock at a conversion price of 60% of the lowest trading price for 15 days prior to conversion. The notes bore interest at 8% per year and matured on February 7, 2019. The February 2018 Notes contained original issue discount aggregating \$17,500 which has been amortized over the life of the February 2018 Notes. The Company has also incurred aggregate legal costs of \$7,500 related to the notes. These costs have also been amortized over the life of the February 2018 Notes. The Company received cash proceeds of \$150,000.

These February 2018 Notes were redeemed during the third quarter of 2018. As a result of the extinguishment of the debt and the related derivative liabilities, we recorded a gain of \$154,047.

March 2018 Note

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

On September 18, 2018, the amount of the original issue discount of \$20,000, 10% interest and legal costs of \$6,000 was repaid to extend the maturity date of the note to March 18, 2019. We incurred additional original issue discount of \$20,000, 10% interest and legal costs of \$6,000 as a result of the extension. These costs are being amortized over the life of this new note.

April 2018 Notes

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

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

June 2018 Notes

On June 1, 2018, the Company issued a convertible note, in the principal amount of \$50,000. This note and accrued interest are convertible, at the option of the holder, into shares of the Company's common stock at a conversion price of \$0.15 per share. This note provides for an interest payment of 10% of the principal amount of this note, payable before or upon maturity. This note matures six months from the effective date of June 1, 2018. This note contains original issue discount of \$10,000, payable at maturity, which is being amortized over the life of the note. The Company has also incurred aggregate legal costs of \$3,000 related to the note. These costs are also being amortized over the life of this note. The Company received cash proceeds of \$50,000.

Table of Contents

DAIS ANALYTIC CORPORATION
NOTES TO CONDENSED FINANCIAL STATEMENTS
(Unaudited)

Note 7. Convertible Notes Payable (Continued)

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

On June 7, 2018, the Company issued a convertible note, in the principal amount of \$100,000. This note and accrued interest are convertible, at the option of the holder, into shares of the Company's common stock at a conversion price of \$0.15 per share. This note provides for an interest payment of 10% of the principal amount of this note, payable before or upon maturity. This note matures six months from the effective date of June 7, 2018. This note contains original issue discount of \$20,000, payable at maturity, which is being amortized over the life of this note. The Company has also incurred aggregate legal costs of \$6,000 related to the note. These costs are also being amortized over the life of this note. The Company received cash proceeds of \$100,000.

On June 22, 2018, the Company issued a convertible note (the "June 22, 2018 Note"), in the principal amount of \$89,250. The June 22, 2018 Note and accrued interest are convertible, at the option of the holders, into shares of the Company's common stock at a conversion price of 60% of the lowest trading price for 15 days prior to conversion. The June 22, 2018 Note bears interest at 8% per year and matures on June 4, 2019. The Company has also incurred aggregate legal costs of \$4,250 related to the June 22, 2018 Note. These costs are also being amortized over the life of the June 22, 2018 Note. The Company received cash proceeds of \$85,000.

July 2018 Note

On July 18, 2018, the Company issued a convertible note (the "July 2018 Note"), with a face amount of \$100,000. This note and accrued interest are convertible, at the option of the holders, into shares of the Company's common stock at a

conversion price of 60% of the lowest trading price for 15 days prior to conversion. This note bears interest at 10% per year and matures on July 10, 2019. The Company has also incurred aggregate legal costs of \$5,000 related to the note. These costs are also being amortized over the life of this note. The Company received cash proceeds of \$95,000.

August 2018 Notes

On August 13, 2018, the Company issued a convertible note, in the principal amount of \$100,000. This note and accrued interest are convertible, at the option of the holder, into shares of the Company's common stock at a conversion price of \$0.15 per share. This note provides for an interest payment of 10% of the principal amount of the note, payable before or upon maturity. This note matures six months from the effective date of August 13, 2018. This note contains original issue discount of \$20,000, payable at maturity, which is being amortized over the life of this note. The Company has also incurred aggregate legal costs of \$6,000 related to the note. These costs are also being amortized over the life of this note. The Company received cash proceeds of \$100,000.

On August 28, 2018, the Company entered an agreement for a short term loan, with a principal amount of \$59,132. The agreement provides for an interest payment of 8% of the principal amount of the note, payable before or upon maturity. The note matures twelve business days from the effective date of August 28, 2018. The Company received cash proceeds of \$59,132. The note was repaid on September 21, 2018.

September Note

On September 17, 2018, the Company issued a convertible note (the "September 2018 Note"), in the principal amount of \$131,250. The September 2018 Note and related accrued interest are convertible, at the option of the holders, into shares of the Company's common stock at a conversion price of 60% of the lowest trading price for 15 days prior to conversion. The September 2018 Note bears interest at 8% per year and matures on September 12, 2019. The Company has also incurred aggregate legal costs of \$6,250 related to the September 2018 Note. These costs are also being amortized over the life of the September 2018 Note. The Company received cash proceeds of \$125,000.

Table of Contents

DAIS ANALYTIC CORPORATION
NOTES TO CONDENSED FINANCIAL STATEMENTS
(Unaudited)

Note 7. Convertible Notes Payable (Continued)

During the three months ended September 30, 2018, the Company amortized \$81,823 of debt discount and \$15,374 of debt issue costs to interest expense. During the nine months ended September 30, 2018, the Company amortized \$207,579 of debt discount and \$21,345 of debt issue costs to interest expense.

Note 8. Derivative Liabilities

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

September 2018 Note

The Company identified embedded derivatives related to the conversion features of the September 2018 Note. The accounting treatment of derivative financial instruments requires that the Company record the fair value of the derivatives as of the inception date of the note and to adjust the fair value as of each subsequent balance sheet date. The Company calculated the fair value of the embedded derivative at the inception of the note as \$194,417, using the Black Scholes Model based on the following assumptions: (1) risk free interest rate of 2.56%; (2) dividend yield of 0%; (3) volatility factor of the expected market price of the Company's common stock of 290%; and (4) an expected life of 1 year. The initial fair value of the embedded debt derivative was allocated \$131,250 as debt discount, which will be amortized to interest expense over the original term of the note, with the balance of \$63,167 charged to expense at issue date as non-cash interest expense.

The Company has recorded additions to the derivative conversion liabilities related to the conversion feature attributable to interest accrued during the period. These additions totaled \$1,075 for the three and nine months ended September 30, 2018 and were charged to interest expense.

During the three and nine months ended September 30, 2018, the Company recorded expense of \$63,767 related to the change in the fair value of the derivative. The fair value of the embedded derivative was \$259,259 at September 30, 2018, determined using the Black Scholes Model with the following assumptions: (1) risk free interest rate of 2.59%; (2) dividend yield of 0%; (3) volatility factor of the expected market price of the Company's common stock of 275%; and (4) an expected life of 11.5 months.

July 2018 Note

The Company identified embedded derivatives related to the conversion features of the July 2018 Note. The accounting treatment of derivative financial instruments requires that the Company record the fair value of the derivatives as of the inception date of the note and to adjust the fair value as of each subsequent balance sheet date. The Company calculated the fair value of the embedded derivative at the inception of the note as \$152,814, using the Black Scholes Model based on the following assumptions: (1) risk free interest rate of 2.36%; (2) dividend yield of 0%; (3) volatility factor of the expected market price of the Company's common stock of 320%; and (4) an expected life of 1 year. The initial fair value of the embedded debt derivative was allocated 100,000 as debt discount, which will be amortized to interest expense over the original term of the note, with the balance of \$52,814 charged to expense at issue date as non-cash interest expense.

The Company has recorded additions to the derivative conversion liabilities related to the conversion feature attributable to interest accrued during the period. These additions totaled \$4,146 for the three and nine months ended September 30, 2018 and were charged to interest expense.

During the three and nine months ended September 30, 2018, the Company recorded expense of \$29,512 related to the change in the fair value of the derivative. The fair value of the embedded derivative was \$186,472 at September 30, 2018, determined using the Black Scholes Model with the following assumptions: (1) risk free interest rate of 2.475%; (2) dividend yield of 0%; (3) volatility factor of the expected market price of the Company's common stock of 249%; and (4) an expected life of 9 months.

Table of Contents

Note 8. Derivative Liabilities (Continued)

June 2018 Note

The Company identified embedded derivatives related to the conversion features of the June 22, 2018 Note. The accounting treatment of derivative financial instruments requires that the Company record the fair value of the derivatives as of the inception date of the note and to adjust the fair value as of each subsequent balance sheet date. The Company calculated the fair value of the embedded derivative at the inception of the note as \$158,278, using the Black Scholes Model based on the following assumptions: (1) risk free interest rate of 2.33%; (2) dividend yield of 0%; (3) volatility factor of the expected market price of the Company's common stock of 319%; and (4) an expected life of 11 months. The initial fair value of the embedded debt derivative was allocated 89,250 as debt discount, which will be amortized to interest expense over the original term of the note, with the balance of \$69,028 charged to expense at issue date as non-cash interest expense.

The Company has recorded additions to the derivative conversion liabilities related to the conversion feature attributable to interest accrued during the period. These additions totaled \$3,060 and \$3,371 for the three and nine months ended September 30, 2018, respectively, and were charged to interest expense.

During the three and nine months ended September 30, 2018, the Company recorded income of \$6,046 and \$6,548, respectively, related to the change in the fair value of the derivative. The fair value of the embedded derivative was \$155,101 at September 30, 2018, determined using the Black Scholes Model with the following assumptions: (1) risk free interest rate of 2.36%; (2) dividend yield of 0%; (3) volatility factor of the expected market price of the Company's common stock of 219%; and (4) an expected life of 8 months.

February 2018 Notes

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

The Company has recorded additions to the derivative conversion liabilities related to the conversion feature attributable to interest accrued during the periods. These additions totaled \$2,609 and \$12,833 for the three and nine months ended September 30, 2018, respectively, and were charged to interest expense.

During the three and nine months ended September 30, 2018, the Company recorded expense of \$7,479 and income of \$342, respectively, related to the change in the fair value of the derivative. The fair value of the embedded derivative was \$296,210 at the time of the redemption of the underlying debt, determined using the Black Scholes Model with the following assumptions: (1) risk free interest rate of 2.25%; (2) dividend yield of 0%; (3) volatility factor of the expected market price of the Company's common stock of 238%; and (4) an expected life of 5.25 months. This amount has been credited to gain on extinguishment upon redemption.

October 2017 Note

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

Table of Contents

DAIS ANALYTIC CORPORATION
NOTES TO CONDENSED FINANCIAL STATEMENTS
(Unaudited)

Note 8. Derivative Liabilities (Continued)

The Company has recorded additions to the derivative conversion liabilities related to the conversion feature attributable to interest accrued during the period. These additions totaled \$0 and \$8,514 for the three and nine months ended September 30, 2018, respectively, and were charged to interest expense.

During the three and nine months ended September 30, 2018, the Company recorded expense of \$0 and \$29,931, respectively, related to the change in the fair value of the derivative. The fair value of the embedded derivative was \$281,946 at the time of the redemption of the underlying debt, determined using the Black Scholes Model with the following assumptions: (1) risk free interest rate of 2.12%; (2) dividend yield of 0%; (3) volatility factor of the expected market price of the Company's common stock of 270%; and (4) an expected life of 7.5 months. This amount has been credited to gain on extinguishment upon redemption.

Note 9. Deferred Revenue

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

The Company recognized license revenue of \$12,500 and \$37,500 for the three and nine months ended September 30, 2018, respectively. Deferred revenue for the agreement was \$461,156 and \$498,656 at September 30, 2018 and December 31, 2017, respectively. The Company recognized royalty revenue of \$0 for September 30, 2018 and 2017, respectively.

Note 10. Litigation

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

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

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

Table of Contents

DAIS ANALYTIC CORPORATION
NOTES TO CONDENSED FINANCIAL STATEMENTS
(Unaudited)

Note 10. Litigation (Continued)

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

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

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

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

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

The litigation for this case was moved to the U.S. District Court for the Middle District of Florida where Soex instituted a counterclaim (Civil Docket Case #: 8:15-CV-02362-MSS-EAJ).

A Mediation between the Parties was held in Tampa on June 20th, 2018 as set by the court and agreed to by Dais and Soex. A mutually agreeable arrangement was not reached.

On the same date, the Company filed a second law suit against Soex and Liwei Cao (a former Dais employee) for breach of contract, a wide-spread, growing misuse and theft of Dais Intellectual Property. The Company's complaint alleges Soex and Cao of purposefully joined forces and are wrongfully using and manufacturing product using the Company's Intellectual Property.

The Company will defend itself by every method open to it seeking Soex and its affiliates, and Cao immediately cease and desist the manufacturing and use of all of the Company's Intellectual Property.

Further the Company will seek, based on its firm belief, maximum damages allowed caused to by Soex, its affiliates, and Cao inappropriate use, manufacturing, etc. of the Company's Intellectual Property, and it feels that the second case will lead to a judgment in favor of the Company.

On September 19, 2018, a pre-trial conference was held in Tampa finding a trial date set for October 22, 2018.

The trial for the original case was held on October 22, 2018 through October 24, 2018. The jury at the conclusion of the trial did not award monetary damages to either party for claims or counterclaims.

On October 24, 2018, the Company initiated a third law suit against an affiliate of Soex (Transtech), and the Chairperson of the affiliate and Soex, on testimony given during the trial where a formal admission was made during court proceedings this affiliate is illegally using the Company's Intellectual Property. The Company will seek maximum relief and damages for this on-going and growing illegal misuse the Company's Intellectual Property. The Company feels this third action will lead in a judgment in favor of the Company.

Table of Contents

DAIS ANALYTIC CORPORATION
NOTES TO CONDENSED FINANCIAL STATEMENTS
(Unaudited)

Note 11. Subsequent Events

No material events have occurred after September 30, 2018 that requires recognition or disclosure in the financial statements except as follows:

On October 1, 2018, the Company issued 200,000 shares of common stock, valued at \$6,000, as further incentive to an outside investor for a convertible note in the principal amount of \$100,000.

On October 5, 2018, the Company issued a convertible note, in the principal amount of \$135,000. The note and related accrued interest are convertible, at the option of the holders, into shares of the Company's common stock at a conversion price of 60% of the lowest trading price for 15 days prior to conversion. The notes bear interest at 8% per year and matures on October 5, 2019. The note contains original issue discount of \$10,000 which is being amortized over the life of the note. These costs are also being amortized over the life of the notes. The Company received cash proceeds of \$125,000.

On October 16, 2018, the Company redeemed the April 4, 2018 convertible note described in Note 7. The redemption payment was \$103,500, representing the outstanding principal amount of \$75,000 plus the legal fees, interest and original issue discount aggregating \$28,500. The obligations under the convertible note is considered satisfied by both parties.

On October 30, 2018, half of the amount of the original issue discount of \$15,000, 10% interest and legal costs of \$4,500 was repaid to extend the maturity date of the convertible note issued on April 30, 2018. We incurred additional original issue discount of \$30,000, 10% interest and legal costs of \$9,000 as a result of the extension. These costs are being amortized over the life of the note.

On October 31, 2018, the parties amended the Loan and Security Agreement ("Sixteenth Amendment") whereby the Maturity Date of the Note was extended to the earlier of (i) the date upon which the Company secures funds,

regardless of source, equal to or exceeding, in the aggregate, \$1,000,000 or (ii) November 16, 2018. The Company is further obligated to issue 20,000 shares of \$0.01 par value common stock valued at \$1,200.

On November 1, 2018, the Company issued ten (10) shares of Class B Redeemable Preferred Stock par value \$0.01 per share (“Class B Stock”) having a stated value of \$1.50 per share to Timothy N. Tangredi, the Company’s Chief Executive Officer, in exchange for \$15, pursuant to approval of the Board of Directors of the Company.

Pursuant to the Company’s Certificate of Incorporation, as amended, the Company established 10,000 shares of the Class B Stock. The Class B Stock includes the right to vote in an amount equal to 51% of the votes to approve certain corporate actions, including, without limitation, changing the name of the Company and increasing the number of authorized shares.

Table of Contents

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

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

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

Overview

Dais Analytic Corporation (“Dais”, “us,” “we,” the “Company”) is a nano-structured polymer technology materials company having developed and now commercializing applications using its family of nanomaterial called Aqualyte™. The first commercial product is called ConsERV™, a fixed plate energy recovery ventilator which we believe is useful in meeting building indoor fresh air requirements while saving energy and lowering emissions for most forms of heating, ventilation and air conditioning (HVAC) equipment. The second commercial product is NanoClear™, a water clean-up process useful in the creation of potable water from most forms of contaminated water including industrial process waste water (petrochemical, steel, etc.) sea, brackish, or waste water. We are developing other nano-structured polymer technology applications including NanoAir™, a water based non-fluorocarbon refrigerant dehumidification, humidification, heating and cooling system as well as PolyCool™, a membrane based evaporator for cooling towers and evaporative condensers for cooling uses in traditional HVAC equipment. We believe our nano-structured polymer technology, with substantial development, may be useful in developing a form of energy storage device capable of storing greater energy density and power per pound than traditional forms of energy storage such as capacitors or batteries.

Formation History

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

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

Recent Developments

The Company’s priority and focus remain on building a profitable nanotechnology material-based platform business. Our Energy Recovery Ventilator product (ConsERV) and our expanding commercial pilots for waste water treatment product (NanoClear) continue to represent promising revenue generating opportunities for Dais. In addition, global focus on energy efficiency, refrigeration and indoor air-quality has created considerable demand for our platform technology: the disruptive polymer membrane (Aqualyte). Dais remains a leader in the development and production of a versatile family of these membrane materials with applications in air, water and energy.

Table of Contents

Our goal is to build one of the largest premium nanotechnology based companies in world by growing revenues in two multi-billion dollar markets: Water re-use and treatment systems and Heating, Ventilation and Air Conditioning (HVAC). Combined these markets account for over 30% of the energy consumes on the planet – 50% more than transportation. We intend to accomplish this goal by focusing on increasing our client base through strategic original equipment manufacturing (OEM) partnerships.

Strategic Partnerships

The Company recently (September 2018) announced that we entered into a second definitive two-part, license agreement with the Haier Group of Qingdao, China for a new product for Haier’s HVAC cooling systems. The new product is anticipated to have a significant revenue impact for Dais, projected to be \$73 million or more annually when successfully field tested and fully deployed. Revenues for Dais could begin as early as the last quarter of 2019. The product is an innovative PolyCoo™ condensing unit being incorporated into a commercial Haier cooling line that is planned to be deployed into Haier’s Greater China sales and distribution channels.

In July of 2017, Dais first entered into a multi-year, exclusive license agreement with the Haier Group to provide its Aqualyte™ nanomaterials for use in select refrigeration products. This first agreement has already generated increasing quarterly revenue for Dais and should continue to expand with full roll out expected by mid-2019. Dais projects this first agreement alone for refrigeration products should ultimately generate over \$10 million in annual revenues.

Haier’s use of Dais’s Aqualyte™ material follows a growing world-wide trend reported by *Market Insight Reports* (July 18, 2018) that states global adoption of mature nanotechnology materials continues to grow and is on track to reach \$90.5 billion by 2021 from \$39.2 billion in 2016 at a compound annual growth rate (CAGR) of 18.2%, from 2016 to 2021. Dais was listed as one of the companies by *Market Insight Reports* along with BASF, Bayer AG, Dow Chemical, and others.

Also, in July 2017, we signed a 7 year, non-exclusive agreement with the Menred Group, China, to provide our Aqualyte™ moisture transfer nanomaterial for us in a new line of Menred energy recovery ventilators (ERV) to be sold in the growing Chinese HVAC market. This is projected to yield over \$1.2 million in sales in 2019.

We continue to explore new opportunities with several companies in North America, the European Union and China interested in buying and distributing ConsERV™ cores, Aqualyte™ membrane, NanoClear™ and PolyCool™ modules. To help us expand our capabilities in China, we have qualified several Chinese manufacturing companies to produce materials and components for us, guided by Dais qualified manufacturing practices to meet the growing

demand for products in China and the U.S. Having components manufactured in Asia supports our objective of expanding our distribution in the Asian market at projected lower costs and faster order fulfillment.

Orders are already being generated from these agreements, and we expect them to increase as we expand and add new strategic partnerships along the way. In June 2018, the Company announced it had secured new orders totaling approximately \$330,000, consistent with previously disclosed increases in revenue expectations for the remainder of 2018. During the last three months of 2018, new orders have now increased to over \$750,000. From June through September this represents a growth of over 220% in comparison to the first six months of the year. The new orders include sales of nanomaterials and components for NanoClear™ industrial waste water treatment, and ConSERV™ for heating, ventilating, and air-conditioning (HVAC). We expect these new orders to convert to increase in revenue later this year, as we address expansion in our supply chain to scale-up production of our proprietary products.

NanoClear™ Funding to Continue – Product Development

In March 2015, the U.S. Army Corps of Engineers approved our application for a \$1,000,000 Phase II Small Business Innovation Research (SBIR) award to continue developing NanoClear™ water cleaning technology for military use. The NanoClear™ funding project entitled “Non-Fouling Water Reuse Technologies” uses our patented Aqualyte™ membrane to produce potable water from grey-water sources. The potential product improvements from this award will widen NanoClear’s applications in separating clean water from contaminated waste streams, potentially beginning as early as the second quarter of 2019.

NanoAir™ Funding to Build Full-Size Prototype

In May 2015, we were selected to receive additional funding from the U.S. Department of Energy (DOE) to further commercialize the heating, ventilation, and air-conditioning (HVAC) membrane technology for our NanoAir™ product. The award is part of a total investment of nearly \$8,000,000 by the DOE to advance research and development of next-generation HVAC technologies. Dais ceased work on this award in the quarter ending September 30, 2018.

Table of Contents

Technology

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

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

Products

Aqualyte™ Membrane

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

The company invented and patented a disruptive platform plastic material technology called Aqualyte with carefully tailored properties for use in air, energy and water applications. This modified block co-polymer membrane with a nanoscale structure serves as the foundation of the Dais product line. It is a non-porous nanomaterial that selectively and efficiently transports moisture through a solid membrane and blocks passage of most gases and volatile compounds. The membrane is robust and durable with no pores to clog and no bacterial or fungal growth.

We began selling Aqualyte™ in 2018 to strategic customers and continue to have growing sales of Aqualyte™. We project even further growth in the fourth quarter of 2018 and beyond.

ConsERV™

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

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

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

Table of Contents

NanoClear™ – Water Treatment

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

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

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

PolyCool™

PolyCool™ technology offers strategic advantages over existing cooling tower systems. The process water being cooled is separated from the air stream by a solid Aqualyte™ nanotechnology membrane that establishes a selective barrier, allowing evaporation of water molecules while preventing transmission of microbes and other contaminants. In effect, the process water is isolated in a largely closed system (similar to dry cooling technology) and initial testing shows it reduces the likelihood of dangerous germs and viruses such as Legionella becoming airborne. In-house testing has shown the ability to generate cooling effects comparable to today's existing cooling towers while largely isolating the process water from the air stream.

PolyCool™ systems are expected to use up to 32% less energy than a conventional cooling tower while reducing or eliminating the need for expensive chemical biocide application programs to prevent the spread of risk of spreading dangerous diseases. We believe these savings can reduce the operating expenses of a cooling tower by up 74% versus conventional technology. The demonstrated ability of Aqualyte™ to resist fouling and operate with dissolved solids

levels up to 25% salinity allows PolyCool™ technology to operate with seawater, brine, or other forms of wastewater instead of consuming potable water as with conventional evaporative cooling technologies. This advantage expands the applicability of evaporative cooling into geographic regions that are suffering from water scarcity or stress. In addition, the dramatic reduction in maintenance and safety issues allows use of PolyCool™ in smaller installations with correspondingly smaller maintenance budgets and less risk tolerance, which conventionally use less energy efficient dry cooling instead of evaporative cooling.

In the quarter ending September 30, 2018, Dais initiated a new PolyCool™ evaporative condenser product as part of a two part license agreement with the Haier Group, located in Qingdao, China. This innovative product uses the evaporation of water through an Aqualyte™ membrane to enhance the performance of refrigerant condensers Haier sells currently. The product is moving into field testing with deployment into Haier's sales channels throughout Greater China as early as the second half of 2019.

Other

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

Table of Contents**RESULTS OF OPERATIONS****THREE MONTHS ENDED SEPTEMBER 30, 2018 COMPARED TO SEPTEMBER 30, 2017**

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

| | For the Three Months | | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|------------------|---------------------|
| | Ended September 30, | 2018 | 2017 |
| REVENUE | | | |
| Sales | \$ | 342,058 | \$ 112,686 |
| Royalty and license fees | | 12,500 | - |
| Total revenue | | 354,558 | 112,686 |
| COST OF GOODS SOLD | | 213,661 | 91,767 |
| GROSS MARGIN | | 140,897 | 20,919 |
| OPERATING EXPENSES | | | |
| Research and development expenses, net of government grant proceeds of \$24,289 and \$14,838 for the three months ended September 30, 2018 and 2017, respectively | | 56,983 | 66,053 |
| Selling, general and administrative expenses | | 401,910 | 341,082 |
| Total operating expenses | | 458,893 | 407,135 |
| LOSS FROM OPERATIONS | | (317,996) | (386,216) |
| OTHER INCOME (EXPENSE) | | | |
| Interest expense, net income | | (387,398) | (200,117) |
| Change in fair value of derivative liabilities | | (94,713) | 9,307 |
| Gain/(Loss) on extinguishment of debt | | 154,047 | - |
| Total other income (expense), net | | (328,064) | (190,810) |
| NET LOSS | \$ | (646,060) | \$ (577,026) |
| NET LOSS PER COMMON SHARE, BASIC AND DILUTED | \$ | (0.01) | \$ (0.01) |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC AND DILUTED | | | |
| | | 147,678,443 | 127,901,432 |

Table of Contents

Revenue

We generate our revenues primarily from the sale of our ConsERV™ cores, Aqualyte™ membrane and NanoClear™ evaporators. Product sales were \$342,058 and \$112,686 for the three months ended September 30, 2018 and 2017, respectively, an increase of \$229,372 or 204%. The increase in product revenue resulted from a considerable increase in Aqualyte™ membrane sales to strategic customers. We are focusing on creating sustainable revenues to a more diversified set of customers with the expectation that this will occur further in 2018. Revenues from royalty and license fees were \$12,500 and \$0 for the three months ended September 30, 2018 and 2017, respectively, an increase of \$12,500 or 100%, due to the recognition of license fees for the new license agreement with Menred as of December 2017.

Cost of sales

Our cost of sales consists primarily of materials (including freight), direct labor, and outsourced manufacturing expenses incurred to produce our ConsERV™ cores, NanoClear™ evaporators and Aqualyte™ membrane. Cost of goods sold were \$213,661 and \$91,767 for the three months ended September 30, 2018 and 2017, respectively, an increase of \$121,894 or 133%. This reflects the increased cost of manufacturing with the increased sales volume.

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

Gross margin

Gross margin from the sales of products was 38% and 19% for the three months ended September 30, 2018 and 2017. The gross margin increase reflects the upward trend of Aqualyte™ sales which have a higher gross profit margin.

Research and development costs

Expenditures for research and development are expensed as incurred. We incurred research and development costs of \$81,272 and \$80,891 for the three months ended September 30, 2018 and 2017, an increase of \$381 or 1%. We account for proceeds received from government funding for research and development as a reduction in research and development costs. We recorded proceeds against research and development expenses on the Statements of Operations of \$24,289 and \$14,838 for three months ended September 30, 2018 and 2017, an increase of \$9,451 or 64%. Variances in grant expenditures and reimbursements are due to the timing of the completion of various tasks under the grants.

Selling, general and administrative expenses

Our selling, general and administrative expenses consist primarily of payroll and related benefits, share-based compensation, professional fees, marketing and channel support costs, and other infrastructure costs such as insurance, information technology and occupancy expenses. Selling, general and administrative expenses were \$401,910 and \$341,082 for the three months ended September 30, 2018 and 2017, an increase of \$60,828 or 18%.

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

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

The increase in selling, general and administrative expenses for the three months ended September 30, 2018 compared to the same period in 2017 is due to increased consulting and advisory services offset by lower auditing and office expenditure costs.

These are considered one-time expenses and are related to the convertible notes in the first, second and third quarter of 2018. Without these one-time charges the Company continues to show significant improvement in net revenue, gross margin and operating net loss from quarter to quarter and year over year.

Table of Contents**Other Income (Expense)**

Other net expense was \$328,064 and \$190,810 for the three months ended September 30, 2018 and 2017, respectively, an increase of \$137,254 or 72%. The increase in other net expense is due to the gain on extinguishment of convertible note debt offset by the interest expense associated with equity financing agreements and related expenses due to the change in fair value of derivative liabilities.

Net Loss

Net loss for the three months ended September 30, 2018 was \$646,060 compared to a net loss of \$577,026 for the three months ended September 30, 2017. The higher loss in the three months ended September 30, 2018 was the result of an increase in interest expense on the related-party and investor convertible not offset by higher gross margin and the gain on extinguishment of convertible note debt.

NINE MONTHS ENDED SEPTEMBER 30, 2018 COMPARED TO SEPTEMBER 30, 2017

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

| | For the Nine Months | |
|------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|-------------|
| | Ended September 30, | 2017 |
| | 2018 | |
| REVENUE | | |
| Sales | 878,336 | \$ 249,086 |
| Royalty and license fees | 37,500 | - |
| Total revenue | 915,836 | 249,086 |
| COST OF GOODS SOLD | 607,163 | 207,776 |
| GROSS MARGIN | 308,673 | 41,310 |
| OPERATING EXPENSES | | |
| Research and development expenses, net of government grant proceeds of \$49,304 and \$147,314 for the nine months ended September 30, 2018 and | 197,195 | 229,074 |

2017, respectively

| | | |
|------------------------------------------------------------------------------------|-----------------------|--------------------|
| Selling, general and administrative expenses | 1,492,330 | 1,241,484 |
| Total operating expenses | 1,689,525 | 1,470,558 |
| LOSS FROM OPERATIONS | (1,380,852) | (1,429,248) |
| OTHER INCOME (EXPENSE) | | |
| Interest expense, net income | (877,110) | (777,870) |
| Change in fair value of derivative liabilities | (116,320) | 204,482 |
| Gain/(Loss) on extinguishment of debt | 349,721 | - |
| Total other income (expense), net | (643,709) | (573,388) |
| NET LOSS | (2,024,561) \$ | (2,002,636) |
| NET LOSS PER COMMON SHARE, BASIC AND DILUTED | (0.01) \$ | (0.02) |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC AND DILUTED | 143,222,751 | 124,792,864 |

Table of Contents

Revenue

We generate our revenues primarily from the sale of our ConsERV™ cores, Aqualyte™ membrane and NanoClear™ evaporators. Product sales were \$878,336 and \$249,086 for the nine months ended September 30, 2018 and 2017, respectively, an increase of \$629,250 or 253%. The increase in product sales resulted from a 100% increase in Aqualyte™ membrane sales to strategic customers. We are focusing on creating sustainable revenues to a more diversified set of customers with the expectation that this will occur in 2018. Revenues from royalty and license fees were \$37,500 and \$0 for the nine months ended September 30, 2018 and 2017, respectively, an increase of \$37,500 or 100%, due to the recognition of license fees for the new license agreement with Menred as of December 2017.

Cost of sales

Our cost of sales consists primarily of materials (including freight), direct labor, and outsourced manufacturing expenses incurred to produce our ConsERV™ cores and NanoClear™ evaporators and Aqualyte™ membrane. Cost of goods sold were \$607,163 and \$207,776 for the nine months ended September 30, 2018 and 2017, respectively, an increase of \$399,387 or 192%. This reflects the increased cost of manufacturing with the increased sales volume.

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

Gross margin

Gross margin from the sales of products was 31% and 17% for the nine months ended September 30, 2018 and 2017. The gross margin increase reflects the upward trend of Aqualyte™ sales which have a higher gross profit margin.

Research and development costs

Expenditures for research and development are expensed as incurred. We incurred research and development costs of \$246,499 and \$376,388 for the nine months ended September 30, 2018 and 2017, a decrease of \$129,889 or 35%. We account for proceeds received from government funding for research and development as a reduction in research and development costs. We recorded proceeds against research and development expenses on the Statements of Operations of \$49,304 and \$147,314 for the nine months ended September 30, 2018 and 2017, a decrease of \$98,010 or 67%. Variances in grant expenditures and reimbursements are due to the timing of the completion of various tasks under the grants.

Selling, general and administrative expenses

Our selling, general and administrative expenses consist primarily of payroll and related benefits, share-based compensation, professional fees, marketing and channel support costs, and other infrastructure costs such as insurance, information technology and occupancy expenses. Selling, general and administrative expenses were \$1,492,330 and \$1,241,484 for the nine months ended September 30, 2018 and 2017, an increase of \$250,846 or 20%.

Table of Contents

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

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

The increase in selling, general and administrative expenses for the nine months ended September 30, 2018 compared to the same period in 2017 is due to increased consulting and legal services offset by lower auditing and insurance costs.

Other Income (Expense)

Other net expense was \$643,709 and \$573,388 for the nine months ended September 30, 2018 and 2017, respectively, an increase of \$70,321 or 12%. The increase in other expense is due to the interest expense associated with equity financing agreements and related expenses offset by the gain on extinguishment of convertible note debt.

Net Loss

Net loss for the nine months ended September 30, 2018 was \$2,024,561 compared to a net loss of \$2,002,636 for the nine months ended September 30, 2017. The higher loss in the nine months ended September 30, 2018 was the result of an increase due to the interest expense associated with equity financing agreements.

Liquidity and Capital Resources

The accompanying financial statements have been prepared assuming that we will continue as a going concern. For the nine months ended September 30, 2018, we generated a net loss of \$2,024,561 and have incurred significant losses since inception. As of September 30, 2018, we had an accumulated deficit of \$49,136,990, a stockholders' deficit of \$5,827,087 and cash and cash equivalents of \$204,264. We used \$637,076 and \$657,951 of cash from operations during the nine months ended September 30, 2018 and 2017, respectively, which was funded primarily by proceeds from equity financings and borrowings from notes and debentures. There is no assurance that such financing will be available in the future. These factors raise substantial doubt about our ability to continue as a going concern within one year after the date that the financial statements are issued. We are currently pursuing the following sources of short and long-term working capital:

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

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

Table of Contents

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

Statement of Cash Flows

Cash and cash equivalents as of September 30, 2018 were \$204,264 compared to \$122,036 as of December 31, 2017. Cash is primarily used to fund our working capital requirements.

Net cash used in operating activities was \$637,076 for the nine months ended September 30, 2018 compared to \$657,951 for the same period in 2017. The decrease in net cash used derived primarily from a decrease in loss net of noncash items plus increases in inventory and accounts payable partially offset by decreases in prepaid expenses, customer deposits and deferred revenue.

Net cash used in investing activities was \$47,032 for the nine months ended September 30, 2018 compared to \$18,797 for the same period in 2017, driven by increased spending on capital items.

Net cash provided by financing activities was \$766,336 for the nine months ended September 30, 2018 compared to \$682,000 for the same period in 2017, resulting from convertible notes.

Financing and Capital Transactions

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

of source, equal to or exceeding, in the aggregate, \$1,000,000 or (ii) October 31, 2016.

During 2016 through the period ended September 30, 2018, the Holder extended the Note pursuant to various amendments. Pursuant to the amendments, the principal amount due was increased to \$1,332,000 with an extended maturity date of November 16, 2018. As consideration for the additional proceeds and modification of the maturity date, the Company issued to the related party warrants to purchase an aggregate of 26,250,000 shares of common stock with an exercise price of \$0.01 with a ten year exercise period and 480,000 shares of common stock.

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

On October 31, 2017, the Company issued a convertible note in the amount of \$100,000. The note and related accrued interest were convertible, at the option of the holder, into shares of the Company's common stock at a conversion price of 60% of the lowest trading price for 15 days prior to conversion. The note bore interest at 8% per year and matured on October 31, 2018. The Company incurred legal costs of \$5,000 related to the note which have been amortized over the life of the note. The Company also recorded debt discount of \$100,000 related to the embedded derivative, as described in Note 8, which has been amortized over the life of the note.

The note was redeemed during the second quarter of 2018. As a result of the extinguishment of the debt and the related derivative liabilities, we recorded a gain of \$195,675.

Table of Contents

On February 7, 2018, the Company issued two convertible notes, each with a face amount of \$87,500. The notes contained substantially the same terms. The notes and related accrued interest were convertible, at the option of the holders, into shares of the Company's common stock at a conversion price of 60% of the lowest trading price for 15 days prior to conversion. The notes bore interest at 8% per year and matured on February 7, 2019. The notes contained original issue discount aggregating \$17,500 which has been amortized over the life of the notes. The Company has also incurred aggregate legal costs of \$7,500 related to the notes. These costs have also been amortized over the life of the notes. The Company received cash proceeds of \$150,000.

These notes were redeemed during the third quarter of 2018. As a result of the extinguishment of the debt and the related derivative liabilities, we recorded a gain of \$154,047.

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

On September 18, 2018, the amount of the original issue discount of \$20,000, 10% interest and legal costs of \$6,000 was repaid to extend the maturity date of the convertible note to March 18, 2019. We incurred additional original issue discount of \$20,000, 10% interest and legal costs of \$6,000 as a result of the extension. These costs are being amortized over the life of the note.

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

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

also incurred aggregate legal costs of \$9,000 related to the note. These costs are also being amortized over the life of the note. The Company received cash proceeds of \$130,000.

On June 1, 2018, the Company issued a convertible note, with a face amount of \$50,000. The note and related accrued interest are convertible, at the option of the holder, into shares of the Company's common stock at a conversion price of \$0.15 per share. The note provides for an interest payment of 10% of the principal amount of the note, payable before or upon maturity. The note matures six months from the effective date of June 1, 2018. The note contains original issue discount of \$10,000 which is being amortized over the life of the note. The Company has also incurred aggregate legal costs of \$3,000 related to the note. These costs are also being amortized over the life of the note. The Company received cash proceeds of \$40,000.

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

On June 7, 2018, the Company issued a convertible note, with a face amount of \$100,000. The note and related accrued interest are convertible, at the option of the holder, into shares of the Company's common stock at a conversion price of \$0.15 per share. The note provides for an interest payment of 10% of the principal amount of the note, payable before or upon maturity. The note matures six months from the effective date of June 7, 2018. The note contains original issue discount of \$20,000 which is being amortized over the life of the note. The Company has also incurred aggregate legal costs of \$6,000 related to the note. These costs are also being amortized over the life of the note. The Company received cash proceeds of \$80,000.

Table of Contents

On June 22, 2018, the Company issued a convertible note, with a face amount of \$89,250. The note and related accrued interest are convertible, at the option of the holders, into shares of the Company's common stock at a conversion price of 60% of the lowest trading price for 15 days prior to conversion. The notes bear interest at 8% per year and matures on June 4, 2019. The Company has also incurred aggregate legal costs of \$4,250 related to the note. These costs are also being amortized over the life of the note. The Company received cash proceeds of \$85,000.

On July 18, 2018, the Company issued a convertible note, with a face amount of \$100,000. This note and accrued interest are convertible, at the option of the holders, into shares of the Company's common stock at a conversion price of 60% of the lowest trading price for 15 days prior to conversion. This note bears interest at 10% per year and matures on July 10, 2019. The Company has also incurred aggregate legal costs of \$5,000 related to the note. These costs are also being amortized over the life of such note. The Company received cash proceeds of \$95,000.

On August 13, 2018, the Company issued a convertible note, with a face amount of \$100,000. This note and accrued interest are convertible, at the option of the holder, into shares of the Company's common stock at a conversion price of \$0.15 per share. This note provides for an interest payment of 10% of the principal amount of the note, payable before or upon maturity. This note matures six months from the effective date of August 13, 2018. The note contains original issue discount of \$20,000, payable at maturity, which is being amortized over the life of the note. The Company has also incurred aggregate legal costs of \$6,000 related to such note. These costs are also being amortized over the life of the note. The Company received cash proceeds of \$100,000.

On August 28, 2018, the Company entered into an agreement, with a face amount of \$59,132. The agreement provides for an interest payment of 8% of the principal amount of the note, payable before or upon maturity. The note matures twelve business days from the effective date of August 28, 2018. The Company received cash proceeds of \$59,132. The note was repaid on September 21, 2018.

On September 17, 2018, the Company issued a convertible note, with a face amount of \$131,250. This note and accrued interest are convertible, at the option of the holders, into shares of the Company's common stock at a conversion price of 60% of the lowest trading price for 15 days prior to conversion. This note bears interest at 8% per year and matures on September 12, 2019. The Company has also incurred aggregate legal costs of \$6,250 related to such note. These costs are also being amortized over the life of such note. The Company received cash proceeds of \$125,000.

ECONOMY AND INFLATION

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

OFF-BALANCE SHEET ARRANGEMENTS

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Principal Financial and Accounting Officer, we have evaluated the effectiveness of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b) as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Principal Financial and Accounting Officer we have concluded that these disclosure controls and procedures are effective.

Limitations on the Effectiveness of Controls

Our disclosure controls and procedures are designed to provide reasonable, not absolute, assurance that the objectives of our disclosure control system are met. Because of inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected. Based on their evaluation as of the end of the period covered by this report, management concluded that our disclosure controls and procedures were not effective to provide reasonable assurance that the objectives of our disclosure control system were met as a result of limited resources, and a lack of segregation of duties.

Changes in Internal Control over Financial Reporting

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

Table of Contents

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

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

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

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

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

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

- (1) Section 1(a) of the Distribution Agreement for Soex's failure to make a \$225,000 payment to the Company for the appointment of Soex as the exclusive distributor of the Products in the Field and Territory (the "Distribution Payment Default") in accordance with the terms set forth in the Distribution Agreement. Such

payment was due on October 20, 2014 (the "Payment Date").

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

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

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

The litigation for this case was moved to the U.S. District Court for the Middle District of Florida where Soex instituted a counterclaim (Civil Docket Case #: 8:15-CV-02362-MSS-EAJ).

A Mediation between the Parties was held in Tampa on June 20th, 2018 as set by the court and agreed to by Dais and Soex. A mutually agreeable arrangement was not reached.

On the same date, the Company filed a second law suit against Soex and Liwei Cao (a former Dais employee) for breach of contract, a wide-spread, growing misuse and theft of Dais Intellectual Property. The Company's complaint alleges Soex and Cao of purposefully joined forces and are wrongfully using and manufacturing product using the Company's Intellectual Property.

Table of Contents

The Company will defend itself by every method open to it seeking Soex and its affiliates, and Cao immediately cease and desist the manufacturing and use of all of the Company's Intellectual Property.

Further the Company will seek, based on its firm belief, maximum damages allowed caused to by Soex, its affiliates, and Cao inappropriate use, manufacturing, etc. of the Company's Intellectual Property, and it feels that the second case will lead to a judgment in favor of the Company.

On September 19, 2018, a pre-trial conference was held in Tampa finding a trial date set for October 22, 2018.

The trial for the original case was held on October 22, 2018 through October 24, 2018. The jury at the conclusion of the trial did not award monetary damages to either party for claims or counterclaims.

On October 24, 2018, the Company initiated a third law suit against an affiliate of Soex (Transtech), and the Chairperson of the affiliate and Soex, on testimony given during the trial where a formal admission was made during court proceedings this affiliate is illegally using the Company's Intellectual Property. The Company will seek maximum relief and damages for this on-gong and growing illegal misuse the Company's Intellectual Property. The Company feels this third action will lead in a judgment in favor of the Company.

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

During the three months ended September 30, 2018, we issued shares of our common stock that were not registered under the Securities Act, and were not previously disclosed in a Current Report on Form 8-K as follows:

On July 18, 2018, the Company issued a convertible note, with a face amount of \$100,000. This note and accrued interest are convertible, at the option of the holders, into shares of the Company's common stock at a conversion price of 60% of the lowest trading price for 15 days prior to conversion. This note bear interest at 10% per year and matures on July 10, 2019. The Company has also incurred aggregate legal costs of \$5,000 related to the note. These costs are also being amortized over the life of such note. The Company received cash proceeds of \$95,000.

On August 13, 2018, the Company issued a convertible note, with a face amount of \$100,000. This note and accrued interest are convertible, at the option of the holder, into shares of the Company's common stock at a conversion price

of \$0.15 per share. This note provides for an interest payment of 10% of the principal amount of the note, payable before or upon maturity. This note matures six months from the effective date of August 13, 2018. The note contains original issue discount of \$20,000, payable at maturity, which is being amortized over the life of the note. The Company has also incurred aggregate legal costs of \$6,000 related to such note. These costs are also being amortized over the life of such note. The Company received cash proceeds of \$100,000.

On September 17, 2018, the Company issued a convertible note, with a face amount of \$131,250. This note and accrued interest are convertible, at the option of the holders, into shares of the Company's common stock at a conversion price of 60% of the lowest trading price for 15 days prior to conversion. This note bears interest at 8% per year and matures on September 12, 2019. The Company has also incurred aggregate legal costs of \$6,250 related to such note. These costs are also being amortized over the life of such note. The Company received cash proceeds of \$125,000.

The above securities were issued in reliance on the exemption under Section 4(a)(2) of the Securities Act. These securities qualified for exemption under Section 4(a)(2) since the issuance by us did not involve a public offering. The offerings were not "public offerings" as defined in 4(a)(2) due to the insubstantial number of persons involved in the transactions, manner of the issuance and number of securities issued. We did not undertake an offering in which we sold a high number of securities to a high number of investors. In addition, the investors had the necessary investment intent as required by Section 4(a)(2) since they agreed to and received securities bearing a legend stating that such securities are restricted pursuant to Rule 144 of the Act. This restriction ensures that these securities would not be immediately redistributed into the market and therefore not be part of a "public offering." Based on an analysis of the above factors, we have met the requirements to qualify for exemption under Section 4(a)(2) of the Securities Act for these transactions

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Table of Contents

Item 6. Exhibits

31.1* Certification by the Principal Executive Officer and Principal Financial Officer of Registrant pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(a) or Rule 15d-14(a)).

32.1* Certification by the Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. 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

101.CAL* XBRL Taxonomy Extension Calculation Linkbase

101.DEF* XBRL Taxonomy Extension Definition Document

101.LAB* XBRL Taxonomy Extension Label Linkbase

101.PRE* XBRL Taxonomy Extension Presentation Linkbase

* Filed herewith

Table of Contents

SIGNATURES

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

DAIS ANALYTIC CORPORATION
(Registrant)

Date: November 14, 2018

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