DAIS ANALYTIC CORP
Form 10-Q
August 21, 2017

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 June 30, 2017

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

For the transition period from _____ to _____

Commission File No. 000-53554

DAIS ANALYTIC CORPORATION

(Exact name of Registrant as specified in its charter)

New York	**14-1760865**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
11552 Prosperous Drive, Odessa, Florida	**33556**
(Address of principal executive offices)	(Zip Code)

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

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

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

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

Large accelerated filer	o	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	x
Emerging Growth Company	o		

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 127,901,432 shares of the Registrant's $0.01 par value common stock outstanding as of August 20, 2017.

DAIS ANALYTIC CORPORATION

TABLE OF CONTENTS

		Page No.
PART I. FINANCIAL INFORMATION		
Item 1.	Financial Statements	
	Balance Sheets as of June 30, 2017 (unaudited) and December 31, 2016	3
	Statements of Operations for the three and six months ended June 30, 2017 and 2016 (unaudited)	4
	Statement of Stockholders' Deficit for the six months ended June 30, 2017 (unaudited)	5
	Statements of Cash Flows for the six months ended June 30, 2017 and 2016 (unaudited)	6
	Notes to Financial Statements (unaudited)	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	21
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	32
Item 4.	Controls and Procedures	32
PART II. OTHER INFORMATION		
Item 1.	Legal Proceedings	33
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	33
Item 3.	Defaults Upon Senior Securities	33
Item 4.	Mine Safety Disclosures	33
Item 5.	Other Information	33
Item 6.	Exhibits	34
Signatures		35

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

DAIS ANALYTIC CORPORATION

CONDENSED BALANCE SHEETS

	June 30, 2017 (Unaudited)	December 31, 2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 26,675	$ 21,066
Accounts receivable, net	12,487	1,500
Other receivables	9,175	11,004
Inventory	89,020	77,599
Prepaid expenses	68,043	20,714
Total Current Assets	205,400	131,883
Property and equipment, net	112,282	131,003
OTHER ASSETS:		
Deposits	4,780	4,780
Patents, net	120,758	118,115
Total Other Assets	125,538	122,895
TOTAL ASSETS	$ 443,220	$ 385,781
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Accounts payable, including related party payables of $94,591 and $61,986 at June 30, 2017 and December 31, 2016, respectively	$ 560,171	$ 378,123
Accrued expenses, other	238,641	232,802
Customer deposits	23,580	-
Debt due to related party	-	45,400
Note payable to related party	585,000	340,000
Current portion of deferred revenue	7,741	7,741
Total Current Liabilities	1,415,133	1,004,066
LONG-TERM LIABILITIES:		

Accrued compensation and related benefits	1,657,338	1,549,399
Convertible notes payable, net of unamortized debt discount and deferred debt issuance costs	3,231	-
Derivative liabilities	505,383	-
Total Long-Term Liabilities	2,165,952	1,549,399
Total Liabilities	3,581,085	2,553,465
STOCKHOLDERS' DEFICIT		
Common stock; $0.01 par value; 240,000,000 shares authorized; 128,158,645 and 121,300,077 shares issued; and 127,901,432 and 120,042,865 shares outstanding at June 30, 2017 and December 31, 2016, respectively	1,281,587	1,213,001
Capital in excess of par value	42,132,756	41,745,913
Accumulated deficit	(45,090,096)	(43,664,486)
	(1,675,753)	(705,572)
Treasury stock at cost, 1,257,213 shares	(1,462,112)	(1,462,112)
Total Stockholders' Deficit	(3,137,865)	(2,167,684)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 443,220	$ 385,781

See accompanying Notes to Unaudited Condensed Financial Statements.

Table of Contents

DAIS ANALYTIC CORPORATION

CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	**2016**	**2017**	**2016**
REVENUE				
Sales	$ 115,024	$ 202,264	$ 136,400	$ 363,908
Royalty and license fees	-	51,419	-	102,839
	115,024	253,683	136,400	466,747
COST OF GOODS SOLD	94,989	184,092	116,009	294,593
GROSS MARGIN	20,035	69,591	20,391	172,154
OPERATING EXPENSES				
Research and development, net	96,102	90,980	163,020	277,611
Selling, general and administrative	560,679	520,921	900,403	858,806
TOTAL OPERATING EXPENSES	656,781	611,901	1,063,423	1,136,417
LOSS FROM OPERATIONS	(636,746)	(542,310)	(1,043,032)	(964,263)
OTHER INCOME (EXPENSE)				
Other income	-	-	-	32,338
Interest expense, net income	(509,764)	(918)	(577,753)	(1,057)
Change in fair value of derivative liabilities	195,175	-	195,175	-
TOTAL OTHER (EXPENSE) INCOME, NET	(314,589)	(918)	(382,578)	31,281
NET LOSS	$ (951,335)	$ (543,228)	$ (1,425,610)	$ (932,982)
NET LOSS PER COMMON SHARE, BASIC AND DILUTED	$ (0.01)	$ (0.00)	$ (0.01)	$ (0.01)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC AND DILUTED	126,431,653	119,542,864	123,636,375	119,910,996

See accompanying Notes to Unaudited Condensed Financial Statements.

4

Table of Contents

DAIS ANALYTIC CORPORATION

CONDENSED STATEMENT OF STOCKHOLDERS' DEFICIT

(Unaudited)

	Common Stock Shares	Common Stock Amount	Capital in Excess of Par Value	Accumulated Deficit	Treasury Stock	Total Stockholders' Deficit
Balance at December 31, 2016	121,300,077	$ 1,213,001	$ 41,745,913	$ (43,664,486)	$ (1,462,112)	$ (2,167,684)
Issuance of common stock for services, accrued expenses and debt cost	6,378,568	63,786	240,714	-	-	304,500
Issuance of common stock for settlement of accrued interest-related party	480,000	4,800	12,400	-	-	17,200
Issuance of debt warrants to related party	-	-	133,729	-	-	133,729
Net loss	-	-	-	(1,425,610)	-	(1,425,610)
Balance at June 30, 2017 (unaudited)	128,158,645	$ 1,281,587	$ 42,132,756	$ (45,090,096)	$ (1,462,112)	$ (3,137,865)

See accompanying Notes to Unaudited Condensed Financial Statements.

Table of Contents

DAIS ANALYTIC CORPORATION

CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the Six Months Ended June 30,	
	2017	**2016**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (1,425,610)	$ (932,982)
Adjustments to reconcile net loss to net cash and cash equivalents used in operating activities:		
Amortization of deferred debt issue costs	2,997	-
Depreciation and amortization	32,727	43,059
Change in fair value of derivative liability	(195,175)	-
Non-cash interest expenses	363,807	-
Fair value of warrant issued for debt modification	133,729	-
Amortization of debt discount	39,484	-
Stock issued for finance cost	1,800	-
Stock compensation	180,000	163,294
(Increase) decrease in:		
Accounts receivable	(10,987)	60,374
Inventory	(11,422)	(910)
Other receivables	-	(49,205)
Prepaid expenses/Other current assets	(45,499)	18,671
Increase (decrease) in:		
Accounts payable and accrued expenses	182,048	(12,436)
Accrued related party	-	127,338
Accrued expenses	228,778	6,739
Customer Deposits	23,580	17,970
Deferred revenue	-	(59,839)
Net cash used in operating activities	(499,744)	(617,927)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase in patent costs	(14,411)	(11,741)
Purchases of property and equipment	(2,237)	(33,572)
Net cash used in investing activities	(16,648)	(45,313)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on note payable, related party	-	-
Proceeds from note payable- related party	245,000	150,000
Proceeds from note payable	277,000	-
Net cash provided by financing activities	522,000	150,000

Net increase (decrease) in cash and cash equivalents		5,608		(513,240)
Cash and cash equivalents, beginning of period		21,066		698,754
Cash and cash equivalents, end of period	$	26,675	$	185,514
SUPPLEMENTAL CASH FLOW INFORMATION:				
Cash paid for interest	$	119	$	1,192
NON-CASH FINANCING ACTIVITIES				
Treasury stock from investment in China operating company	$	-	$	(190,000)
Payment of accrued expense with note payable	$	43,000	$	-
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	$	22,500	$	-
Debt costs deducted from proceeds of notes	$	16,750	$	-
Initial derivative liability on note issuance	$	700,558	$	-
Issuance of warrants for debt modification	$	133,729	$	-
Debt discount on issuance of convertible note	$	371,425	$	-

See accompanying Notes to Unaudited Condensed Financial Statements.

Table of Contents

DAIS ANALYTIC CORPORATION

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

Note 1. Background Information

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

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

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

The unaudited financial statements and notes are presented as permitted by Form 10-Q. Accordingly, certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted although the Company generally believes that the disclosures are adequate to ensure that the information presented is not misleading. The

accompanying financial statements and notes should be read in conjunction with the audited financial statements and notes of the Company for the fiscal year ended December 31, 2016 included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on April 17, 2017. The results of operations for the three and six month periods ended June 30, 2017 are not necessarily indicative of the results that may be expected for any future quarters or for the entire year ending December 31, 2017.

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 six months ended June 30, 2017, the Company generated a net loss of $1,425,610 and the Company has incurred significant losses since inception. As of June 30, 2017, the Company had an accumulated deficit of $45,090,096, a stockholders' deficit of $3,137,865 and cash and cash equivalents of $26,675. The Company used $499,744 and $617,927 of cash from operations during the six months ended June 30, 2017 and 2016, respectively, which was funded primarily by proceeds from equity financings. 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.

Table of Contents

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

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

Note 3. Significant Accounting Policies

In the opinion of management, all adjustments necessary for a fair statement of (a) the results of operations for the three and six month periods ended June 30, 2017 and 2016, (b) the financial position at June 30, 2017 and December 31, 2016, and (c) the cash flows for the six month periods ended June 30, 2017 and 2016, 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.

Accounts receivable – Accounts receivable consist primarily of receivables from the sale of the Company's ERV products and royalties due under license and supply agreements. The Company regularly reviews accounts receivable for any bad debt based on an analysis of the Company's collection experience, customer credit worthiness and current economic trends. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. Based on management's review of accounts receivable, an allowance for doubtful accounts of $0 and $3,647 was recorded at June 30, 2017 and December 31, 2016, respectively.

Other receivables – Other receivables consist primarily of receivables from the U.S. Department of Defense and the U.S. Department of Energy (See Note 3 – Research and development expenses and funding proceeds). The Company prepares invoices as it meets funding program milestones. Based on management's review of other receivables, management has determined that no allowance for uncollectibilty is necessary at June 30, 2017 and December 31, 2016.

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 June 30, 2017 and December 31, 2016, the Company had $68,041 and $72,059 of raw materials, $5,389 and $4,158 of in-process inventory, and $15,590 and $1,382 of finished inventory, respectively. A reserve is recorded for any inventory deemed excessive or obsolete. No reserve is considered necessary at June 30, 2017 and December 31, 2016.

Table of Contents

Note 3. Significant Accounting Policies (Continued)

Property and equipment – Property and equipment are recorded at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets ranging from 3 to 7 years. Leasehold improvements are amortized over the shorter of their estimated useful lives of 5 years or the related lease term. Depreciation expense was $10,456 and $16,603 for the three months ended and $20,958 and $33,002 for the six months ended June 30, 2017 and 2016, respectively. Gains and losses upon disposition are reflected in the Statements of Operations in the period of disposition. Maintenance and repair expenditures are charged to expense as incurred.

Intangible assets – Identified intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Company's existing intangible assets consist solely of patents. Patents are amortized over their estimated useful or economic lives of 17 to 20 years. Patent amortization expense was $5,429 and $4,447 for the three months ended and $11,768 and $10,057 for the six months ended June 30, 2017 and 2016, respectively. Based on current capitalized costs, total patent amortization expense is estimated to be approximately $12,000 per year for the next four years.

Long-lived assets – Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the book value of the asset may not be recoverable. The Company periodically evaluates whether events and circumstances have occurred that indicate possible impairment. When impairment indicators exist, the Company estimates the future undiscounted net cash flows of the related asset or asset group over the remaining life in measuring whether or not the asset values are recoverable. The Company did not recognize impairment on its long-lived assets during the three and six months ended June 30, 2017 and 2016.

Government Funding – Government funding represents grants from the U.S. Department of Defense and U.S. Department of Energy and are recognized when there is reasonable assurance that the funding will be received and conditions associated with the funding are met. When fundings are received related to property and equipment, the Company reduces the basis of the assets on the balance sheet, resulting in lower depreciation expense over the life of the associated asset. When fundings are received, which relate to expense reimbursement they are recorded as a reduction of the associated expense in the period in which the expense is incurred.

Research and development expenses and funding proceeds – Expenditures for research and development are expensed as incurred. The Company incurred research and development costs of $108,672 and $252,997 for the three months ended and $295,496 and $588,266 for the six months ended June 30, 2017 and 2016, 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 $12,570 and $162,017 for the three months ended and $132,476 and $310,655 for the six months ended June 30, 2017 and 2016, respectively.

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

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

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

In certain instances, the Company's ConsERV system product may carry a limited warranty of up to two years for all parts contained therein with the exception of the energy recovery ventilator core produced and sold by the Company. The distributor of the ConsERV system may carry a limited warranty of up to ten years. The limited warranty includes replacement of defective parts for the ConsERV system and includes workmanship and material failure for the ConsERV core. The Company recorded an accrual of $91,531 for future warranty expenses at June 30, 2017 and December 31, 2016, which is included in accrued expenses, other.

Table of Contents

Note 3. Significant Accounting Policies (Continued)

Royalty revenue is recognized as earned. The Company recognized royalty revenue of $0 and $21,500 for the three months ended and $0 and $43,000 for the six months ended June 30, 2017 and 2016, 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 $0 and $29,919 for the three months ended and $0 and $59,839 for the six months ended June 30, 2017 and 2016, 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.

Financial instruments – 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.

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

The Company identifies and evaluates uncertain tax positions, if any, and recognizes the impact of uncertain tax positions for which there is a less than more-likely-than-not probability of the position being upheld when reviewed by the relevant taxing authority. Such positions are deemed to be unrecognized tax benefits and a corresponding liability is established on the balance sheet. The Company has not recognized a liability for uncertain tax positions. If there were unrecognized tax benefit, the Company would recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. The Company’s 2013 through 2016 tax years remain open and subject to examination by the Internal Revenue Service.

Table of Contents

Note 3. Significant Accounting Policies (Continued)

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

Fair Value Measurements – The Company accounts for financial instruments in accordance with FASB Accounting Standards Codification (ASC) 820 "Fair value Measurement and Disclosures" (ASC 820). ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy that distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). 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 June 30, 2017:

	Fair Value at	**Fair Value Measurement Using**

	June 30, 2017	Level 1	Level 2	Level 3
Derivative liability	$ 505,383	$ -	$ -	$ 505,383

The reconciliation of the derivative liability measured at fair value on a recurring basis using unobservable inputs (Level 3) is as follows for the six months ended June 30, 2017:

Balance at beginning of period	$ -
Additions to derivative instruments	700,558
Gain on change in fair value of derivative liability	(195,175)
Balance at end of period	$ 505,383

Loss per share – Basic loss per share is computed by dividing net 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 28,487,916 and 25,790,416 were excluded from the computation of diluted earnings per share for the three and six months ended June 30, 2017 and 2016, respectively, because their effect is anti-dilutive.

Table of Contents

Note 3. Significant Accounting Policies (Continued)

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

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

The standard is effective for annual periods beginning after December 15, 2017, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). In July 2015, the FASB voted to defer the effective date of ASU 2014-09 for all entities by one year. The Company is currently evaluating the impact of the adoption of ASU 2014-09 on its financial statements and has not yet determined the method by which it will adopt the standard in 2018.

Note 4. Accrued Expenses

Accrued expenses consist of the following:

	June 30, 2017	December 31, 2016
Accrued expenses, other	$ 98,049	$ 127,653
Accrued warranty costs	91,531	91,531
Accrued interest	47,261	13,618
	$ 236,841	$ 232,802

Table of Contents

Note 5. Related Party Transactions

The Company rents a building that is owned by two stockholders of the Company, one of whom is the Chief Executive Officer. Rent expense for this building is $4,066 per month, including sales tax. The Company recognized rent expense related to this lease of $12,198 in each of the three months ended and $24,396 in each of the six months ended June 30, 2017 and 2016, respectively.

The Company has accrued compensation due to the Chief Executive Officer as of June 30, 2017 and December 31, 2016 of $1,563,946 and $1,485,609, respectively, included in accrued compensation and related benefits in the accompanying balance sheets.

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.

- On September 7, 2016, the parties amended the Loan and Security Agreement ("First Amendment") whereby the principal amount was increased by $100,000. In addition, the Company issued on October 19, 2016, 200,000 shares of $.01 par value common stock in accordance with the terms of the First Amendment. As consideration for the modification to the Maturity Date of the Note, the Company was obligated to issue 20,000 shares of $.01 par value common stock which were issued on February 8, 2017.

- On October 30, 2016, the parties amended the Loan and Security Agreement ("Second Amendment") whereby the maturity date of the Note was amended to December 31, 2016. As consideration for the modification to the Maturity Date of the Note, the Company was obligated to issue 20,000 shares of $.01 par value common stock.

- On November 28, 2016, the parties amended the Loan and Security Agreement ("Third Amendment") whereby the principal amount was increased by $60,000, the minimum interest payment was increased to $9,000, and the Maturity Date of the Note was extended to January 20, 2017. In addition, the Company is obligated to issue 200,000 shares of $.01 par value common stock in accordance with the terms of the Third Amendment. As consideration for the modification to the Maturity Date of the Note, the Company is obligated to issue 20,000 shares of $.01 par value common stock. Both obligations to issue shares of common stock are recorded as interest expense and in current liabilities at December 31, 2016. The 220,000 shares of common stock were issued on February 8, 2017.

- On December 27, 2016, the parties amended the Loan and Security Agreement (“Fourth Amendment”) whereby the principal amount was increased by $30,000, the minimum interest payment was increased to $11,000, and the Maturity Date of the Note was extended to February 15, 2017. In addition, the Company is obligated to issue 200,000 shares of $.01 par value common stock in accordance with the terms of the Fourth Amendment. As consideration for the modification to the Maturity Date of the Note, the Company is obligated to issue 20,000 shares of $.01 par value common stock. Both obligations to issue shares of common stock are recorded as interest expense and in current liabilities at December 31, 2016. The 220,000 shares of common stock were issued on February 8, 2017.

- On February 3, 2017, the parties amended the Loan and Security Agreement (“Fifth Amendment”) whereby the principal amount was increased by $100,000, and 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) March 15, 2017. As consideration for the additional proceeds and modification of the Maturity Date the Company issued to the related party a warrant to purchase one million shares of common stock with an exercise price of $0.01 with a ten-year exercise period (see Note 6 – Equity Transactions for further discussion). The Company is further obligated to issue 20,000 shares of $.01 par value common stock. The obligations to issue shares of common stock were recorded as interest expense and current liabilities. The 20,000 shares of common stock were issued on March 14, 2017.

Table of Contents

Note 5. Related Party Transactions (Continued)

- On February 21, 2017, the parties amended the Loan and Security Agreement ("Sixth Amendment") whereby the principal amount was increased by $125,000, and 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 15, 2017. As consideration for the additional proceeds and modification of the Maturity Date the Company issued to the related party a warrant to purchase three million shares of common stock with an exercise price of $0.01 with a ten-year exercise period (see Note 6 – Equity Transactions for further discussion). The Company is further obligated to issue 20,000 shares of $.01 par value common stock valued at $800. The obligations to issue shares of common stock were recorded as interest expense and current liabilities at March 31, 2017.

- On April 7, 2017, the parties amended the Loan and Security Agreement ("Seventh 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 31, 2017. The Company is further obligated to issue 20,000 shares of $.01 par value common stock valued at $1,000. The obligations to issue shares of common stock were recorded as interest expense and current liabilities at June 30, 2017.

- On May 1, 2017, the parties amended the Loan and Security Agreement ("Eighth Amendment") whereby the principal amount was increased by $20,000, and 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 31, 2017. As consideration for the additional proceeds and modification of the Maturity Date the Company issued to the related party a warrant to purchase two hundred and fifty thousand shares of common stock with an exercise price of $0.01 with a ten-year exercise period (see Note 6 – Equity Transactions for further discussion).

- On July 27, 2017, the partied amended the Loan and Security Agreement ("Ninth Amendment") whereby the principal amount was increase by $80,000, and 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 31, 2017. As consideration for the additional proceeds and modification of the Maturity Date the Company issued to the related party a warrant to purchase two hundred and fifty thousand shares of common stock with an exercise price of $0.01 with a ten-year exercise period (see Note 6 – Equity Transactions for further discussion).

The Company is using the proceeds of the Note and the First, Third, Fourth, Fifth, Sixth, Seventh, Eighth, and Ninth Amendments for working capital purposes.

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

technologies in biomedical and health care applications.

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

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

Table of Contents

Note 5. Related Party Transactions (Continued)

Further, at any time any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Securities

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

On April 24, 2014, the Company entered into a Distribution Agreement (the "Distribution Agreement") with SoEX (Hong Kong) Industry & Investment Co., Ltd., a Hong Kong corporation ("Soex"). The Distribution Agreement was a covenant included in a Securities Purchase Agreement, dated January 21, 2014, between the Company and Soex, pursuant to which Soex purchased 37,500,000 shares of the Company’s common stock, equal to approximately 31% of the issued and outstanding shares of common stock as of December 31, 2015. Pursuant to the Distribution Agreement, in exchange for $500,000 to be paid by October 20, 2014, royalty payments and a commitment from Soex to purchase nano-material membrane and other products from the Company, Soex obtained the right to distribute and market the Company’s products for incorporation in energy recovery ventilators sold and installed in commercial, industrial and residential buildings, transportation facilities and vehicles (the "Field") in mainland China, Hong Kong, Macao and Taiwan (the "Territory"). Further, Soex received an exclusive license in the Territory to use the Company’s intellectual property in the manufacture and sale of its products in the Field and Territory and to purchase its requirements of nano-material membrane only from the Company, subject to terms and conditions of the Distribution Agreement. During 2014, $50,000 of the $500,000 license fee was received. Pursuant to the Distribution Agreement, Soex was required to pay the Company $500,000, issue the Company 25% of the equity of a newly-created company, Soex (Beijing) Environmental Protection Technology Company Limited and pay the Company royalties. Soex only paid the Company $50,000 of the required $500,000, did not issue the required equity and did not pay any required royalties. Effective June 12, 2015, the Company’s Board of Directors ratified the termination of the Distribution Agreement, dated April 24, 2014, with Soex because of the breach of the Distribution Agreement by Soex. There are no early termination penalties for the termination of the Distribution Agreement. The remaining amount of deferred revenue was recognized as income upon the termination of the Distribution Agreement in June 2015. The Company is pursuing legal action against Soex for breach of the Distribution Agreement as well as the Securities Purchase Agreement entered into in January 2014 (see Note 8 Litigation for further discussion).

In December 2015, the Company reported that it entered into a Share Exchange Agreement (the "Exchange Agreement"), dated as of December 24, 2015 but effective as of December 1, 2015, with Open Systems Control, a California corporation (the "Shareholder"), and Synpower Corporation. Ltd., a Hong Kong corporation ("Synpower") through the issuance of 1,000,000 of common stock at $.19 per share which was recorded as Investment in China Operating Company on the balance sheet at December 31,2015. Pursuant to the Exchange Agreement, the Company purchased from the Shareholder all of the equity ownership in Synpower. At the time of the Exchange Agreement, Synpower was the owner of 62% of Jixiun-Cast Ltd., an engineering company organized in the People's Republic of

China ("Cast"). The Company's plan was to use Cast for its manufacturing and distribution operations in China. On March 7, 2016, the Company and Synpower rescinded the Exchange Agreement, as of December 1, 2015, as a result of the discovery of an undisclosed event, not discoverable in the due diligence, related to Cast's ability to function in China as an operating entity for the Company. As a result of the event, the Shareholder breached the representations, warranties and covenants made by the Shareholder in the Exchange Agreement. As a result of the rescission, which was agreed to by the Shareholder, the transaction was unwound as of December 1, 2015, the Company will return the equity interest in Synpower to an entity identified by the Shareholder, and the shares issued to the Shareholder were returned to the Company and will be cancelled pending final notification of cancellation from the Shareholder. As a result of the rescission and return of shares, the Company reduced the Investment in China Operating Company and recorded Treasury Stock of $190,000 during the three-month period ended March 31, 2016. The financial statements of Synpower and its subsidiary, Cast, were not consolidated with the Company’s 2015 financial statements for the period from December 1, 2015 through March 7, 2016 because the Company and Shareholder mutually rescinded the Exchange Agreement as of December 1, 2015 and the Company never had control of Synpower or Cast.

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

Note 6. Equity Transactions

Preferred Stock

On March 5, 2015, the Company amended its Certificate of Incorporation to increase the number of authorized shares to 250,000,000, consisting of 240,000,000 shares of common stock and 10,000,000 shares of preferred stock, and to cancel the designated but unissued Series A-D Preferred Stock and create a new series of preferred stock designated as the "Class A Preferred Stock". There are no shares of Class A Preferred Stock currently issued by the Company. Any holder of Class A Preferred Stock shall entitle the holder thereof to 150 votes on all matters submitted to a vote of the stockholders of the Company. The Class A Preferred Stock is convertible into common stock at a conversion price equal to 75% of the average closing price of the Company's common stock for the 30 trading days prior to the holder's election to convert.

Common Stock

At December 31, 2014, the Company's Board of Directors had authorized 200,000,000 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. In December 2014, the Company's board of directors approved an amendment of the Company's Amended and Restated Articles of Incorporation that increased the authorized number of the Company's shares of common stock to 240,000,000. The amendment was subject to stockholder approval which was obtained in February 2015.

During the six months ended June 30, 2017 and during the year ended December 31, 2016, the Company entered into a series of amendments to the Loan and Security Agreement entered into with a related party. (See Note 5, Related Party Transaction for further discussion). Under the terms of those amendments the Company has issued an aggregate of 480,000 shares of common stock Valued at $17,200 out of which $15,400 was recorded against debt due to related party.

On November 30, 2016, the Company entered into a consulting agreement with an outside business consultant. Under the terms of the agreement, services commenced on December 1, 2016 and will continue for three months. The Company is to issue to the consultant $15,000 worth of restricted common stock per month based on the three-day average closing price per share of the month. All shares earned under the agreement are considered earned in full and beneficially owned as of November 30, 2016. On December 30, 2016, the Company issued 300,000 shares of common stock to the consultants in payment of the first month's services. On January 17, 2017 and February 21, 2017 respectively, the Company issued each 300,000 shares of common stock in satisfaction of the consulting agreement total valued at $30,000 which was recorded against the debt due to related party.

On March 14, 2017, the Company issued 1,028,568 shares of common stock, valued at $72,000, in payment of accrued expenses relating to legal services.

On March 21, 2017, the Company entered into a consulting agreement with an outside business consultant. Under the terms of the agreement, the Company issued 3,000,000 shares of common stock, valued at $150,000, on April 3, 2017 in satisfaction of the consulting agreement.

On April 1, 2017, the Company entered into a consulting agreement with an outside business consultant. Under the terms of the agreement, services commenced on April 1, 2017 and will continue for three months. The Company issued to the consultant 1,000,000 shares of common stock, valued at $30,000. All shares earned under the agreement are considered earned in full and beneficially owned as of May 9, 2017.

On April 24, 2017, the Company entered into a consulting agreement with an outside business consultant. Under the terms of the agreement, services commenced on April 21, 2017 and will continue for five months. The Company issued to the consultant 1,000,000 shares of common stock, valued at $30,000. All shares earned under the agreement are considered earned in full and beneficially owned as of June 30, 2017.

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.

Table of Contents

Note 6. Equity Transactions (Continued)

In the six months ended June 30, 2017, there were no options granted, 190,000 options expired/forfeited, and no options exercised. In the six months ended June 30, 2016, there were 2,340,000 granted and no options exercised.

The following table summarizes the information relating to outstanding stock option activity during the six months ended June 30, 2017:

	Common Shares	Weighted Average Exercise Price	Weighted Average Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2016	18,842,558	$ 0.25	5.06	$ -
Granted	-	-	-	
Exercised	-	-	-	-
Forfeited or expired	(190,000)	0.41	-	
Outstanding at June 30, 2017	18,652,558	$ 0.25	4.64	$ -
Exercisable at June 30, 2017	18,652,558	$ 0.25	4.64	$ -

Stock compensation expense was $0 and $163,294 for the three and six months ended June 30, 2017 and 2016, respectively. As of June 30, 2017 and 2016, there was no unrecognized employee stock-based compensation expense related to non-vested stock options.

Warrants

At June 30, 2017, the Company had outstanding warrants to purchase the Company’s common stock which were issued in connection with stock purchases. Information relating to these warrants is summarized as follows:

For the six months ended June 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 4,250,000 shares of common stock with an exercise price of $0.01 with a ten-year exercise period. Under the guidance of ASC 480 Debt and ASC 815 Derivatives and Hedging, the Company determined that the warrants are free-standing equity instruments classified as equity on the date of issuance. The warrants were recorded at their initial fair totaling $133,729, recorded as a discount to the carrying value of the related party note, which has been fully amortized to interest expense at June 30, 2017.

Warrants	Number Outstanding	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price
Warrants-Stock Purchases	9,832,358	4.46	$ 0.20

Note 7. Convertible Notes Payable

The Company’s convertible promissory noted at June 30, 2017 and December 31, 2016 are as follows:

	June 30, 2017	December 31, 2016
Convertible notes payable, bearing zero rate of interest	$ 100,000	$ -
Convertible note payable, bearing interest at 8%	135,713	-
Convertible note payable, bearing interest at 8%	135,713	-
Total	371,425	-
Unamortized debt discount	(331,941)	-
Unamortized deferred debt issuance cost	(36,253)	-
Total	3,231	-
Less: Current portion	-	-
Long term portion	3,231	-

On April 21, 2017, the Company issued a convertible note in the amount of $100,000. The note is convertible, at the option of the holder, into shares of the Company’s common stock at a per share price of $0.03, subject to adjustment as provided in the note. The note matures on April 21, 2020. The note contained original issue discount of $10,000 which is being amortized over the life of the note. The Company has also incurred costs of $27,500 related to the note, consisting of $5,000 of legal costs and $22,500 for a commitment fee. These costs are also being amortized over the life of the note. The commitment fee was paid with 750,000 shares of common stock with a value of $22,500. The Company also recorded debt discount of $90,000 related to the embedded derivative, as described in Note 8, which is being amortized over the life of the note.

17

Table of Contents

Note 7. Convertible Notes Payable (Continued)

On May 17, 2017, the Company issued two convertible notes, each with a face amount of $135,712.50. The notes contain substantially the same terms. The notes and related accrued interest are convertible, at the option of the holders, into shares of the Company's common stock at a conversion price of 60% of the lowest trading price for 15 days prior to conversion. The notes bear interest at 8% per year and mature on May 17, 2018. The notes contained original issue discount aggregating of $24,675 which is being amortized over the life of the notes. The Company has also incurred aggregate legal costs of $11,750 related to the notes. These costs are also being amortized over the life of the notes. The Company also recorded debt discount of $246,750 related to the embedded derivative, as described in Note 8 which is being amortized over the life of the note.

During the three months ended June 30, 2017, the Company amortized $39,484 of debt discount and $2,997 of debt costs to interest expense. At June 30, 2017 unamortized debt discount was $331,941 and unamortized debt costs were $36,253.

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.

April 2017 Note

The Company identified embedded derivatives related to the conversion features of the April 2017 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 $99,106, using the Black Scholes Model based on the following assumptions: (1) risk free interest rate of 1.5%; (2) dividend yield of 0%; (3) volatility factor of the expected market price of our common stock of 301%; and (4) an expected life of 3 years. The initial fair value of the embedded debt derivative was allocated $90,000 as debt discount, which will be amortized to interest expense over the original term of the note, with the balance of $9,106 charged to expense at issue date.

During the three months ended June 30, 2017, the Company recorded income of $33,067 related to the change in the fair value of the derivative. The fair value of the embedded derivative was $66,040 at June 30, 2017, determined using the Black Scholes Model with the following assumptions: (1) risk free interest rate of 1.5%; (2) dividend yield of 0%; (3) volatility factor of the expected market price of our common stock of 316%; and (4) an expected life of 2.83 years.

May 2017 Notes

The Company identified embedded derivatives related to the conversion features of the May 2017 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 $597,160, using the Black Scholes Model based on the following assumptions: (1) risk free interest rate of 1.171%; (2) dividend yield of 0%; (3) volatility factor of the expected market price of our common stock of 486%; and (4) an expected life of 1 year. The initial fair value of the embedded debt derivative was allocated $246,750 as debt discount, which will be amortized to interest expense over the original term of the note, with the balance of $350,410 charged to expense at issue date.

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 $4,291 for the three months ended June 30, 2017, and were charged to interest expense.

During the three months ended June 30, 2017, the Company recorded income of $162,108 related to the change in the fair value of the derivative. The fair value of the embedded derivative was $439,343 at June 30, 2017, determined using the Black Scholes Model with the following assumptions: (1) risk free interest rate of 1.243%; (2) dividend yield of 0%; (3) volatility factor of the expected market price of our common stock of 419%; and (4) an expected life of 10.5 months.

Table of Contents

Note 9. Deferred Revenue

On October 30, 2012, the Company and MG Energy LLC, a Delaware limited liability company ("MG Energy"), entered into a License and Supply Agreement (the "Agreement"), effective October 26, 2012. Pursuant to the Agreement, the Company licensed certain intellectual property and improvements to MG Energy, for use in the manufacture and sale of energy recovery ventilators ("ERV") and certain other HVAC systems for installation in commercial, residential, or industrial buildings in North America and South America in exchange for the cancellation of $2,034,521 of debt due to MG Energy. Additionally, MG Energy agreed to purchase certain ConsERV products from the Company for MG Energy's use, pursuant to the terms and conditions of the Agreement. Under the agreement, MG Energy was required to pay royalties, as defined, to the Company on the net sales of each product or system sold. Expiration of the Agreement was to occur upon the expiration of the last patent right for the licensed technology.

The Company had identified all significant deliverables under the Agreement to be limited to the license for the intellectual property, and the supply services. In determining the units of accounting, the Company evaluated whether the license had stand-alone value to MG Energy based upon consideration of the relevant facts and circumstances of the Agreement. The Company determined that the license does not have stand-alone value to the licensee and, therefore, should be combined with the supply agreement as one unit of accounting. The initial payment for the license agreement was treated as an advance payment and recognized over the performance period of the supply agreement.

Subsequently, MG Energy entered a sublicense agreement with Multistack, LLC a Minnesota limited liability company ("Multistack"). For the six months ended June 30, 2017 and 2016, Multistack LLC accounted for approximately 0% and 68% of sales revenue, respectively.

On December 8, 2016, the Company, MG Energy, and Multistack, terminated the License and Supply Agreement (the "Agreement"), with mutual release. The License Agreement was terminated and all licenses, rights and obligations releasing all parties for any remaining services or payments.

At the date of termination of the License Agreement, the amount of deferred revenue was recognized as royalty revenue in December 2016, and accordingly, no accounts receivable was due from Multistack for the periods ended June 30, 2017 and December 31, 2016, respectively. Deferred revenue for this agreement was $0 at June 30, 2017 and December 31, 2016, respectively. The Company recognized royalty revenue of $0 and $20,282 at June 30, 2017 and 2016, respectively. The Company recognized license revenue of $0 and $48,334 at June 30, 2017 and 2016, respectively.

Note 10. Litigation

From time to time, claims are made against us in the ordinary course of our 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 us 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 our results of operations for that period or future periods.

In the third quarter of 2015, we 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 our products in China. As we reported in our Form 10-K for the year ended December 31, 2014 and filed with the Securities and Exchange Commission on April 1, 2015, we were 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, we reported we have not received any royalties from Soex. Soex is in breach of the Distribution Agreement.

Table of Contents

Note 10. Litigation (Continued)

As first reported in our Form 10-Q for the quarter ended June 30, 2015, we began pursuing legal action against Soex for breach of the Soex SPA and Distribution Agreement. On July 8, 2015, we 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 us 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").

Because of the material breaches, we terminated the Distribution Agreement. As provided in Section 14(e) of the Distribution Agreement, we have the right to enforce any obligation due to us 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 us 25% of the equity of SOEX (Beijing) Environmental Protection Technology Company Limited. As provided in Section 14(b), neither us 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 us in the China Subsidiary. With Soex's Equity Default, Soex breached the Soex SPA and we are seeking return of the Shares from Soex in the lawsuit filed in July 2015.

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

20

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 17, 2017.

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 w 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 17, 2017. There can be no assurance that the forward-looking statements contained in this Quarterly Report will occur. We have no obligation to publicly update or revise these forward-looking statements to reflect new information, future events, or otherwise, except as required by applicable Federal securities laws and we caution you not to place undue reliance on these forward-looking statements.

Overview

Dais Analytic Corporation is a nanostructured 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 nanostructured polymer technology applications including NanoAir™, a water based no fluorocarbon refrigerant dehumidification, humidification, heating and cooling system. We believe our nanostructured polymer technology may be useful in developing a form of energy storage device capable of storing greater energy density and power per pound than traditional forms of energy storage such as capacitors or batteries.

Formation History

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

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

Table of Contents

Recent Developments

To expand our revenue generating opportunities, we began accepting orders for delivery of our first NanoClear™ product in the early 3rd quarter of 2016. The product is targeted to be used in the growing multi-billion-dollar industrial wastewater cleanup market. We first constructed, and continue to operate, a pilot plant installed at a county waste water treatment facility in Florida that was commissioned in May 2013. This pilot was updated to the current generation of membrane evaporator in November 2016 as we improved the original technology. This site has and continues to serve as a showcase for potential commercial customers as well as a test-bed for newer materials and hardware as we commercially deploy NanoClear™ as well as make/test product upgrades.

In 2016, we built a NanoClear™ water cleaning system demonstration unit that is currently functional in Beijing, China. The unit is showcasing our Aqualyte™ based nanomaterial and engineered process to potential partners, key influencers, and end-users in the faster growing South East Asian market. This demonstration unit, with our other activities such as participating as a speaker or trade show vendor in large water industry trade shows (IE International Expo 2017), speaking at technical conferences (China Membrane Society's 2017 Annual Innovation Forum), or processing potential client waste water samples in Beijing or Odessa to show off the many solid ROI-based opportunities embodied in the NanoClear™ process.

In April 2015, we were prominently featured in an article in USA Today, emphasizing our commercialized nanotechnology as a potential solution for California's water crisis and recent lead issues plaguing many U.S. cities, schools and homes. We began commercial sales in the third quarter of 2016 of the first NanoClear™ product (M2 – a membrane evaporator). If we are successful, we believe that we will begin to generate significant revenues from the sales of NanoClear™ products in China, the U.S. and then worldwide, including sales to Europe and India.

Through June 30, 2017, the Company shipped twenty-three NanoClear™ systems of various sizes to customers focused on bringing on-line cost effective industrial waste water treatment systems to China and the US. Our revenues in the second quarter of 2017 increased over 400% to $115,024 from the first quarter of 2017. We expect revenue growth from increased sales of ConsERV™ and NanoClear™ as well as other products discussed herein. The Company's sales plan is to generate significant revenues from the sales of NanoClear™ products in China, while penetrating the growing US market. As each of these two markets begin to generate substantial revenues, Dais will then open its focus worldwide including sales to Europe and India. According to the Company's NanoClear™ sales opportunities projections, revenues generated by the sales of NanoClear™ products are expected to be greater than those of ConsERV™ in 2017.

Shipments of Products to New Markets; New Manufacturing in China

In 2016, we began shipments and sales of ConsERV™ cores to Israel, added a distributor in the Philippines, and continued our shipments of ConsERV™ cores in China. We are working with targeted companies in the US, the European Union, and in Asia interested in buying and distributing ConsERV™ cores. To help us expand our capabilities in China, we have qualified a Chinese manufacturing company to produce ConsERV™ cores using Aqualyte™ membrane made in the U.S. and guided by Dais qualified manufacturing practices to meet the growing demand for ConsERV™ systems.

Business and Infrastructure Development in China

With our qualified Chinese manufacturing company producing ConsERV™ cores using Aqualyte™ membrane made in the U.S. and guided by Dais qualified manufacturing practices we are growing the demand for this high-end product in areas of the world where air quality is challenged. Having ConsERV™ cores manufactured in Asia supports our objective of expanding our distribution in the Asian market and is projected to lower costs and allow quicker order fulfillment.

Table of Contents

On October 31, 2016, Dais entered into a Memorandum of Understanding with China State Construction Engineering Corporation (CSCEC) and Genertec America Inc. pursuant to which the three companies will cooperate on generating sales in China using Dais's products and application expertise. CSCEC will use Dais's Aqualyte™ membrane to develop and preferentially promote a range of green applications and products for use in China. Dais has agreed to provide membrane to CSCEC along with technical support and information on product optimization. Dais will continue development work on its membrane to improve its performance and lower its cost. Genertec will be responsible for importing and exporting materials between CSCEC and Dais.

The CSCEC business opportunity was first presented to the Company when it was a participant in the 2015 Official Presidential Business Development Trade Mission to China.

On April 27, 2017, Dais entered into a three-year Cooperation Agreement with Beijing Geoenviron Technology and Engineering, Inc. a leader in providing advanced pollution prevention and treatment solutions in Mainland China, to distribute Dais' NanoClear™ product for the treatment of aggressively contaminated industrial wastewater. Under the Agreement, BGE will use its well-established sales organization and distribution channels to actively promote and sell NanoClear™ membrane evaporators to treat wastewater in the petrochemical and electric power industries in Mainland China. BGE will establish a pilot project that will serve as an integral part of BGE's marketing strategy for NanoClear™ and then purchase a minimum of sixteen systems during the three-year term of the Agreement. BGE will purchase membrane evaporators from Dais and design, procure and build out the balance of the water pollution treatment systems with Dais providing guidance and support for NanoClear™ portion of the system.

In 2017, we signed a multi-year supply agreement with Haier Group, of China, for our Aqualyte membrane. Haier has been testing Aqualyte and concluded that Aqualyte offers unique characteristics that would be beneficial if incorporated in a select group of their products. We expect to generate revenue from Haier starting in the third and fourth quarter of 2017.

In 2017, we signed a multi-year License and Supply agreement with Menred Group, Zhejiang province, China to provide its Aqualyte moisture transfer nanomaterial for use in a newer line of Menred energy recovery ventilators (ERV) to be sold into the growing Chinese heating, ventilation and air conditioning (HVAC) market. We expect to generate revenue from Menred starting in the fourth quarter of 2017.

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 fourth quarter of 2017.

NanoAir™ Funding to Build Full-Size Prototype

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

Table of Contents

Introduction of New Version of Aqualyte™ Membrane Technology

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

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 and Kraton (formerly Shell Elastomers then part of Royal Dutch Shell). Our process changes the molecular properties of the starting polymer resins such that in their final form they selectively allow molecules through the plastic, including water molecules.

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

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.

Table of Contents

In addition to applications in the residential, commercial and industrial building market, we have been working with a major European automotive firm to bring the benefits of ConsERV™ to the transportation market. Initial testing has been very encouraging. 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.

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

NanoClear™ – Water Treatment

We are commercially introducing the first NanoClear™ application which removes 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. The experience and generated data from the pilot facility combined with manufacturing techniques and improvements pioneered by us formed this generation of Aqualyte™ based membrane evaporators.

We worked with partners at China Electronics Technology Group Corporation (CETC), and the China Research Academy for the Environmental Services (CRAES) to build and commission a sales demonstration tool for NanoClear™ located in Beijing. This self-contained unit entered operation in the third quarter of 2016 and allows us to bring potential customers in one of the largest water treatment markets in the world for a sales demonstration of a fully functional, aesthetically pleasing NanoClear™ system. In December of 2016 the Company installed a full enclosed NanoClear demonstration, and showed it to a group of over 30 interested China companies as well as using it to test potential customer's feed water. The Company has, and continues to generate revenues from showing this Beijing based demonstration unit. Follow up activity is ongoing to build a larger pilot installation featuring commercially available M2 membrane evaporators. This system is expected to be located at an industrial partner's location in or near Beijing, where it will demonstrate continuous treatment of an actual customer's wastewater with a commercial product that is currently offered for sale.

NanoAir™ – Water-based packaged HVAC system

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

Table of Contents

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

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

PolyCool™

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

NanoCap™

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

Other

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

Table of Contents

RESULTS OF OPERATIONS

THREE MONTHS ENDED JUNE 30, 2017 COMPARED TO JUNE 30, 2016

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

	For the Three Months Ended June 30,	
	2017	**2016**
REVENUE		
Sales	$ 115,024	$ 202,264
Royalty and license fees	-	51,419
	115,024	253,683
COST OF GOODS SOLD	94,989	184,092
GROSS MARGIN	20,035	69,591
OPERATING EXPENSES		
Research and development, net	96,102	90,980
Selling, general and administrative	560,679	520,921
TOTAL OPERATING EXPENSES	656,781	611,901
LOSS FROM OPERATIONS	(636,746)	(542,310)
OTHER INCOME (EXPENSE)		
Other income	-	-
Interest expense, net income	(509,764)	(918)
Change in fair value of derivative liabilities	195,175	-
TOTAL OTHER EXPENSE, NET	(314,589)	(918)
NET LOSS	$ (951,335)	$ (543,228)

Revenue

We generate our revenues primarily from the sale of our ConsERV™ cores, Aqualyte™ membrane and, beginning in the second quarter of 2016, NanoClear™ evaporators. Product sales were $115,024 and $202,264 for the three months ended June 30, 2017 and 2016, a decrease of $87,240 or 43%. The decrease in product sales resulted from the termination of the licensing agreement with Multistack LLC which required minimum monthly purchases of cores and related products. Revenues from royalty and license fees were $0 and $51,419 for the three months ended June 30, 2017 and 2016, primarily due to the recognition of all remaining deferred revenue in 2016 as licensing income from the termination of a licensing agreement with Multistack LLC.

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. Cost of goods sold were $94,989 and $184,092 for the three months ended June 30, 2017 and 2016, a decrease of $89,103 or 48%. This reflects the decrease in sales volume to offset fixed costs.

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

Table of Contents

Gross margin

Gross margin from the sales of products was 17.4% and 9.0% for the three months ended June 30, 2017 and 2016. The gross margin increase is the result of the sales of higher-margin products.

Research and development costs

Expenditures for research and development are expensed as incurred. We incurred research and development costs of $108,672 and $252,997 for the three months ended June 30, 2017 and 2016, a decrease of $144,325 or 57%. 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 $12,570 and $162,017 for three months ended June 30, 2017 and 2016, a decrease of $149,447 or 92%. 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 $560,679 and $520,921 for the three months ended June 30, 2017 and 2016, an increase of $39,758 or 8%.

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 June 30, 2017 compared to the same period in 2016 resulted primarily from payroll costs offset by lower professional fees, recruiting fees and travel costs.

Net Loss

Net loss for the three months ended June 30, 2017 was $951,335 compared to a net loss of $543,228 for the three months ended June 30, 2016. The higher loss in the three months ended June 30, 2017 was the result of decreased sales and royalty and licensing fee revenue as a result of the termination of the licensing agreement with Multistack LLC and an increase in interest expense on the related-party note partially offset by a favorable change in the fair value of derivatives.

Table of Contents

SIX MONTHS ENDED JUNE 30, 2017 COMPARED TO JUNE 30, 2016

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

	For the Six Months Ended June 30,	
	2017	**2016**
REVENUE		
Sales	$ 136,400	$ 363,908
Royalty and license fees	-	102,839
	136,400	466,747
COST OF GOODS SOLD	116,009	294,593
GROSS MARGIN	20,391	172,154
OPERATING EXPENSES		
Research and development, net	163,020	277,611
Selling, general and administrative	900,403	858,806
TOTAL OPERATING EXPENSES	1,063,423	1,136,417
LOSS FROM OPERATIONS	(1,043,032)	(964,263)
OTHER INCOME (EXPENSE)		
Other income	-	32,338
Interest expense, net income	(577,753)	(1,057)
Change in fair value of derivative liabilities	195,175	-
TOTAL OTHER (EXPENSE) INCOME, NET	(382,578)	31,281
NET LOSS	$ (1,425,610)	$ (932,982)

Revenue

We generate our revenues primarily from the sale of our ConsERV™ cores, Aqualyte™ membrane and, beginning in the second quarter of 2016, NanoClear™ evaporators. Product sales were $136,400 and $363,908 for the six months ended June 30, 2017 and 2016, a decrease of $233,509 or 63%. The decrease in product sales resulted from a 44% decrease in ConsERV™ sales in 2016 offset by new sales of NanoClear evaporators. Revenues from royalty and license fees were $0 and $102,839 for the six months ended June 30, 2017 and 2016, primarily due to the recognition of all remaining deferred revenue in 2016 as licensing income from the termination of a licensing agreement with Multistack LLC.

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. Cost of goods sold were $116,009 and $294,593 for the six months ended June 30, 2017 and 2016, a decrease of $178,584 or 61%. This reflects the decline in ConsERV™ core sales offset by increased costs of producing the new NanoClear™ evaporators.

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

Table of Contents

Gross margin

Gross margin was 14.9% and 19.0% for the six months ended June 30, 2017 and 2016 due the decline in ConsERV™ sales.

Research and development costs

Expenditures for research and development are expensed as incurred. We incurred research and development costs of $295,496 and $588,266 for the six months ended June 30, 2017 and 2016, a decrease of $292,770 or 50%. 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 $132,476 and $310,655 for six months ended June 30, 2017 and 2016, a decrease of $178,179 or 57%. 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 $900,403 and $858,806 for the six months ended June 30, 2017 and 2016, an increase of $41,596 or 5%.

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 six months ended June 30, 2017 compared to the same period in 2016 resulted primarily from consulting and financing activities, partially offset by lower payroll, insurance and utility costs.

Net Loss

Net loss for the six months ended June 30, 2017 was $1,425,610 compared to a net loss of $932,982 for the six months ended June 30, 2016. The higher loss in the six months ended June 30, 2017 was primarily the result of lower gross margin and financing activities.

Liquidity and Capital Resources

The accompanying financial statements have been prepared assuming that we will continue as a going concern. For the six months ended June 30, 2017, we generated a net loss of $1,425,610 and have incurred significant losses since inception. As of June 30, 2017, we had an accumulated deficit of $45,090,096, a stockholders' deficit of $3,137,865 and cash and cash equivalents of $26,675. We used $499,744 and $617,927 of cash from operations during the six months ended June 30, 2017 and 2016, respectively, which was funded primarily by proceeds from equity financings. 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.

Table of Contents

Management believes that our current cash position and our ability to obtain additional sources of cash flow given the structural growth in 2016 in manufacturing and newer products both in ConsERV™ (newer core types, move into complete ERV systems in China) and NanoClear™ (M2) is sufficient to fund our working capital requirements for the next year. However, there can be no assurance that we will be successful in our efforts to secure such additional sources of product revenue or capital.

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

Statement of Cash Flows

Cash and cash equivalents as of June 30, 2017 were $26,675 compared to $21,066 as of December 31, 2016. Cash is primarily used to fund our working capital requirements.

Net cash used by operating activities was $499,744 for the six months ended June 30, 2017 compared to $617,927 for the same period in 2016. The decrease in net cash used was primarily due to a decrease in non-cash working capital partially offset by a higher net loss which included increased non-cash financing costs.

Net cash used by investing activities was $16,648 for the six months ended June 30, 2017 compared to $45,313 for the same period in 2016, driven by decreased spending on capital items.

Net cash provided by financing activities was $522,000 for the six months ended June 30, 2017 compared to $150,000 for the same period in 2016, resulting from loans from a related party and 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. The Note has been subsequently amended and the current principal balance is $665,000, which is due on August 31, 2017.

On April 21, 2017, the Company issued a convertible note in the amount of $100,000. The note is convertible, at the option of the holder, into shares of the Company's common stock at a per share price of $0.03, subject to adjustment as provided in the note. The note matures on April 21, 2020. The note contained original issue discount of $10,000 which is being amortized over the life of the note. The Company has also incurred costs of $27,500 related to the note, consisting of $5,000 of legal costs and $22,500 for a commitment fee. These costs are also being amortized over the life of the note. The commitment fee was paid with 750,000 shares of common stock with a value of $22,500.

On May 17, 2017, the Company issued two convertible notes, each with a face amount of $135,712.50. The notes contain substantially the same terms. The notes and related accrued interest are convertible, at the option of the holders, into shares of the Company's common stock at a conversion price of 60% of the lowest trading price for 15 days prior to conversion. The notes bear interest at 8% per year and mature on May 17, 2018. The notes contained original issue discount aggregating of $24,675 which is being amortized over the life of the notes. The Company has also incurred aggregate legal costs of $11,750 related to the notes. These costs are also being amortized over the life of the notes.

Table of Contents

On April 24, 2014, we entered into a Distribution Agreement (the "Distribution Agreement") with SoEX (Hong Kong) Industry & Investment Co., Ltd., a Hong Kong corporation ("Soex"). The Distribution Agreement was a covenant included in a Securities Purchase Agreement, dated January 21, 2014, between us and Soex, pursuant to which Soex purchased 37,500,000 shares of our common stock, equal to approximately 31% of the issued and outstanding shares of common stock as of September 30, 2016. Pursuant to the Distribution Agreement, in exchange for $500,000 to be paid by October 20, 2014, royalty payments and a commitment from Soex to purchase nano-material membrane and other products from us, Soex obtained the right to distribute and market our products for incorporation in energy recovery ventilators sold and installed in commercial, industrial and residential buildings, transportation facilities and vehicles (the "Field") in mainland China, Hong Kong, Macao and Taiwan (the "Territory"). Further, Soex received an exclusive license in the Territory to use our intellectual property in the manufacture and sale of our products in the Field and Territory and to purchase its requirements of nano-material membrane only from us, subject to terms and conditions of the Distribution Agreement. During 2014, $50,000 of the $500,000 license fee was received. Pursuant to the Distribution Agreement, Soex was required to pay us $500,000, issue us 25% of the equity of a newly-created company, Soex (Beijing) Environmental Protection Technology Company Limited and pay us royalties. Soex only paid us $50,000 of the required $500,000, did not issue the required equity and did not pay any required royalties. Effective June 12, 2015, our Board of Directors ratified the termination of the Distribution Agreement, dated April 24, 2014, with Soex as a result of a breach of the Distribution Agreement by Soex. There are no early termination penalties for the termination of the Distribution Agreement as well as the Securities Purchase Agreement that we entered into in January 2014. We are pursuing legal action against Soex for breach of the Distribution Agreement (see Part II, Item I, Legal Proceedings).

On December 15, 2014, we entered into a Securities Purchase Agreement (the "SPA") with two investors, Hong Kong SAGE Technology Investment Co., Limited and Hong Kong JHSE Technology Investment Co., Limited, both with principal offices in Hong Kong (the "Purchasers"). Pursuant to the SPA, we sold 18,000,000 shares of our common stock, $0.01 par value per share for $2,750,000, at approximately $0.153 per share pursuant to Regulation S. The investors were issued 18,000,000 shares after we received all funds in the first quarter of 2015.

ECONOMY AND INFLATION

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

OFF-BALANCE SHEET ARRANGEMENTS

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the Exchange Act)). Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective in alerting them in a timely manner to material information required to be disclosed in our periodic reports filed with the SEC.

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

Table of Contents

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

The information required by this Item is incorporated herein by reference to Notes to Financial Statements—*Note 8. Litigation* in Part I, Item 1, of this Quarterly Report on Form 10-Q.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

33

Table of Contents

Item 6. Exhibits

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

_____

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

Table of Contents

SIGNATURES

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

DAIS ANALYTIC CORPORATION
(Registrant)

Date: August 21, 2017

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

Date: August 21, 2017

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