

DAIS ANALYTIC CORP
Form 10-Q
May 15, 2014

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

FORM 10-Q

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

For the quarterly period ended March 31, 2014

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

For the transition period from _____ to _____

Commission File No. 000-53554

DAIS ANALYTIC CORPORATION
(Exact name of Registrant as specified in its charter)

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

14-1760865
(IRS Employer Identification No.)

11552 Prosperous Drive, Odessa, FL 33556
(Address of principal executive offices) (Zip Code)

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

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes

No x

There were 101,109,034 shares of the Registrant's \$0.01 par value common stock outstanding as of May 15, 2014.

Dais Analytic Corporation

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PART I — FINANCIAL INFORMATION

DAIS ANALYTIC CORPORATION
BALANCE SHEETS

	March 31, 2014 (unaudited)	December 31, 2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 848,440	\$ 27,125
Accounts receivable, net	149,848	149,130
Other receivables	101,515	109,106
Inventory	155,210	159,870
Prepaid expenses and other current assets	42,408	47,540
Total Current Assets	1,297,421	492,771
Property and equipment, net	95,745	96,981
OTHER ASSETS:		
Deposits	2,280	2,280
Patents, net of accumulated amortization of \$183,877 and \$176,178 at March 31, 2014 and December 31, 2013, respectively	114,363	113,139
Total Other Assets	116,643	115,419
TOTAL ASSETS	\$ 1,509,809	\$ 705,171
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Accounts payable, including related party payables of \$10,809 and \$160,374 at March 31, 2014 and December 31, 2013, respectively	\$ 476,096	\$ 641,074
Accrued expenses, other	125,113	126,990
Current portion of deferred revenue	119,850	205,201
Note payable, related party	-	35,000
Total Current Liabilities	721,059	1,008,265
LONG-TERM LIABILITIES:		
Accrued compensation and related benefits	1,687,533	1,672,893
Deferred revenue, net of current portion	1,743,607	1,773,525
Total Long-Term Liabilities	3,431,140	3,446,418
TOTAL LIABILITIES	4,152,199	4,454,683
STOCKHOLDERS' DEFICIT		
Preferred stock; \$0.01 par value; 10,000,000 shares authorized; 0 shares issued and outstanding	-	-

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Common stock, \$0.01 par value; 200,000,000 shares authorized; 101,366,247 and 60,116,247 shares issued and 101,109,034 and 59,859,034 shares outstanding, respectively	1,013,663	601,163
Capital in excess of par value	38,093,734	36,994,742
Accumulated deficit	(40,477,675)	(40,073,305)
	(1,370,278)	(2,477,400)
Treasury stock at cost, 257,213 shares	(1,272,112)	(1,272,112)
Total Stockholders' Deficit	(2,642,390)	(3,749,512)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 1,509,809	\$ 705,171

The accompanying notes are an integral part of these financial statements

DAIS ANALYTIC CORPORATION
STATEMENTS OF OPERATIONS (UNAUDITED)

	For the Three Months Ended March 31,	
	2014	2013
REVENUE:		
Sales	\$ 220,411	\$ 569,622
License fees	31,170	50,420
	251,581	620,042
COST OF GOODS SOLD	207,150	486,593
GROSS MARGIN	44,431	133,449
OPERATING EXPENSES		
Research and development expenses, net of government grant proceeds of \$160,917 and \$0, respectively	108,026	114,329
Selling, general and administrative expenses	340,455	325,371
TOTAL OPERATING EXPENSES	448,481	439,700
LOSS FROM OPERATIONS	(404,050)	(306,251)
OTHER EXPENSE (INCOME)		
Interest expense	374	-
Interest income	(54)	(102)
TOTAL OTHER EXPENSE (INCOME)	320	(102)
NET LOSS	\$ (404,370)	\$ (306,149)
NET LOSS PER COMMON SHARE, BASIC AND DILUTED	\$ (0.01)	\$ (0.01)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC AND DILUTED	70,991,247	55,422,501

The accompanying notes are an integral part of these financial statements

DAIS ANALYTIC CORPORATION
STATEMENTS OF STOCKHOLDERS' DEFICIT (UNAUDITED)

	Common Stock Shares	Common Stock Amount	Capital in Excess of Par Value	Accumulated Deficit	Treasury Stock	Total Stockholders' Deficit
Balance, December 31, 2013	60,116,247	\$ 601,163	\$ 36,994,742	\$ (40,073,305)	\$ (1,272,112)	\$ (3,749,512)
Stock-based compensation	-	-	11,492	-	-	11,492
Issuance of common stock for cash, including common stock issued to placement agent	41,250,000	412,500	1,087,500			1,500,000
Net loss	-	-	-	(404,370)	-	(404,370)
Balance, March 31, 2014	101,366,247	\$ 1,013,663	\$ 38,093,734	\$ (40,477,675)	\$ (1,272,112)	\$ (2,642,390)

The accompanying notes are an integral part of these financial statements

DAIS ANALYTIC CORPORATION
STATEMENTS OF CASH FLOWS (UNAUDITED)

For the Three Months
Ended
March 31,
2014 2013

CASH FLOWS FROM OPERATING ACTIVITIES:

Net loss	\$ (404,370)	\$ (306,149)
Adjustments to reconcile net loss to net cash and cash equivalents used by operating activities:		
Depreciation and amortization	18,135	14,627
Stock based compensation expense	11,492	24,758
(Increase) decrease in:		
Accounts receivable	(718)	61,679
Other receivables	7,591	-
Inventory	4,660	(61,062)
Prepaid expenses and other assets	5,132	(359)
Increase (decrease) in:		
Accounts payable and accrued expenses	(166,855)	61,787
Accrued compensation and related benefits	14,640	(28,715)
Deferred revenue	(115,269)	(50,420)
Net cash used by operating activities	(625,562)	(283,854)

CASH FLOWS FROM INVESTING ACTIVITIES:

Increase in patent costs	(8,923)	(16,284)
Purchases of property and equipment	(9,200)	(5,811)
Net cash used by investing activities	(18,123)	(22,095)

CASH FLOWS FROM FINANCING ACTIVITIES:

Payments on note payable, related party	(35,000)	-
Issuance of common stock, net of offering costs	1,500,000	29,973
Net cash provided by financing activities	1,465,000	29,973
Net increase (decrease) in cash and cash equivalents	821,315	(275,976)
Cash and cash equivalents, beginning of period	27,125	294,150
Cash and cash equivalents, end of period	\$ 848,440	\$ 18,174

SUPPLEMENTAL CASH FLOW INFORMATION:

Cash paid for interest	\$ 374	\$ -
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The accompanying notes are an integral part of these financial statements

Dais Analytic Corporation
Notes to Financial Statements
Three Months Ended March 31, 2014
(Unaudited)

Note 1. Background Information

Dais Analytic Corporation, a New York corporation, (the “Company”) has developed and is commercializing applications using its nano-structure polymer technology. The first commercial product is an energy recovery ventilator (“ERV”) (cores and systems) for use in commercial Heating, Ventilating, and Air Conditioning (HVAC) applications. In addition to direct sales, the Company licenses its nano-structured polymer technology to strategic partners in the aforementioned application and is in various stages of development with regard to other applications employing its base technologies. The Company was incorporated in April 1993 with its corporate headquarters located in Odessa, Florida.

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

The unaudited financial statements and notes are presented as permitted by Form 10-Q. Accordingly, certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted although the Company generally believes that the disclosures are adequate to ensure that the information presented is not misleading. The accompanying financial statements and notes should be read in conjunction with the audited financial statements and notes of the Company for the fiscal year ended December 31, 2013 included in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 31, 2014. The results of operations for the three month period ended March 31, 2014 are not necessarily indicative of the results that may be expected for any future quarters or for the entire year ending December 31, 2014.

Note 2. Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has incurred significant losses since inception. As of March 31, 2014, the Company has an accumulated deficit of \$40,477,675 and a stockholders’ deficit of \$2,642,390. The Company used \$625,562 and \$283,854 of cash in operations during the three months ended March 31, 2014 and 2013, respectively, which was funded by proceeds from product sales and equity financings. The Company, as a result of an equity financing completed in the quarter ended March 31, 2014, has \$848,440 in cash and cash equivalents. There is no assurance that such equity financing will be available in the future. In view of these matters, there is substantial doubt that the Company will continue as a going concern.

The Company is currently highly dependent on one customer. In October of 2012, we entered into a License and Supply Agreement with MG Energy LLC (“MGE”). Pursuant to the agreement, effective October 26, 2012, we licensed certain intellectual property and improvements thereto to MGE, 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. Energy recovery ventilators are mechanical equipment, of which an energy recovery ventilator air to air exchanger core is a component, that assists in the recovery of energy from the exhaust air expelled by an HVAC system for the purpose of pre-conditioning the incoming outdoor air's components prior to

supplying the conditioned air to a residential or commercial building, either directly or as part of an air-conditioning system. MGE also agreed to purchase its requirements of certain products including, but not limited to, our ConsERV™ energy recovery ventilator cores from us for MGE's use, pursuant to the terms and conditions of the agreement. MGE then entered into a sublicense with Multistack, LLC. Michael Gostomski, one of the Company's shareholders with approximately 2,500,000 shares at March 31, 2014, has an ownership interest in both MGE and Multistack, LLC. For the year ended December 31, 2013, Multistack, LLC, accounted for approximately 83% of the Company's revenue. For the quarter ended March 31, 2014, Multistack, LLC, accounted for approximately 86% of the Company's revenue.

Dais Analytic Corporation
Notes to Financial Statements
Three Months Ended March 31, 2014
(Unaudited)

The Company's ability to continue as a going concern is highly dependent on our ability to obtain additional sources of cash flow sufficient to fund our working capital requirements. The Company plans to increase its sales outside North America and raise equity through the sale of licenses and equity securities. However, there can be no assurance that the Company will be successful in its efforts to secure such cash flow. Any failure by us to timely procure additional financing or investment adequate to pay our outstanding obligations and fund our ongoing operations, including planned product development initiatives and commercialization efforts, will have material adverse consequences on our financial condition, results of operations and cash flows.

The financial statements of the Company do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts and classifications of liabilities that might be necessary should the Company be unable to continue as a going concern.

Note 3. Significant Accounting Policies

In the opinion of management, all adjustments necessary for a fair statement of (a) the results of operations for the three month periods ended March 31, 2014 and 2013, (b) the financial position at March 31, 2014 and December 31, 2013, and (c) cash flows for the three month periods ended March 31, 2014 and 2013, have been made.

The significant accounting policies followed are:

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

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

Accounts receivable - Accounts receivable consist primarily of receivables from the sale of our ERV products. The Company regularly reviews accounts receivable for any bad debts based on an analysis of the Company's collection experience, customer credit worthiness, and current economic trends. Based on management's review of accounts receivable, we have recorded an allowance for doubtful accounts of \$831 and \$2,576 at March 31, 2014 and March 31, 2013, respectively.

Other receivables - Accounts receivable consist primarily of receivables from the U.S. Department of Defense and the U.S. Department of Energy ARPA-E grant program. The Company prepares invoices as it meets grant program milestones. Based on management's review of other receivables, management has determined that no allowance for uncollectibility is necessary at March 31, 2014.

Inventory - Inventory consists primarily of raw materials 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.

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. Gains and losses upon disposition are reflected in the statement of operations in the period of disposition. Maintenance and repair expenditures are charged to expense as incurred. Property and equipment are evaluated for impairment when events change or changes in circumstances indicate that the carrying amount of the assets may not be recoverable.

Dais Analytic Corporation
Notes to Financial Statements
Three Months Ended March 31, 2014
(Unaudited)

Note 3. Significant Accounting Policies (Continued)

Intangible assets - Identified intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Company's existing intangible assets consist solely of patents. Patents are amortized over their estimated useful or economic lives of 17 to 20 years. Patent amortization expense was approximately \$7,700 and \$6,000 for the three months ended March 31, 2014 and 2013, respectively. Total patent amortization expense for the next five years is estimated to be approximately \$16,000 per year and \$32,000 thereafter.

Long-lived assets - Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the book value of the asset may not be recoverable. The Company periodically evaluates whether events and circumstances have occurred that indicate possible impairment. When impairment indicators exist, the Company uses market quotes, if available or an estimate of the future undiscounted net cash flows of the related asset or asset group over the remaining life in measuring whether or not the asset values are recoverable. There have been no significant impairments of long-lived assets during the three month period ended March 31, 2014.

Revenue recognition - Generally, the Company recognizes revenue for its products upon shipment to customers, provided no significant obligations remain and collection is probable. In certain instances, our ConsERV product carries a warranty for two years for all parts contained therein with the exception of the energy recovery ventilator core which, in such circumstances, typically carries a 10 year warranty. The warranty includes replacement of defective parts. The Company has recorded an accrual of approximately \$92,100 for future warranty expenses at March 31, 2014 and December 31, 2013.

Revenue derived from the sale of licenses is deferred and recognized as revenue on a straight-line basis over the life of the license, or until the license arrangement is terminated. The Company recognized revenue of \$31,170 and \$50,420 from license agreements for the three months ended March 31, 2014 and 2013, respectively.

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

Employee stock based compensation - The Company recognizes all share-based awards to employees, including grants of employee stock options, as compensation expense in the financial statements based on their fair values. That expense will be recognized over the period during which an employee is required to provide services in exchange for the award, known as the requisite service period (usually the vesting period).

There were no awards granted during the three months ended March 31, 2014 and 2013.

Non-employee stock-based compensation - The Company's accounting policy for equity instruments issued to consultants and vendors in exchange for goods and services follows the provisions of ASC 505-50, Equity-Based

Payments to Non-Employees. Stock-based compensation related to non-employees is accounted for based on the fair value of the related stock or options or the fair value of the services, whichever is more readily determinable. The measurement date for the fair value of the equity instruments issued is determined at the earlier of (i) the date at which a commitment for performance by the consultant or vendor is reached or (ii) the date at which the consultant or vendor's performance is complete. In the case of equity instruments issued to consultants, the fair value of the equity instrument is recognized over the term of the consulting agreement. The fair value of common stock issued for services is based on the closing stock price on the date the common stock was issued. During the three months ended March 31, 2014 and 2013, the Company did not issue any non-employee stock based compensation.

Dais Analytic Corporation
Notes to Financial Statements
Three Months Ended March 31, 2014
(Unaudited)

Note 3. Significant Accounting Policies (Continued)

Research and development expenses and grant proceeds - Expenditures for research, development and engineering of products are expensed as incurred. For the three months ended March 31, 2014 and 2013, the Company incurred gross research and development costs of approximately \$268,900 and \$114,300, respectively. The Company accounts for proceeds received from government grants for research as a reduction in research and development costs. For the three months ended March 31, 2014, the Company recorded approximately \$160,900 in grant proceeds against research and development expenses on the statement of operations. There were no grant proceeds received by the Company during the three months ended March 31, 2013.

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

Financial instruments - Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy 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.

Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management as of March 31, 2014. The Company uses the market approach to measure fair value for its Level 1 financial assets and liabilities, which include cash equivalents of approximately \$500,000 at March 31, 2014. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities.

The respective carrying value of certain on-balance sheet financial instruments approximated their fair values due to the short-term nature of these instruments. These financial instruments include cash, accounts receivable, accounts payable, accrued compensation and accrued expenses.

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

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

Dais Analytic Corporation
Notes to Financial Statements
Three Months Ended March 31, 2014
(Unaudited)

Note 3. Significant Accounting Policies (Continued)

Earnings (loss) per share - Basic income (loss) per share is computed by dividing net income (loss) attributable to common stockholders by the weighted average common shares outstanding for the period. Diluted income (loss) per share is computed giving effect to all potentially dilutive common shares. Potentially dilutive common shares may consist of incremental shares issuable upon the exercise of stock options and warrants and the conversion of notes payable to common stock. In periods in which a net loss has been incurred, all potentially dilutive common shares are considered anti-dilutive and thus are excluded from the calculation. At March 31, 2014 and 2013, the Company had 38,801,745 and 38,543,711 potentially dilutive common shares that were not included in the computation of income (loss) per share.

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

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

Recent accounting pronouncements - Recent accounting pronouncements issued by FASB, the AICPA and the SEC did not or are not believed by management to have a material impact on the Company's present or future financial statements.

Note 4. Accrued Expenses, other

Accrued expenses, other consist of the following:

	March 31, 2014	December 31, 2013
Accrued expenses, other	\$ 33,070	\$ 34,890
Accrued warranty costs	92,043	92,100
	\$ 125,113	\$ 126,990

Note 5. Related Party Transactions

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

technologies in biomedical and health care applications. As a result of a \$150,000 payment made by Aegis, the first license is considered fully paid and as such no additional license revenue will be forthcoming. Pursuant to the second license Aegis made an initial one-time payment of \$50,000 and is to make royalty payments of 1.5% of the net sales price it receives with respect to any personal hygiene product, surgical drape or clothing products (the latter when employed in medical and animal related fields) and license revenue it receives should Aegis grant a sublicense to a third party. To date Aegis has sold no such products nor has it received any licensing fees requiring a royalty payment be made to us. All obligations for such payments will end on the earlier of June 2, 2015 or upon the aggregate of all sums paid to us by Aegis under the agreement reaching \$1 million. The term of each respective license runs for the duration of the patented technology.

Dais Analytic Corporation
Notes to Financial Statements
Three Months Ended March 31, 2014
(Unaudited)

The Company rents a building that is owned by two stockholders of the Company, one of which is the Chief Executive Officer. Rent expense for this building is \$4,066 per month, including sales tax. The Company recognized rent expense of approximately \$12,200 during each of the quarters ended March 31, 2014 and 2013. At March 31, 2014 and December 31, 2013, \$9,779 and \$124,917, respectively, were included in accounts payable for amounts owed to these stockholders for rent.

The Company also has accrued compensation due to the Chief Executive Officer and two other employees for deferred salaries earned and unpaid as of March 31, 2014 and December 31, 2013 of \$1,687,533 and \$1,672,893, respectively. The Company determined that all of the accrued payroll is a long term liability, as the Company does not believe it will be repaid within the next year.

On November 25, 2013, the Company entered into an agreement with a related party to borrow \$35,000, the entire amount of which was due on demand as of December 31, 2013, with an interest rate of 6%. The Company paid all interest and principal due under this note on March 7, 2014.

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

Note 6. Stock Options and Warrants

Options

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

There were no options awarded or exercised during the three months ended March 31, 2014 and 2013.

The following summarizes the information relating to outstanding stock options activity with employees during 2014:

	Common Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2013	21,531,416	\$ 0.26	5.91	\$ -
Expired/Forfeited	(100,000)	0.12		
Outstanding at March 31, 2014	21,431,416	\$ 0.26	5.69	\$ 671,502

Exercisable at March 31, 2014	20,926,693	\$	0.27	5.62	\$	596,776
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Dais Analytic Corporation
Notes to Financial Statements
Three Months Ended March 31, 2014
(Unaudited)

Note 6. Stock Options and Warrants (Continued)

Stock compensation expense was approximately \$11,500 and \$24,800 for the three months ended March 31, 2014 and 2013, respectively. The total fair value of shares vested during the three months ended March 31, 2014 and 2013 was approximately \$29,100 and \$27,400, respectively.

As of March 31, 2014, there was approximately \$43,600 of unrecognized employee stock-based compensation expense related to non vested stock options, of which approximately \$20,700, \$21,900 and \$1,000 is expected to be recognized for the remainder of the fiscal year ending December 31, 2014, and for the fiscal years ending 2015 and 2016, respectively.

The following table represents our non vested share-based payment activity with employees for the three months ended March 31, 2014:

	Number of Options	Weighted Average Grant Date Fair Value
Nonvested options - December 31, 2013	605,140	\$ 0.13
Vested	(100,417)	\$ 0.30
Nonvested options – March 31, 2014	504,723	\$ 0.11

Warrants

At March 31, 2014, the Company had outstanding warrants to purchase the Company's common stock which were issued in connection with multiple financing arrangements and consulting agreements. Information relating to these warrants is summarized as follows:

	Remaining Number Outstanding	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price
Warrants			
Warrants-Financing	7,000,000	1.98	0.34
Warrants-Consulting Agreement	825,000	0.52	0.30
Warrants-Note Conversions	2,177,663	1.12	0.40
Warrants-Stock Purchases	6,967,666	3.33	0.36
Warrants-Services	400,000	0.81	0.50
Total	17,370,329		

Dais Analytic Corporation
Notes to Financial Statements
Three Months Ended March 31, 2014
(Unaudited)

Note 7. Securities Purchase Agreement

The Company entered into a Securities Purchase Agreement (the "SPA") with an investor, SoEX (Hong Kong) Industry & Investment Co., Ltd., a Hong Kong corporation (the "Investor"), pursuant to which the Company agreed to sell 37.5 million shares of the Company's common stock, for \$1.5 million, at \$0.04 per share pursuant to Regulation S. The Company received the \$1.5 million from the Investor on March 3, 2014, ahead of the March 7, 2014 deadline specified in the SPA and has issued the 37.5 million shares of common stock to the Investor and 3,750,000 shares of common stock to a non-U.S. placement agent. The Company shall use the proceeds from the sale of the common stock for working capital and business development. Pursuant to the SPA, the Company and the Investor negotiated the organization of a joint venture subsidiary, which has not yet been formed, owned by the Company and the Investor (see Note 10). The SPA also requires the Company to appoint a director nominated by the Investor which shall be completed during the second quarter of 2014. The Investor also signed a voting agreement which obligates the Investor to vote as recommended by the Company's board of directors for a one-year period beginning on the date the shares of common stock are issued to the Investor, which were issued on March 6, 2014.

Note 8. Deferred Revenue

The Company entered into a licensing agreement during the year ended December 31, 2003 and received an initial fee of \$770,000. This fee is deferred and recognized on a straight-line basis over the life of the license agreement of 10 years. In addition, the Company received royalties of \$100,000 in each of the first three years of the agreement. This agreement expired at the end of 2013. The Company recognized revenue of approximately \$19,000 for this agreement during the quarter ended March 31, 2013.

The Company entered into a licensing agreement with a biomedical entity during the year ended December 31, 2005 and received an initial license fee of \$50,000. This fee is deferred and recognized on a straight-line basis over the life of the license agreement of 7 years. The Company recognized revenue of approximately \$1,250 for this agreement during each of the quarters ended March 31, 2014 and 2013.

On October 30, 2012, the Company and MGE, a company in which a shareholder of the Company holds a position, entered into a License and Supply Agreement (the "Agreement"), effective October 26, 2012, pursuant to which the Company licensed certain intellectual property and improvements thereto to MGE, 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 MGE. MGE also agreed to purchase its requirements of certain ConsERV products from the Company for MGE's use, pursuant to the terms and conditions of the Agreement. MGE will also pay royalties, as defined, to the Company on the net sales of each product or system sold. The term of the Agreement will expire upon the last to expire of the underlying patent rights for the licensed technology.

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

supply agreement. Royalties will be recognized as revenue when earned. The Company recognized license and royalty revenue of approximately \$36,000 and \$30,000 for this Agreement during the quarters ended March 31, 2014 and 2013, respectively.

Dais Analytic Corporation
Notes to Financial Statements
Three Months Ended March 31, 2014
(Unaudited)

Note 8. Deferred Revenue (Continued)

MGE entered into a sublicense with Multistack, LLC. Michael Gostomski, one of the Company's shareholders with approximately 2,500,000 shares at March 31, 2014, has an ownership interest in both MGE and Multistack, LLC. For the quarters ended March 31, 2014 and 2013, Multistack, LLC, accounted for approximately 86% and 77% of the Company's revenue, respectively. At both March 31, 2014 and March 31, 2013, amounts due from Multistack, LLC were approximately 63% and 86%, respectively, of total accounts receivable.

Note 9. Litigation

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

In November 2013, the Company's Chief Operating Officer resigned from the Company. The former Chief Operating Officer alleges that the resignation was for Good Reason, as defined in the former Chief Operating Officer's employment agreement, and filed a demand for arbitration in December 2013. The former Chief Operating Officer is seeking severance pay equal to \$60,000, which is 50% of her annual salary in effect as of the date of resignation. The Company disputes the material allegations in the arbitration demand and believes the risk of loss is remote.

In March 2014, the Company received notice of a lawsuit against the Company and one of its OEM customers for damages in connection with the installation of equipment by a contractor involved in a construction project. The contractor makes claims for breach or warranties, negligence and products liability. In the complaint, the contractor alleges that it paid \$180,000 to the general contractor of the project for damages, including consequential and incidental damages, allegedly caused by equipment manufactured by the Company and its customer.

For both matters, the Company intends to vigorously defend itself against these allegations and, at this stage, the Company does not have an estimate of the likelihood or the amount of any potential expense for these matters.

Note 10. Subsequent Events

On April 24, 2014, the Company entered into a Distribution Agreement (the "Distribution Agreement") with SoEX (Hong Kong) Industry & Investment Co., Ltd., a Hong Kong corporation (the "Distributor"). Pursuant to the Distribution Agreement, in exchange for \$500,000, royalty payments and a commitment from the Distributor to purchase nano-material membrane and other products from Dais, the Distributor obtained the right to distribute and market Dais's products for incorporation in energy recovery ventilators sold and installed in commercial, industrial and residential buildings, transportation facilities and vehicles (the "Field") in mainland China, Hong Kong, Macao and Taiwan (the "Territory"). Further the Distributor received an exclusive license in the Territory to use Dais's intellectual property in the manufacture and sale of Dais's products in the Field and Territory and to purchase its requirements of nano-material membrane only from Dais, subject to terms and conditions of the Distribution Agreement.

To further the distribution of Dais's products in the Territory, and to further the intent of the Company and the Distributor first memorialized in the Securities Purchase Agreement, dated January 21, 2014 between the Distributor and Dais, the Distributor shall form SoEX (Beijing) Environmental Protection Technology Company Limited (the "Subsidiary") which will function as the manufacturer and master distributor for the products in the Field and Territory.

Upon the legal formation of the Subsidiary, Dais will be issued 25% of the equity of the Subsidiary, the right to a board seat and certain preemptive rights. The initial term of the Distribution Agreement is fifteen years unless terminated for, among other causes, the Distributor's failure to make payments to Dais for products ordered that do not exceed \$15,000,000 in 2016 or any calendar year thereafter.

No other material events have occurred subsequent to March 31, 2014 that require recognition or disclosure in these financial statements.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and the notes thereto included elsewhere in this quarterly report on Form 10-Q and in our annual report on Form 10-K filed with the Securities and Exchange Commission on March 29, 2013.

THIS FILING, INCLUDING BUT NOT LIMITED TO "MANAGEMENT'S DISCUSSION AND ANALYSIS", CONTAINS FORWARD-LOOKING STATEMENTS. THE WORDS "ANTICIPATED," "BELIEVE," "EXPECT," "PLAN," "INTEND," "SEEK," "ESTIMATE," "PROJECT," "WILL," "COULD," "MAY," AND SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS. THESE STATEMENTS INCLUDE, AMONG OTHERS, INFORMATION REGARDING FUTURE OPERATIONS, FUTURE CAPITAL EXPENDITURES, AND FUTURE NET CASH FLOW. SUCH STATEMENTS REFLECT THE COMPANY'S CURRENT VIEWS WITH RESPECT TO FUTURE EVENTS AND FINANCIAL PERFORMANCE AND INVOLVE RISKS AND UNCERTAINTIES, INCLUDING, WITHOUT LIMITATION, GENERAL ECONOMIC AND BUSINESS CONDITIONS, CHANGES IN FOREIGN, POLITICAL, SOCIAL, AND ECONOMIC CONDITIONS, REGULATORY INITIATIVES AND COMPLIANCE WITH GOVERNMENTAL REGULATIONS, THE ABILITY TO ACHIEVE FURTHER MARKET PENETRATION AND ADDITIONAL CUSTOMERS, AND VARIOUS OTHER MATTERS, MANY OF WHICH ARE BEYOND THE COMPANY'S CONTROL. OUR ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE ANTICIPATED IN THESE FORWARD-LOOKING STATEMENTS AS A RESULT OF SEVERAL FACTORS, INCLUDING THE RISKS FACED BY US AS DESCRIBED BELOW AND ELSEWHERE IN THIS FORM 10-Q AS WELL AS IN OUR FORM 10-K FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON MARCH 29, 2013. IN LIGHT OF THESE RISKS AND UNCERTAINTIES THERE CAN BE NO ASSURANCE THAT THE FORWARD-LOOKING STATEMENTS CONTAINED IN THIS FORM 10-Q WILL OCCUR. WE HAVE NO OBLIGATION TO PUBLICLY UPDATE OR REVISE THESE FORWARD-LOOKING STATEMENTS TO REFLECT NEW INFORMATION, FUTURE EVENTS, OR OTHERWISE, EXCEPT AS REQUIRED BY FEDERAL SECURITIES LAWS AND WE CAUTION YOU NOT TO PLACE UNDUE RELIANCE ON THESE FORWARD-LOOKING STATEMENTS. WE MAY NOT UPDATE THESE FORWARD-LOOKING STATEMENTS, EVEN THOUGH OUR SITUATION MAY CHANGE IN THE FUTURE.

OVERVIEW

We have developed and patented a nano-structure polymer technology, which is being commercialized in products based on the functionality of these materials. We believe the applications of our technology have promise in a number of diverse market segments and products.

The initial product commercialized by the Company is ConsERV, an energy recovery ventilator. Our primary focus is to expand our marketing and sales of our ConsERV products world-wide. We also have new product applications in various stages of development. We believe that three of these product applications, including an advanced air conditioning system which is projected to be more energy efficient and have lower emissions compared to current HVAC equipment, a sea-water desalination product and an electrical energy storage device, may be brought to market in the foreseeable future if we receive adequate capital funding.

We expect ConsERV™ to continue to be our focused commercial product through 2014 with a growing emphasis on moving the development of the NanoClear and NanoAir technologies towards commercialization.

RECENT DEVELOPMENTS

Securities Purchase Agreement with SoEX (Hong Kong) Industry & Investment Co., Ltd.

The Company entered into a Securities Purchase Agreement (the “SPA”) with an investor, SoEX (Hong Kong) Industry & Investment Co., Ltd., a Hong Kong corporation (the “Investor”), pursuant to which the Company agreed to sell 37.5 million shares of the Company’s common stock, for \$1.5 million, at \$0.04 per share pursuant to Regulation S. The Company received the \$1.5 million from the Investor on March 3, 2014, ahead of the March 7, 2014 deadline specified in the SPA and has issued the 37.5 million shares of common stock to the Investor and 3,750,000 shares of common stock to a non-U.S. placement agent. The Company shall use the proceeds from the sale of the common stock for working capital and business development. Pursuant to the SPA, the Company and the Investor negotiated the organization of a joint venture subsidiary, which has not yet been formed, owned by the Company and the Investor. The SPA also requires the Company to appoint a director nominated by the Investor which shall be completed during the second quarter of 2014. The Investor also signed a voting agreement which obligates the Investor to vote as recommended by the Company’s board of directors for a one-year period beginning on the date the shares of common stock are issued to the Investor, which were issued on March 6, 2014.

Initial ConSERV™ Order on Installation in China

The Company received an initial order for its ConSERV™ cores and systems useful in most forms of HVAC equipment built around Aqualyte™ nano-materials from a specialty engineering service company in Beijing, China. The deployment of the ConSERV™ technology is at the first building of a 45-building complex. Installation in the first building has been completed and the customer reports approximately 20% savings in energy usage at three different sites. We believe sales in China are our best route to increased sales and profitability.

Distribution Agreement with SoEX (Hong Kong) Industry & Investment Co., Ltd.

On April 24, 2014, the Company entered into a Distribution Agreement (the “Distribution Agreement”) with SoEX (Hong Kong) Industry & Investment Co., Ltd., a Hong Kong corporation (the “Distributor”). Pursuant to the Distribution Agreement, in exchange for \$500,000, royalty payments and a commitment from the Distributor to purchase nano-material membrane and other products from Dais, the Distributor obtained the right to distribute and market Dais’s products for incorporation in energy recovery ventilators sold and installed in commercial, industrial and residential buildings, transportation facilities and vehicles (the “Field”) in mainland China, Hong Kong, Macao and Taiwan (the “Territory”). Further the Distributor received an exclusive license in the Territory to use Dais’s intellectual property in the manufacture and sale of Dais’s products in the Field and Territory and to purchase its requirements of nano-material membrane only from Dais, subject to terms and conditions of the Distribution Agreement.

To further the distribution of Dais’s products in the Territory, and to further the intent of the Company and the Distributor first memorialized in the Securities Purchase Agreement, dated January 21, 2014 between the Distributor and Dais, the Distributor shall form SoEX (Beijing) Environmental Protection Technology Company Limited (the “Subsidiary”) which will function as the manufacturer and master distributor for the products in the Field and Territory. Upon the legal formation of the Subsidiary, Dais will be issued 25% of the equity of the Subsidiary, the right to a board seat and certain preemptive rights. The initial term of the Distribution Agreement is fifteen years unless terminated for, among other causes, the Distributor’s failure to make payments to Dais for products ordered that do not exceed \$15,000,000 in 2016 or any calendar year thereafter.

US Army Small Business Innovation Research Grant

In the first quarter of 2013, Dais was awarded a grant titled “Non-Fouling Water Reuse Technologies”. The grant allows Dais to tailor its NanoClear® process to the needs of Army units. NanoClear has repeatedly shown that its novel Aqualyte® family of materials has the ability to separate most contaminants from water, achieving nearly ‘parts per billion’ clean product water with little or no fouling of the important membrane component.

RESULTS OF OPERATIONS

MARCH 31, 2014 COMPARED TO MARCH 31, 2013

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

	For the Three Months Ended March 31,	
	2014	2013
REVENUE:		
Sales	\$ 220,411	\$ 569,622
License fees	31,170	50,420

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TOTAL REVENUE	251,581	620,042
COST OF GOODS SOLD	207,150	486,593
GROSS MARGIN	44,431	133,449
OPERATING EXPENSES		
Research and development expenses, net of government grant proceeds of \$160,917 and \$0, respectively	108,026	114,329
Selling, general and administrative expenses	340,455	325,371
TOTAL OPERATING EXPENSES	448,481	439,700
LOSS FROM OPERATIONS	(404,050)	(306,251)
OTHER EXPENSE (INCOME)	320	(102)
NET LOSS	\$ (404,370)	\$ (306,149)

REVENUES

The decrease in revenues in the 2014 period is primarily attributable to transitioning ConsERV™ system sales in North and South America to MG Energy LLC (“MGE”). For the quarter ended March 31, 2014, Multistack, LLC, accounted for approximately 86% of the Company’s revenue. We expected both revenue and cost of goods sold to decrease beginning in 2014 as a result of the License and Supply Agreement. We are working to create license/supply relationships with HVAC or ERV OEMs having a dominant presence in existing direct related sales channels world-wide outside of North and South America. The Company received an initial order for its ConsERV™ cores and systems useful in most forms of HVAC equipment built around Aqualyte™ nano-materials from a specialty engineering service company in Beijing, China. The deployment of the ConsERV™ technology is at the first building of a 45-building complex. Installation in the first building has been completed and the customer reports approximately 20% savings in energy usage. We believe sales in China are our best route to increased sales and profitability.

Product sales were \$220,411 and \$569,622 for the quarters ended March 31, 2014 and 2013, a decrease of \$349,211 of 61.3%. We now generate our revenues primarily from the sale of our ConsERV™ cores. Revenues for ConsERV™ cores were higher in 2013 as a result of a sales for a large hospital project in 2013. Revenues were also higher in 2013 as a result of sales of Energy Recovery Systems sales which we no longer sell as a result of the License and Supply Agreement with MGE.

COST OF SALES

Our cost of sales consists primarily of materials (including freight), direct labor, and outsourced manufacturing expenses incurred to produce our ConsERV™ products. Cost of goods sold was \$207,150 and \$486,593 for the quarters ended March 31, 2014 and 2013, respectively. The decrease of \$279,443 was a decrease of 57.4%, in line with the decrease in product sales. The decrease was slightly lower due to the loss of efficiency due to the lower sales volume in 2014.

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

GROSS MARGIN

Our gross margin decreased to \$44,431 in the quarter ended March 31, 2014 from \$133,449 in the quarter ended March 31, 2013 as a result of lower sales and lower license fees. Our gross margin percentage decreased from 23.4% for the quarter ended March 31, 2013 to 20.1% for the quarter ended March 31, 2014 as a result of the factors discussed above.

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

\$340,455 for the quarter ended March 31, 2014, compared to \$325,371 for the quarter ended March 31, 2013, an increase of \$15,084 or 4.6%.

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

Additional expenses as a result of being a reporting company including, but not limited to, director and officer insurance, director fees, SEC reporting and compliance expenses, transfer agent fees, additional staffing, professional fees and similar expenses;

Additional infrastructure needed to support the expanded commercialization of our ConsERV™ products and/or new product applications of our polymer technology for, among other things, administrative personnel, physical space, marketing and channel support and information technology; and

The issuance and fair value of new share-based awards, which is based on various assumptions including, among other things, the volatility of our stock price

NET INCOME (LOSS):

Net loss for the quarter ended March 31, 2014 was \$404,370 compared to net loss of \$306,149 for the quarter ended March 31, 2013. The loss in the quarter ended March 31, 2014 was a result of lower sales and lower gross margin in the quarter ended March 31, 2014.

Liquidity and Capital Resources

The Company finances its operations primarily through sales of its ConsERV™ products, sales of its common stock, the issuance of convertible promissory notes, unsecured promissory notes and license agreements.

Our historical revenues have not been sufficient to sustain our operations. We have achieved profitability in only one year since inception and we expect to continue to incur net losses and negative cash flow from operations until we can produce sufficient revenues to cover our costs, which are not expected for several years. Furthermore, even if we achieve our goal of selling a greater number of ConsERV™ products, we anticipate that we will continue to incur losses until we can cost-effectively produce and sell our products to a wider market. Our profitability will require the successful commercialization of our ConsERV™ products and any future products we develop. No assurances can be given when this will occur.

Any future financing may result in substantial dilution to existing shareholders, and future debt financing, if available, may include restrictive covenants or may require us to grant a lender a security interest in any of our assets not already subject to an existing security interest. To the extent that we attempt to raise additional funds through third party collaborations and/or licensing arrangements, we may be required to relinquish some rights to our technologies or products currently in various stages of development, or grant licenses or other rights on terms that are not favorable to us. Any failure by us to timely procure additional financing or investment adequate to fund our ongoing operations, including planned product development initiatives and commercialization efforts, will have material adverse consequences on our financial condition, results of operations and cash flows.

We will be dependent upon our existing cash of \$848,440 at March 31, 2014, product sales and any additional debt and equity issuances to finance our operations through the next 12 months. The Company has incurred significant losses since inception. As of March 31, 2014, the Company has an accumulated deficit of \$40,477,675 and a stockholders' deficit of \$2,642,390. The Company used \$625,562 and \$283,854 of cash in operations during the three months ended March 31, 2014 and 2013, respectively, which was funded by proceeds from product sales and equity financings. The Company, as a result of an equity financing completed in the quarter ended March 31, 2014, has \$848,440 in cash and cash equivalents. There is no assurance that such equity financing will be available in the future. In view of these matters, there is substantial doubt that the Company will continue as a going concern.

The Company entered into a Securities Purchase Agreement (the "SPA") with an investor, SoEX (Hong Kong) Industry & Investment Co., Ltd., a Hong Kong corporation (the "Investor"), pursuant to which the Company agreed to sell 37.5 million shares of the Company's common stock for \$1.5 million, at \$0.04 per share pursuant to Regulation S. The Company received the \$1.5 million from the Investor on March 3, 2014, ahead of the March 7, 2014 deadline specified in the SPA and has issued the 37.5 million shares of Common Stock to the Investor. The Company shall use the proceeds from the sale of the Common Stock for working capital and business development. The Company's ability to continue as a going concern is highly dependent on our ability to obtain additional sources of cash flow sufficient to fund our working capital requirements. However, there can be no assurance that the Company will be successful in its efforts to secure such cash flow. Any failure by us to timely procure additional financing or investment adequate to fund our ongoing operations, including planned product development initiatives and commercialization efforts, will have material adverse consequences on our financial condition, results of operations and cash flows.

The financial statements of the Company do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts and classifications of liabilities that might be necessary should the Company be unable to continue as a going concern.

Statement of Cash Flows

The following table sets forth, for the periods indicated, selected cash flow information:

	Three Months Ended March 31,	
	2014	2013
Cash flows (used by) by operating activities	\$ (625,562)	\$ (283,854)
Cash flows (used by) investing activities	(18,123)	(22,095)
Cash flows provided by financing activities	1,465,000	29,973
Net increase (decrease) in cash and cash equivalents	\$ 821,315	\$ (275,976)

Cash and cash equivalents as of March 31, 2014 were \$848,440 compared to \$27,125 as of December 31, 2013. Cash is primarily used to fund our working capital requirements.

As of March 31, 2014, the Company had working capital of \$576,362 compared to a working capital deficit of \$515,494 as of December 31, 2013.

Net cash used by operating activities was approximately \$625,500 for the three months ended March 31, 2014 as a result of our net loss and funds used to pay accounts payable and accrued expenses.

Net cash used in investing activities was approximately \$18,000 for the three months ended March 31, 2014 for payments on patents and the purchase of property and equipment.

Net cash provided by financing activities was \$1,465,000 for the three months ended March 31, 2014 as a result of the aforementioned \$1,500,000 sale of common stock and the repayment of a \$35,000 note to a related party.

ECONOMY AND INFLATION

Except as disclosed herein, we have not experienced any significant cancellation of orders due to the downturn in the economy and only a small number of customers requested delays in delivery or production of orders in process. Our management believes that inflation has not had a material effect on our results of operations.

OFF-BALANCE SHEET ARRANGEMENTS

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

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

Changes in Internal Control Over Financial Reporting

During the three months ended March 31, 2014, the Company has not made any changes to our internal control processes.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

In November 2013, the Company's Chief Operating Officer resigned from the Company. The former Chief Operating Officer alleges that the resignation was for Good Reason, as defined in the former Chief Operating Officer's employment agreement, and filed a demand for arbitration in December 2013. The former Chief Operating Officer is seeking severance pay equal to \$60,000, which is 50% of her annual salary in effect as of the date of resignation. The Company disputes the material allegations in the arbitration demand and believes the risk of loss is remote.

In March 2014, the Company received notice of a lawsuit against the Company and one of its OEM customers for damages in connection with the installation of equipment by a contractor involved in a construction project. The contractor makes claims for breach or warranties, negligence and products liability. In the complaint, the contractor alleges that it paid \$180,000 to the general contractor of the project for damages, including consequential and incidental damages, allegedly caused by equipment manufactured by the Company and its customer.

For both matters, the Company intends to vigorously defend itself against these allegations and, at this stage, the Company does not have an estimate of the likelihood or the amount of any potential expense for these matters.

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

During the three months ended March 31, 2014, the Company issued the following equity securities.

The Company entered into an SPA with the Investor, pursuant to which the Company agreed to sell 37.5 million shares of the Company's common stock, for \$1.5 million, at \$0.04 per share pursuant to Regulation S. The Company received the \$1.5 million from the Investor on March 3, 2014, ahead of the March 7, 2014 deadline specified in the SPA and has issued the 37.5 million shares of common stock to the Investor 3,750,000 shares of common stock to a non-U.S. placement agent. The Company shall use the proceeds from the sale of the common stock for working capital and business development. Pursuant to the SPA, the Company and the Investor negotiated the organization of a joint venture subsidiary, which has not yet been formed, owned by the Company and the Investor. The SPA also requires the Company to appoint a director nominated by the Investor which shall be completed during the second quarter of 2014. The Investor, however, Investor signed a voting agreement which obligates the Investor to vote as recommended by the Company's board of directors for a one-year period beginning on the date the shares of common stock are issued to the Investor, which were issued on March 6, 2014.

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

Rule 903 of Regulation S.

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ITEM 3.
DEFAULT
UPON
SENIOR
SECURITIES

None.

ITEM 4. MINE
SAFETY
DISCLOSURES

Not applicable.

ITEM 5. OTHER
INFORMATION

None.

ITEM 6.
EXHIBITS

31.1 Certification of Chief Executive Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Chief Financial Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101.INS XBRL Instance Document
**

101.SCH XBRL Taxonomy Extension Schema Document
**

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
**

101.DEF XBRL Taxonomy Extension Definition Linkbase Document
**

101.LAB XBRL Taxonomy Extension Label Linkbase Document
**

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document
**

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

SIGNATURES

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

DAIS ANALYTIC CORPORATION
(Registrant)

Date: May 15, 2014

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

Date: May 15, 2014

By: /s/ PETER DICHIARA
Peter DiChiara
Chief Financial Officer and
Treasurer
(Principal Financial and Accounting
Officer)