

DAIS ANALYTIC CORP  
Form 10-Q/A  
June 15, 2011

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

FORM 10-Q/A

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

For the quarterly period ended March 31, 2011

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

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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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>

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

There were 36,095,064 shares of the Registrant’s \$0.01 par value common stock outstanding as of May 13, 2011.

Explanatory Note:

This amendment is being filed to correct a typographical error on the certifications.

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Dais Analytic Corporation

## INDEX

	Page No.
<u>Part I. Financial Information</u>	
<u>Item 1.</u>	<u>Financial Statements</u>
	<u>Balance Sheets March 31, 2011 (Unaudited) and December 31, 2010</u> 3
	<u>Statements of Operations three months ended March 31, 2011 and 2010 (Unaudited)</u> 4
	<u>Statement of Stockholders' Deficit three months ended March 31, 2011 (Unaudited)</u> 5
	<u>Statements of Cash Flows three months ended March 31, 2011 and 2010 (Unaudited)</u> 6
	<u>Notes to Financial Statements (Unaudited)</u> 7
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operation</u> 22
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 31
<u>Item 4T.</u>	<u>Controls and Procedures</u> 31
<u>Part II. Other Information</u>	
<u>Item 1.</u>	<u>Legal Proceedings</u> 32
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 32
<u>Item 3.</u>	<u>Default Upon Senior Securities</u> 33
<u>Item 4.</u>	<u>Reserved</u> 33
<u>Item 5.</u>	<u>Other Information</u> 33
<u>Item 6.</u>	<u>Exhibits</u> 34
<u>Signatures</u>	35

Table of Contents

## PART I— FINANCIAL INFORMATION

## Dais Analytic Corporation

## Balance Sheets

	March 31, 2011 (unaudited)	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,231,120	\$ 304,656
Accounts receivable	927,984	828,632
Other receivables	93,257	59,526
Inventory	318,077	294,069
Deferred offering costs	293,072	175,000
Debt issue costs	66,910	—
Prepaid expenses and other current assets	114,409	83,136
<b>Total current assets</b>	<b>3,044,829</b>	<b>1,745,019</b>
Property and equipment, net	144,074	147,911
Other assets:		
Deposits	2,280	3,280
Patents, net of accumulated amortization of \$115,438 and \$112,240 at March 31, 2011 and December 31, 2010, respectively	83,181	74,363
<b>Total other assets</b>	<b>84,461</b>	<b>77,643</b>
	<b>\$ 3,274,364</b>	<b>\$ 1,970,573</b>
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable, including related party payables of \$163,638 and \$151,440 at March 31, 2011 and December 31, 2010, respectively	\$ 851,026	\$ 620,196
Accrued compensation and related benefits	1,442,273	1,426,022
Accrued expenses, other	292,532	241,861
Current portion of deferred revenue	615,531	647,804
Current portion of convertible notes payable	—	50,000
Current portion of notes payable, related party	620,624	1,620,624
Current portion of convertible notes payable, related party net of unamortized discount of \$1,382,182 and \$0 at March 31, 2011 and December 31, 2010,	1,117,818	—

respectively

Total current liabilities	4,939,804	4,606,507
Long-term liabilities:		
Warrant liability	6,310,425	3,958,318
Deferred revenue, less current portion	107,340	127,840
Total long-term liabilities	6,417,765	4,086,158
Stockholders' deficit:		
Preferred stock; \$0.01 par value; 10,000,000 shares authorized; 0 shares issued and outstanding	—	—
Common stock; \$0.01 par value; 200,000,000 shares authorized; 33,580,928 and 33,563,428 shares issued and 33,323,715 and 33,306,215 shares outstanding at March 31, 2011 and December 31, 2010, respectively	335,810	335,635
Capital in excess of par value	31,773,204	29,852,347
Accumulated deficit	(38,920,107)	(35,637,962)
Treasury stock at cost, 257,213 shares	(6,811,093)	(5,449,980)
	(1,272,112)	(1,272,112)
Total stockholders' deficit	(8,083,205)	(6,722,092)
	\$ 3,274,364	\$ 1,970,573

The accompanying notes are an integral part of the financial statements.

Table of Contents

Dais Analytic Corporation

Statements of Operations  
(Unaudited)

	For the Three Months Ended March 31,	
	2011	2010 Restated
Revenue:		
Sales	\$ 838,194	\$ 386,782
License fees	20,500	20,530
	858,694	407,312
Cost of goods sold	700,890	321,326
Gross profit	157,804	85,986
Expenses:		
Research and development expenses, net of government grant proceeds of \$161,364 and \$0	2,036	14,139
Selling, general and administrative	922,297	545,381
	924,333	559,520
Loss from operations	(766,529)	(473,534)
Other expense (income):		
Change in fair value of warrant liability	2,352,106	1,508,027
Interest expense	163,539	46,510
Interest income	(29)	(6)
	(2,515,617)	1,554,531
Net loss	\$ (3,282,145)	\$ (2,028,065)
Net loss per common share, basic and diluted	\$ (0.10)	\$ (0.07)
Weighted average number of common shares, basic and diluted	33,573,150	29,352,930

The accompanying notes are an integral part of the financial statements.

Table of Contents

Dais Analytic Corporation

Statements of Stockholders' Deficit  
(Unaudited)  
For the Three Months Ended March 31, 2011

	Common Stock Shares	Common Stock Amount	Capital in Excess of Par Value	Accumulated Deficit	Treasury Stock	Total Stockholders' Deficit
Balance, December 31, 2010	33,563,428	\$ 335,635	\$ 29,852,347	\$ (35,637,962)	\$ (1,272,112)	\$ (6,722,092)
Issuance of common stock for services	17,500	175	6,300	—	—	6,475
Stock based compensation	—	—	391,557	—	—	391,557
Warrant issued with convertible note payable, related party	—	—	435,240	—	—	435,240
Beneficial Conversion Feature on convertible note payable, related party	—	—	1,064,760	—	—	1,064,760
Revaluation of common stock issued to vendors for services	—	—	23,000	—	—	23,000
Net loss	—	—	—	(3,282,145)	—	(3,282,145)
Balance, March 31, 2011	33,580,928	\$ 335,810	\$ 31,773,204	\$ (38,920,107)	\$ (1,272,112)	\$ (8,083,205)

Table of Contents

Dais Analytic Corporation

Statements of Cash Flows  
(Unaudited)

	For the Three Months Ended March 31,	
	2011	2010 (restated)
Operating activities		
Net loss	\$ (3,282,145)	\$ (2,028,065)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	11,506	2,228
Amortization of discount and beneficial conversion feature on notes payable	117,819	—
Issuance of common stock, stock options and stock warrants for services and amortization of common stock issued for services	25,078	80,949
Stock based compensation	391,557	51,520
Change in fair value of warrant liability	2,352,107	1,508,027
(Increase) decrease in:		
Accounts receivable	(99,352)	(419,117)
Other receivables	(33,731)	—
Inventory	(24,008)	(58,741)
Prepaid expenses and other current assets	(25,876)	14,515
Increase (decrease) in:		
Accounts payable and accrued expenses	281,500	58,465
Accrued compensation and related benefits	16,251	26,250
Deferred revenue	(52,773)	187,853
Net cash used by operating activities	(322,067)	(576,116)
Investing activities		
Increase in patent costs	(12,016)	(4,307)
Purchase of property and equipment	(4,471)	(5,234)
Net cash used by investing activities	(16,487)	(9,541)
Financing activities		
Proceeds from issuance of notes payable, related party	1,500,000	620,000
Payments on notes payable	(50,000)	(75,000)
Payments for debt issue costs and deferred offering costs	(184,982)	—
Net cash provided by financing activities	1,265,018	545,000
Net increase (decrease) in cash and cash equivalents	926,464	(40,657)



Cash and cash equivalents, beginning of period	304,656	1,085,628
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Cash and cash equivalents, end of period	\$ 1,231,120	\$ 1,044,971
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**Supplemental cash flow information:**

Cash paid during the year for interest	\$ 16,753	\$ —
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**Supplemental disclosure of non-cash investing and financing activities:**

During the three months ended March 31, 2011, the Company issued a convertible note payable with a beneficial conversion feature of \$1,064,760 and a discount equivalent to the relative fair value of the accompanying warrant of \$435,240.

Table of Contents

Dais Analytic Corporation

Notes to Financial Statements  
Three Months Ended March 31, 2011  
(Unaudited)

The accompanying financial statements of Dais Analytic Corporation 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 the 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, 2010 included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 31, 2011. The results of operations for the three month periods ended March 31, 2011 are not necessarily indicative of the results that may be expected for any future quarters or for the entire year ending December 31, 2011.

1. Background Information

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

2. Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. For the three months ended March 31, 2011, the Company incurred a net loss of \$3,282,145. As of March 31, 2011, the Company has an accumulated deficit of \$38,920,107, negative working capital of \$1,894,975 and a stockholder's deficit of \$8,083,205. In view of these matters, there is substantial doubt that the Company will continue as a going concern. The recoverability of recorded property and equipment, intangible assets, and other asset amounts shown in the accompanying financial statements is dependent upon the Company's ability to continue as a going concern and to achieve a level of profitability. The Company intends on financing its future activities and its working capital needs largely from the sale of public equity securities and possible exercise of warrants with some additional funding from other traditional financing sources, including term notes and proceeds from licensing agreements until such time that funds provided by operations are sufficient to fund working capital requirements. However, there can be no assurance that the Company will be successful in its efforts. 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.



Table of Contents

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, 2011 and 2010, (b) the financial position at March 31, 2011 and March 31, 2010, and (c) cash flows for the three month periods ended March 31, 2011 and 2010, 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.

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. At March 31, 2011, the days sales outstanding was 94, as compared to 93 at December 31, 2010. Based on management's review of accounts receivable, no allowance for doubtful accounts is considered necessary at March 31, 2011 and December 31, 2010.

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.

Revenue recognition - Generally, the Company recognizes revenue for its products upon shipment to customers, provided no significant obligations remain and collection is probable. This policy applies to all of our customers, including Genertec America (a distribution agreement) and CAST Systems Control Technology Co. (an agreement for the purchase of specific goods). During the three months ended March 31, 2011 and 2010, four customers accounted for approximately 57% and 58% of revenues, respectively.

Our ConsERV product typically carries a warranty of two years for all parts contained therein with the exception of the energy recovery ventilator core which typically carries a 10 year warranty. The warranty includes replacement of defective parts. The Company has recorded an accrual of approximately \$14,000 for future warranty expenses at March 31, 2011.

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 \$20,500 and \$20,530 from license agreements for the three months ended March 31, 2011 and 2010, respectively.

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).

Table of Contents

The value of each award is estimated at the grant date using the Black-Scholes option model with the following assumptions for awards granted during the three months ended March 31, 2011:

	Three Months Ended March 31, 2011		Three Months Ended March 31, 2010	
Dividend rate	0	%	0	%
Risk free interest rate	2.70	%	3.68	%
Expected term	6.5 years		6.5 years	
Expected volatility	101	%	107	%

The basis for the above assumptions are as follows: the dividend rate is based upon the Company's history of dividends; the risk-free interest rate for periods within the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant; the expected term was calculated based on the Company's historical pattern of options granted and the period of time they are expected to be outstanding; and expected volatility was calculated by review of a peer company's historical activity.

Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Based on historical experience of forfeitures, the Company estimated forfeitures at 0% for each the three month periods ended March 31, 2011 and 2010, respectively.

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 EITF 96-18, "Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods or Services," now ASC 505 and EITF 00-18 "Accounting Recognition for Certain Transactions Involving Equity Instruments Granted to Other Than Employees," now ASC 505. 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. 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 in accordance with ASC 718. 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, 2011, the Company issued 17,500 shares of common stock valued at \$6,475 for services rendered. The Company did not issue any non-employee stock based compensation for the three months ended March 31, 2010.

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, 2011, the Company incurred research and development costs of approximately \$163,400. 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, 2011, the Company recorded approximately \$161,400 in grant proceeds against research and development expenses on the statement of operations. No such grant proceeds were recognized for the three months ended March 31, 2010.

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.



Table of Contents

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, 2011. The Company uses the market approach to measure fair value for its Level 1 financial assets and liabilities, which include cash equivalents of \$23,627 at March 31, 2011. 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, other receivables, accounts payable, accrued compensation and accrued expenses. The fair value of the Company's notes payable is estimated based on current rates that would be available for debt of similar terms which is not significantly different from its stated value.

The Company's financial liabilities measured at fair value consisted of the following as of March 31, 2011:

	Fair Value Measurements at March 31, 2011			
	Total carrying value	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Warrant liability	6,310,425	—	—	6,310,425

A reconciliation of the beginning and ending fair values of financial instruments valued using significant unobservable inputs (Level 3) is presented as follows:

	Warrant Liability
Balance at December 31, 2010	\$ 3,958,318

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Changes in fair value		2,352,107
Balance at March 31, 2011	\$	6,310,425



## Table of Contents

Income taxes - Income taxes are accounted for under the asset and liability method. Deferred income tax assets and liabilities are computed on the basis of differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based upon enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

The Company accounts for tax uncertainties under the provisions of FASB ASC 740-10 "Uncertainty in Income Taxes" (ASC 740-10). The Company has not recognized a liability as a result of the implementation of ASC 740-10. A reconciliation of the beginning and ending amount of unrecognized tax benefits has not been provided since there is no unrecognized benefit since the date of adoption. The Company has not recognized interest expense or penalties as a result of the implementation of ASC 740-10. 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.

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 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 antidilutive and thus are excluded from the calculation. At March 31, 2011 and 2010, the Company had 54,636,713 and 36,711,222 potentially dilutive common shares, respectively, which were not included in the computation of 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.

Reclassifications - Certain reclassifications have been made to the financial statements as of and for the periods ended December 31, 2010 and March 31, 2010 to conform to the presentation as of and for the three months ended March 31, 2011.

## Recent accounting pronouncements

In April 2011, the FASB issued ASU 2011-02, "A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring". This new guidance requires a creditor performing an evaluation of whether a restructuring constitutes a troubled debt restructuring, to separately conclude that both (i) the restructuring constitutes a concession and (ii) the debtor is experiencing financial difficulties. This standard clarifies the guidance on a creditor's evaluation of whether it has granted a concession as well as the guidance on a creditor's evaluation of whether a debtor is experiencing financial difficulties. The update also requires entities to disclose additional quantitative activity regarding troubled debt restructurings of finance receivables that occurred during the period, as well as additional information regarding troubled debt restructurings that occurred within the previous twelve months and for which there was a payment default during the current period. The new accounting guidance is effective beginning July 1, 2011, and should be applied retrospectively to January 1, 2011. The Company does not anticipate the adoption of this

update to have a material impact on the Company's financial statements.

Recent accounting pronouncements issued by FASB (including EITF), 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.

Table of Contents

## 4. Notes Payable

Notes payable consist of the following:

	March 31, 2011	December 31, 2010
Convertible note payable; interest at 9%; collateralized by the Company's patents and patent applications	\$ —	\$ 50,000
Convertible note payable, related party; interest at 10% per annum; due in full March 22, 2012	1,000,000	1,000,000
Secured convertible note payable, related party; interest at 10% per annum; due March 22, 2012	1,500,000	—
Note payable, related party; 10% interest; unsecured; due May 31, 2011	620,000	620,000
Note payable; related party	624	624
	3,120,624	1,670,624
Less unamortized discount	(1,382,182)	—
Less amounts currently due	1,738,442	1,670,624
Long-term portion	\$ —	\$ —

## Notes Payable

In December 2009, we secured a 10% loan in the principal amount of \$1,000,000 from an investor. Pursuant to the terms of the note, we are to pay the holder simple interest at the rate of ten percent per annum commencing on the date of issuance with all interest and principal due and payable in cash on or before June 17, 2010. The note's maturity date was extended to April 30, 2011. On March 22, 2011, the Company entered into a Securities Amendment and Exchange Agreement and an Amended and Restated Convertible Promissory Note ("Convertible Note", collectively "Exchange Agreements") with this investor. Pursuant to the terms and subject to the conditions set forth in the Exchange Agreements, the Company and the Investor amended and restated the \$1,000,000 unsecured promissory note to, among other things, add a conversion option and extend the maturity date to March 22, 2012 (as amended and restated, the "2011 Convertible Note"). Interest in the amount of 10% per annum, commencing on December 17, 2009 and calculated on a 365 day year, and the principal amount of \$1,000,000 will be due in full on March 22, 2012. Subject to the terms and conditions of the 2011 Convertible Note, including limitations on conversion, the outstanding principal and interest under the 2011 Convertible Note will automatically convert into shares of the Company's common stock at the then-effective conversion price upon the closing of a qualified firm commitment underwritten public offering or may be voluntarily converted by the investor at anytime during the debt term. The initial conversion price is \$0.26 per share, which is subject to adjustment for standard anti-dilution provisions. Any principal or interest which is not converted will be repaid by the Company at the earlier of a qualified offering, (as defined in the 2011 Convertible Note which is filed as an exhibit to the Form 8K filed with the Securities and Exchange Commission on March 28, 2011), or March 22, 2012. Pursuant to and during the term of the 2011 Convertible Note, the Company will not issue or allow to exist any obligation for borrowed money, except for subordinate indebtedness in payment and priority, trade payables incurred in the ordinary course of business, purchase money secured indebtedness for equipment or inventory, unsecured and subordinate, or unsecured and subordinate working capital guarantees provided by, the Export Import Bank of the United States (the "EXIM Bank"), and indebtedness evidenced by the

promissory note dated February 19, 2010 issued to RBC Capital Markets- Custodian of Leonard Samuels IRA (as amended) in the principal amount of \$620,000.

Table of Contents

On March 22, 2011, in connection with the above Exchange Agreements, the Company entered into an Amendment to the 2007 Warrant and an Amendment to the 2009 Warrant to extend the terms of the Stock Purchase Warrant, dated on or about December 31, 2007, and the term of the Stock Purchase Warrant, dated on or about March 12, 2009, respectively, to March 22, 2016 and to provide for cashless exercise unless such warrant shares are registered for resale under a registration statement. In addition, on March 22, 2011, the Company issued an additional Stock Purchase Warrant to the Investor to purchase 1,000,000 shares of the Company's common stock at \$0.45 per share, exercisable commencing on the earliest of the consummation of the qualified offering (as defined in the Exchange Agreements), the date of conversion of the Convertible Note in full, or the date of conversion of the Convertible Note by the Investor in the greatest number of shares of the Company's common stock not to exceed 9.99% beneficial ownership of Company outstanding common stock and terminating on March 22, 2016.

The 2011 Convertible Note is a hybrid financial instruments that blends characteristics of both debt and equity securities. The note embodies settlement alternatives to the holder providing for either redemption of principal and interest in cash (forward component) or conversion into the Company's common stock (embedded conversion feature). The forward component was valued using the present value of discounted cash flows arising from the contractual principal and interest payment terms and the embedded conversion feature was valued using the Monte Carlo simulation method. The fair value of the 2011 Convertible Note was estimated to be \$1,964,905 on the date of the exchange, which resulted in a loss on extinguishment of debt of \$964,905. Further, in accordance with ASC 470-20-25 and ASC 470-50-40, the net premium of \$964,905 associated with the 2011 Convertible Note was reclassified to capital in excess of par value under the presumption that such net premium represented a capital contribution. Consequently, the 2011 Convertible Note is being carried at face value. The fair value of the additional warrant to purchase 1,000,000 shares and the value associated with the previously issued warrants that were amended was determined to be \$716,890 using the Black-Scholes option model and is included in the aggregate loss on extinguishment of \$1,681,795. Since the loan is held by a related party, the loss on extinguishment has been treated as a capital transaction and, as a result, this transaction had no net effect on capital in excess of par value.

Also, on March 22, 2011, the Company entered into a 10% Note and Warrant Purchase Agreement, Secured Convertible Promissory Note and Patent Security Agreement ("Financing Agreements") with the Investor. Pursuant to the terms and subject to the conditions set forth in the Financing Agreements, the Investor has provided a bridge loan in the amount of \$1,500,000 ("Loan") to the Company, which is secured by all patents, patent applications and similar protections of the Company and all rents, royalties, license fees and "accounts" with respect to such intellectual property assets ("collateral"). Pursuant to the Secured Convertible Promissory Note ("Secured Note"), interest in the amount of 10% per annum, calculated on a 365 day year, and the principal amount of \$1,500,000 is due and payable on March 22, 2012, but repayment is accelerated upon a qualified offering (as defined in the note). In the event of such qualified offering, and subject to the terms and conditions of the Secured Note, the outstanding principal and interest under the Secured Note will automatically convert, subject to the limitations on conversion described in the note, into shares of the Company's common stock at the then-effective conversion price upon the closing of such qualified offering. The initial conversion price is \$0.26 per share which is subject to adjustment for standard anti-dilution provisions. Any principal or interest which is not converted will be repaid by the Company at the earlier of a qualified offering or March 22, 2012. No cash fees were paid to any party to the transaction in exchange for lending the money.

On March 22, 2011, in connection with the Financing Agreements, the Company issued a Stock Purchase Warrant to the Investor to purchase 3,000,000 shares of the Company's common stock at \$0.45 per share, exercisable until March 22, 2016. The Warrant was fair valued on the date of issuance, which amounted to \$1,204,787. The warrant value was recorded as a debt discount based on the relative fair value of the warrant to the total proceeds received, which amounted to \$435,240. The Warrant was fair valued using the Black-Scholes-Merton valuation model. In addition, the debt contained a beneficial conversion feature, which was valued at the date of issuance at \$1,762,163; however, since this amount is in excess of the net value of the debt less the warrant discount, the beneficial conversion feature will be limited to \$1,064,760 and recorded as a discount on the loan. The total debt discount of \$1,500,000 is

being amortized using the effective interest method over the 12-month term of the Secured Note. For the three months ended March 31, 2011, the Company recognized \$117,819 in additional interest expense representing amortization of this debt discount.

## Table of Contents

Pursuant to and during the term of the Secured Note, the Company will not issue or permit to exist any obligation for borrowed money, except for trade payables incurred in the ordinary course of business, purchase money secured indebtedness for equipment or inventory, unsecured and subordinate indebtedness to, or unsecured and subordinate working capital guarantees provided by, the EXIM Bank, the promissory note dated February 19, 2010 issued to RBC Capital Markets- Custodian of Leonard Samuels IRA (as amended) in the principal amount of \$620,000, the Amended and Restated Convertible Promissory Note, dated March 22, 2011, issued to the Investor in the principal amount of \$1,000,000 and other unsecured indebtedness for borrowed money in an amount not to exceed \$750,000.

Pursuant to the Patent Security Agreement issued in connection with the Note and Warrant Purchase of March 22, 2011, the Company shall not, without the Investor's prior consent, sell, dispose or otherwise transfer all or any portion of the Collateral, except for license grants in the ordinary course of business. In addition, the Company will take all actions reasonably necessary to prosecute to allowance applications for patents and maintain all patents, and to seek to recover damages for infringement, misappropriation or dilution of the Collateral with limited exceptions.

In connection with such qualified offering, and subject to the terms and conditions of the Convertible Note, the Company will use reasonable efforts to include the Investor's securities in such offering. Pursuant to the terms and conditions of the Exchange Agreements, the Investor will not, if requested in writing by the underwriter, sell, offer to sell or otherwise transfer or dispose of (other than to affiliates) any securities of the Company held by it for a period of 180 days from the date of the final prospectus relating to such qualified offering, except for certain limited sales as more fully described in the Exchange Agreements.

The Company secured a loan from an investor in the principal amounts of \$620,000. The Company issued the lender an unsecured promissory note with respect to said loan on February 19, 2010. Pursuant to the terms of the note, the Company is to pay the holder simple interest at the rate ten percent per annum commencing on the date of issuance with all interest and principal due and payable in cash on or before August 10, 2010, which has been extended to May 31, 2011. After receipt of proceeds on the foregoing loans, we may not incur more than \$500,000 in debt without the holders' prior approval and said additional debt may not be senior to these promissory notes without holder's permission. During the term of the note, the note holder has the right to participate, by investing additional funds the total amount of which may not exceed the outstanding balance of the holder's note, in any subsequent financings undertaken by the Company. Any such participation shall be upon the same terms as provided for in the subsequent financing. If an event of default were to occur and said default is not cured within the allotted period, the holders may declare all principal and accrued and unpaid interest due and payable without presentment, demand, protest or notice. Further, in addition to all remedies available under law, each holder may in the event of a default opt to convert the principal and interest outstanding under its note into any debt or equity security which Company issued after the date of its note and prior to the date of full payment of its note in accordance with the same terms as the subsequent financing.

Accrued interest on the above notes was \$201,326 and \$157,683 at March 31, 2011 and December 31, 2010, respectively.

## 5. Related Party Transactions

Timothy Tangredi, the Company's Chief Executive Officer and Chairman, is a founder and a member of the Board of Directors of Aegis Biosciences, LLS ("Aegis"). Aegis, created in 1995, is a licensee of the Company's nano-structured intellectual property and materials in the biomedical and healthcare fields. Mr. Tangredi spends approximately one to two days per month on Aegis business and is compensated by Aegis for his time and contribution(s). We granted Aegis two exclusive, world-wide licenses, the first in 1995 and the second in 2005. Pursuant to these licenses, Aegis has the right to use and sell products containing our polymer technologies in biomedical and healthcare applications. The first license was entered into in 1995 has been amended twice. In 2005, we agreed to accept \$150,000 as payment

in full of all royalties and no further license revenue will be forthcoming. The second license allows Aegis the use of our intellectual property in the field of healthcare. A one-time payment of \$50,000 was made under this license in 2005. In addition, under the second license Aegis 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.



Table of Contents

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 \$3,800 per month. The Company recognized rent expense of approximately \$11,400 in each of three months ended March 31, 2011 and 2010. At March 31, 2011 and December 31, 2010, \$163,638 and \$151,440, 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 one other employee for deferred salaries earned and unpaid as of March 31, 2011 and December 31, 2010 of \$1,431,856 and \$1,415,606, respectively.

## 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 15,000,000 shares of common stock to be issued pursuant to the 2009 Plan. The Plans permit grants of options to purchase common shares authorized and approved by the Company’s Board of Directors.

The average fair value of options granted at market during three months ended March 31, 2011 and 2010 was \$0.25 and \$0.32 per option, respectively. There were no options exercised during the three months ended March 31, 2011 and 2010.

The following summarizes the information relating to outstanding stock options activity with employees during 2011 and 2010:

	Common Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2010	14,897,757	\$0.25	7.19	\$946,754
Granted	1,810,000	\$0.30		
Outstanding at March 31, 2011	16,707,757	\$0.26	7.25	\$3,162,959
Exercisable at March 31, 2011	15,138,174	\$0.25	6.98	\$2,959,664

Table of Contents

Stock compensation expense was approximately \$392,000 for the three months ended March 31, 2011 and \$51,500 for the three months ended March 31, 2010. The total fair value of shares vested during the three months ended March 31, 2011 and 2010 was approximately \$452,500 and \$34,300, respectively.

As of March 31, 2011, there was approximately \$348,000 of unrecognized employee stock-based compensation expense related to non vested stock options, of which \$124,000, \$154,000 and \$70,000 is expected to be recognized for the remainder of the fiscal year ending December 31, 2011, and for the fiscal years ending 2012 and 2013, respectively.

The following table represents our non vested share-based payment activity with employees for the three months ended March 31, 2011:

	Number of Options	Weighted Average Grant Date Fair Value
Nonvested options - December 31, 2010	1,063,194	\$ 0.25
Granted	1,810,000	\$ 0.25
Vested	(1,540,416)	\$ 0.25
Forfeited		
Nonvested options - March 31, 2011	1,332,778	\$ 0.25

## Warrants

At March 31, 2011, 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-Daily Financing	197,055	.74	\$ 0.55
Warrants-Additional Financing	428,637	1.46	\$ 0.40
Warrants-Robb Trust Note	50,000	1.18	\$ 0.55
Warrants-Financings (2007, 2008 and 2011)	18,750,000	2.43	\$ 0.29
Warrants-Placement Agent Warrants	793,641	2.01	\$ 0.25
Warrants-Tangredi	3,000,000	2.01	\$ 0.36
Warrants-Ehrenberg	250,000	2.35	\$ 0.30
Warrants-Consulting Agreements	825,000	3.52	\$ 0.31
Warrants-Note Conversions	2,302,538	3.18	\$ 0.39

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Warrants-Stock Purchases 2009	758,270	3.15	\$	0.34
Warrants-Mandelbaum	50,000	3.09	\$	0.19
Warrants-Services	400,000	3.81	\$	0.50
Total	27,805,141			

16

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Table of Contents

Common Stock Issued For Services

The Company entered into an agreement for consulting services in April 2010. The term of the agreement is for twelve months and calls for the Company to issue the consultant 100,000 shares of common stock upon execution of the agreement and an additional 100,000 shares of common stock after six months of service. The agreement also calls for a monthly cash payment of \$6,000 for the first six months and \$7,500 per month for the remainder of the agreement. The Company has fair valued the initial 100,000 shares of common stock at \$53,000 and the additional 100,000 shares of common stock at \$36,000 and is expensing the fair value of those shares over life of the agreement. For the three months ended March 31, 2011, the Company has recorded \$25,333 as consulting expense on its statement of operations and included \$3,667 as prepaid expenses in the balance sheet.

On November 4, 2010, the Company entered into an agreement for legal services in exchange for 375,000 shares of Common Stock valued at \$165,000. This cost is included in deferred offering costs in the accompanying balance sheet.

7. Commitments and Contingencies

The Company has employment agreements with some of its key employees and executives. These agreements provide for minimum levels of compensation during current and future years. In addition, these agreements call for grants of stock options and for payments upon termination of the agreements.

On September 17, 2010, the U.S. Department of Energy approved a grant of up to \$681,322 to the Company for the funding of a project to scale up, in size and field trial, a novel dehumidification system similar to the Company's NanoAir prototype, that is operated by directly manipulating water vapor using a selectively permeable membrane made of a nano-structure solid polymer. The grant is conditioned upon the Company contributing \$171,500 of the proposed total project cost of \$852,822. The Company will receive the grant amount upon submission of reimbursement request for allowable expenses. As of March 31, 2011, the Company has incurred \$129,091 in expenses and recognized the same amount as revenue related to this grant award.

In December 2010, Pasco County Florida approved a grant of \$254,500 to the Company for the funding of the NanoAir product into commercialization. The grant from Pasco County requires us to pay the county 2% of the gross sales of products using a certain unique pump assembly for 5 years or for a total of \$1,000,000 whichever comes first. As of March 31, 2011, the Company has incurred \$32,273 in expenses and recognized the same amount as revenue related to this grant award.

The Company is not currently a party to any pending 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.

Table of Contents

## 8. Genertec Agreement

On August 21, 2009, we entered into an Exclusive Distribution Agreement with Genertec, under which we are to supply and Genertec is to distribute, on an exclusive basis, three of our nanotechnology-based membrane products and related products in Great China, including mainland China, Hong Kong, Macau and Taiwan. The agreement provides that during the initial term of the agreement, Genertec will order and purchase these products in the aggregate amount of Two Hundred Million U.S. Dollars. A minimum quantity of said products is to be purchased by Genertec during each contract year of the initial term. In the event Genertec fails to purchase the minimum amount of products in any given year, we may convert the exclusivity provided to Genertec to a non-exclusive or terminate the agreement. Genertec has agreed to engage and appoint authorized person(s) or firm(s), to install, engineer, perform maintenance, sell and use the products within the defined distribution area and neither Genertec nor its designated buyer is permitted to alter, decompile or modify our products in any way. As consideration for entering into this agreement, Genertec agreed to pay us a deposit in monthly installments beginning in September 2009 and continuing through April 2010. All such payments are to be applied to products purchased by Genertec. During the initial term of the agreement, the parties are to negotiate in good faith a royalty bearing license agreement whereby Genertec may be granted a license to manufacture certain portions of the our products in the designated territory. The initial term of the agreement shall be for a period of five (5) years, commencing on August 21, 2009, unless earlier terminated. Unless notice of termination is delivered to the respective parties 180 days prior to the expiration of the initial term, the Agreement will automatically renew for consecutive one year periods. We may terminate this agreement in the event: (1) Genertec fails to pay the deposit as indicated, (2) Genertec does not purchase the minimum amount of our designated products during any contract year, (3) breach by Genertec of its obligations under the Agreement, or (4) at our discretion immediately upon the transfer of fifty percent (50%) or more of either the assets of the voting stock of Genertec to any third party. Genertec may not assign the Agreement to any party without our prior written consent. As of March 31, 2011, the Company has \$406,356 in accounts receivable and \$500,000 in deferred revenue to be applied against future orders. Genertec America's partners in China have received the product and are continuing to perform tests; however there have been delays in completing this testing process. As a result, Genertec America has not yet begun to order product from the Company under this agreement. The Company is currently meeting with Genertec to resolve the payment of the receivable and expects that the amounts will be collected.

## 9. CAST Systems Control Technology

In April 2010, the Company entered into a technical and sales agreement with CAST Systems Control Technology Co., Ltd. ("CAST") and Genertec with a value of up to approximately \$48 million U.S. Dollars over a twelve month period. Under the terms of the Agreement, the Company will supply to CAST, through Genertec, key system components of its nanotechnology clean water process. The Agreement is conditioned upon the Company obtaining a letter of credit from Genertec in the amount as agreed to by the parties on or before April 13, 2010. As of the date of this filing, the Company has received the required letter of credit from Genertec. This Agreement, the terms of which are disclosed in the Company's Current Report on Form 8-K, filed on April 9, 2010, is made pursuant to and in support of the \$200 million distribution agreement made between the Company and Genertec on August 21, 2009, granting Genertec the exclusive right to obtain, distribute and market the Company's nanotechnology-based membrane and related products in China, including mainland China, Hong Kong, Macau and Taiwan, the terms of which are summarized above and more fully disclosed in the Company's Current Report on Form 8-K, filed August 27, 2009. For the year ended December 31, 2010, the Company has sold one unit under this agreement and recognized \$300,000 in revenue which has been billed and \$254,000 of which has been collected. The Company expects the remainder of the \$300,000 receivable to be collected in 2011.

Table of Contents

## 10. Derivative Financial Instruments

In September 2008, the FASB ratified the consensus reached on EITF Issue No. 07-5, Determining Whether an Instrument (or an Embedded Feature) is Indexed to an Entity's Own Stock ("EITF 07-5") (codified as ASC 815-40-15-5). This EITF provides guidance for determining whether an equity-linked financial instrument (or embedded feature) is indexed to an entity's own stock. The EITF applies to any freestanding financial instrument or embedded feature that has all the characteristics of a derivative under ASC 815-10-15-13 through 15-130, Accounting for Derivative Instruments and Hedging Activities, for purposes of determining whether that instrument or embedded feature qualifies for the first part of the scope exception. The EITF also applies to any freestanding financial instrument that is potentially settled in an entity's own stock, regardless of whether the instrument has all the characteristics of a derivative under ASC 815-10-13 through 15-130, for purposes of determining whether the instrument is within the scope of EITF No. 00-19 Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock ("EITF 00-19") (codified as ASC subtopic 815-40). EITF No. 07-5 was effective beginning the first quarter of fiscal 2009.

Due to certain adjustments that may be made to the exercise price of the warrants issued in December 2007, January 2008 and August 2008 if the Company issues or sells shares of its common stock at a price which is less than the then current warrant exercise price, these warrants have been classified as a liability as opposed to equity in accordance with the Derivatives and Hedging Topic of the FASB ASC 815-10-15 as it was determined that these warrants were not indexed to the Company's stock. As a result, the fair market value of these warrants was remeasured on January 1, 2009 and marked to market at each subsequent financial reporting period. The change in fair value of the warrants is recorded in the statement of operations and is estimated using the Black-Scholes option-pricing model with the following assumptions:

	For the Three Months Ended March 31,	
	2011	2010
Exercise price	\$ 0.25	\$ 0.25
Market value of stock at end of period	\$ 0.44	\$ 0.40
Expected dividend rate	N/A	N/A
Expected volatility	164% – 173%	119% – 125%
Risk-free interest rate	0.97% – 1.25%	1.60%
Expected life in years	1.70 – 2.35	2.75 – 3.33
Shares underlying warrants outstanding classified as liabilities	15,543,641	15,653,641

All warrants issued by the Company other than the above noted warrants are classified as equity.

During the fourth quarter of the year ended December 31, 2010, the Company applied the guidance of Accounting Standards Codification 815-40 (ASC 815-40) and recorded a \$618,801 gain on the fair value of the warrant liability for the year then ended. The warrants had been issued in December 2007, January 2008 and August 2008, in connection with convertible promissory notes and were originally accounted for as an equity instrument. Upon further review of the warrants, it was determined that these warrants were not indexed to the Company's stock and therefore required derivative accounting treatment. Accordingly, the Company has restated its financial statements to reflect the proper accounting treatment. If the Company would have recorded these warrants as a derivative liability upon initial adoption of ASC 815-40, the Company would have recorded the following amounts in the accompanying balance sheet and income statement:



Table of Contents

	Total Liabilities			Stockholders' Deficit		
	As	Change	Total Liabilities As Restated	As	Change	Stockholders' Deficit As Restated
	previously Reported			previously Reported		
March 31, 2010	\$ 5,117,253	\$ 6,085,147	\$ 11,202,400	\$ (3,058,161)	\$ (6,085,147)	\$ (9,143,308)
June 30, 2010	\$ 5,165,059	\$ 4,250,053	\$ 9,415,112	\$ (3,094,998)	\$ (4,250,053)	\$ (7,345,051)
September 30, 2010	\$ 5,147,657	\$ 4,861,284	\$ 10,008,941	\$ (3,428,140)	\$ (4,861,284)	\$ (8,289,424)

	Other Inc (Exp)		Net Loss As		Net (Loss) Income		EPS	
	As previously Reported	Change	Other Inc (Exp) As Restated	previously Reported	Change	As Restated	As previously Reported	As Restated
	Reported		As Restated	Reported		As Restated	Reported	As Restated
For the Three Months Ended: March 31, 2010	\$ (46,504)	\$ (1,508,027)	\$ (1,554,531)	\$ (520,038)	\$ (1,508,027)	\$ (2,028,065)	\$ (0.02)	\$ (0.07)
June 30, 2010	\$ (55,233)	\$ 1,835,094	\$ 1,779,861	\$ (624,681)	\$ 1,835,094	\$ 1,210,413	\$ (0.02)	\$ 0.04
September 30, 2010	\$ (55,933)	\$ (611,231)	\$ (667,164)	\$ (555,692)	\$ (611,231)	\$ (1,166,923)	\$ (0.02)	\$ (0.04)

## 11. Subsequent Events

The Company entered into an amended and restated employment agreement with Mr. Timothy N. Tangredi, our President, Chief Executive Officer, and director, dated as of April 11, 2011. Mr. Tangredi's employment agreement provides for an initial term of three years with the term extending on the second anniversary thereof for an additional one year period and on each subsequent anniversary of the agreement for an additional year period. Mr. Tangredi's initial base salary is \$170,000, with an increase to \$220,000 per annum or a higher sum as our board of directors may set after the date on which we obtain \$10 million or more in equity or debt financing. If our market capitalization at the end of the calendar year is more than two times greater than the year before Mr. Tangredi is to receive a cash payment of 2% of the difference in capitalization from last year to the current year. Additionally, at the discretion of our board of directors and its compensation committee, Mr. Tangredi may be eligible for an annual bonus which amount, if any, will not be below 100% of his effective base salary and not exceeding 300% of his then effective base salary; provided that, under certain extraordinary circumstances, Mr. Tangredi may be eligible for an annual bonus greater than 300% of his then effective base salary. Mr. Tangredi is entitled to medical, disability and life insurance, as well as 4 weeks of vacation annually, an automobile allowance of \$800 per month, reimbursement of all reasonable business expenses, automobile insurance and maintenance and up to \$7,500 for one executive conference or educational venue.



Table of Contents

For each product for which we commence commercial sale or licensing during the term and receives more than \$1 million of revenue during any 12 month period, Mr. Tangredi, in addition to any other compensation which he may receive under the agreement, shall be granted options to purchase a minimum of 250,000 shares of our common stock at an exercise price equal to either (i) the lower of: (a) \$.50 per share or (b) the fair market value per share of the stock on the date of grant as determined in good faith by the Compensation Committee of the Board of Directors, if we have not conducted a secondary public offering prior to the date of grant, or (ii) at an exercise price equal to 75% of the market price of the common stock, if we have completed a secondary public offering of our common stock prior to the date of grant (with the market price to be the average of the closing sale prices during the five trading days immediately preceding the date of grant of the option).

In the event that the fair market value of our common stock (the average of the closing prices of the common stock for any five consecutive trading days, as reported by the principal exchange or other stock market on which the common stock is then traded) equals or exceeds 200% of the price at which we sell common stock in a secondary public offering (the "Target Value") at any time during the term of the agreement, Mr. Tangredi shall be granted options to purchase 500,000 shares of common stock at an exercise price equal to 75% of the Target Value, on terms identical to the options provided for above.

In April 2011, the Company entered into an employment agreement with the Company's General Counsel. The employment term is for four years with automatic renewals. The agreement includes an annual base salary of \$120,000 with an increase to \$150,000 upon completion of a successful Initial Public Offering of at least \$10 million. The agreement also provides for a minimum of 50,000 options to be awarded annual along with other standard employment benefits.

On May 12, 2011, the holder of a promissory note issued by Dais Analytic Corporation (the "Company") elected to apply all of the proceeds due and payable to the holder pursuant to such note in the principal amount of \$620,000, plus accrued interest, to purchase the Company's common stock, par value \$0.01 per share (the "Common Stock"). The investor subscribed for and purchased from the Company 2,667,503 shares of Common Stock at a purchase price of \$0.26 per share, resulting in an aggregate purchase price of \$693,550 (the principal amount and related accrued interest under the note). As part of the purchase, the investor also received a five-year warrant to purchase 962,500 shares of Common Stock, at an exercise price of \$.45 per share. The warrants are immediately exercisable and subject to adjustment for standard anti-dilution events, including but not limited to stock dividends, split-up, reclassification or combination of Company's shares, exchange of stock for other Company stock, or certain capital reorganizations or reclassification of the capital stock or consolidation, merger or sale of substantially all Company's assets. In addition, as part of this transaction, the warrants issued to this investor on December 20, 2007 and December 31, 2007 were amended to include a cashless exercise provision.

No other material subsequent events have occurred since March 31, 2011 that requires recognition or disclosure in these financial statements.

Table of Contents

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/A and in our annual report on Form 10-K filed with the Securities and Exchange Commission on March 31, 2011.

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 30, 2010. 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 focus of the Company is ConsERV, an energy recovery ventilator. Our primary focus is to expand our marketing and sales of our ConsERV products. We also have new product applications in various developmental stages. We believe that three of these additional product applications, including an advanced air conditioning system which is projected to use less energy and emit fewer emissions than most current HVAC equipment, a water clean-up process that may be useful in the creation of potable water from sea, brackish or waste water 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 2011 with a growing emphasis on moving the development of the NanoClear and NanoAir technologies towards commercialization.



## Table of Contents

### REVENUES

We generate our revenues primarily from the sale of our ConsERV™ products in largely commercial HVAC markets with a small amount of revenue coming from residential sales to consumers and HVAC distributors. Sales channels for our ConsERV™ products include OEMs, distributors, retailers, and consumers. We also occasionally license our technology to strategic partners and sell various prototypes of other product applications that use our polymer technology.

Our near term revenue growth is dependent on continued sales from (i) more seasoned independent sales representatives, (ii) a greater number of independent sales representatives (iii) fulfilling the ventilation needs of the growing “energy consultant” marketplace which work to lower their client’s energy costs and emissions, and (iv) from the Company’s own ‘customer direct’ sales activities, all of which focus on the sale of product primarily into the commercial user marketplace with a growing emphasis on low rise structures (small commercial buildings, multi-purpose structures, and residences). In addition, the Company and its independent sales representative sales force will work to secure orders for ConsERV™ “core only” sales (i) from HVAC equipment manufacturers, (ii) from distribution firms servicing the equipment needs of the HVAC installer community, and (iii) creating license/supply relationships with HVAC or ERV OEMs preferably having a dominant presence in existing direct related sales channels.

### 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.

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 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.

Our cost of sales may fluctuate due to a number of factors, including, but not limited to:

- A change in key suppliers or the prices that they charge for the fundamental components of our ConsERV™ products;
- An increase in the labor resources needed to expand the production of our ConsERV™ products;
- Commercialization of new product applications of our polymer technology;
- Continued technological improvements in key materials or configuration(s) to reduce our ‘per unit’ cost structure; and
- Additional outsourcing of our manufacturing and assembly processes with strategic partners to reduce our ‘per unit’ cost structure.



Table of Contents

## 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.

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

## Results of Operations

The following table sets forth, for the periods indicated, certain data derived from our Statements of Operations and certain of such data expressed as a percentage of revenues:

	Three Months Ended March 31,	
	2011	2010
Revenues	\$ 858,694	\$ 407,312
Percentage of revenues	100.0%	100.0%
Cost of goods sold	\$ 700,890	\$ 321,326
Percentage of revenues	81.6%	78.9%
Research and development expenses, net grant revenue	\$ 2,036	\$ 14,139
Percentage of revenues	.24%	3.5%
Selling, general and administrative expenses	\$ 922,297	\$ 545,381
Percentage of revenues	107.4%	133.9%
Interest expense	\$ 163,539	\$ 46,510
Percentage of revenues	19.0%	11.42%
Change in fair value of warrant liability	\$ 2,352,106	\$ 1,508,027
Percentage of revenues	273.9%	370.2%

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Net loss	\$	(3,282,145)	\$	(2,028,065)
Percentage of revenues		(382.2)%		(497.9)%

Table of Contents

Summary of Three Months Ended March 31, 2011 Results of Operations

**REVENUES:** Total revenues for the three months ended March 31, 2011 and 2010 were \$858,694 and \$407,312, respectively, an increase of \$451,382 or 111%. The increase in revenues in the 2011 period is primarily attributable to an increase in ConsERV core sales by 94% and an increase in ConsERV System sales by 125%. The increases were due to generating additional sales in product enhancements and an increase in the number and size of its sales transactions in 2011 compared to 2010. During the three months ended March 31, 2011 and 2010, four customers accounted for approximately 57% and 58% of revenues, respectively.

**COST OF GOODS SOLD:** Cost of goods sold increased \$379,564 to \$700,890 and represented 82% of revenues, for the three months ended March 31, 2011 compared to \$321,326 or 79% of revenues for the three months ended March 31, 2010. Gross profit margin decreased from 21% in 2010 to 18% in 2011. The decrease in the gross profit margin was due to an increase in the cost of materials due to the economy. The Company also had an increase in the cost of contract labor of approximately \$22,000 and an increase in the cost of freight by approximately \$13,000.

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES:** Selling, general and administrative expenses of \$922,297 for the three months ended March 31, 2011 increased \$376,916 from \$545,381 in the same period of 2010 or 68%. The increase was primarily due to an increase in stock based compensation by approximately \$340,000 and an increase in advertising expense of approximately \$22,000.

**INTEREST EXPENSE:** Interest expense was \$163,539 for the three months ended March 31, 2011 compared to \$46,510 for the same period of 2010, an increase of \$117,029. During the three months ended March 31, 2011, \$117,819 of interest expense was related to the amortization of the note discount and embedded beneficial conversion feature on a convertible note.

**CHANGE IN FAIR VALUE OF WARRANT LIABILITY:** The change in the fair value of warrant liability increased by \$844,079 for the three months ended March 31, 2011 to \$2,352,106 from \$1,508,027 in the prior period ended March 31, 2010 due to the change in the fair value of the underlying warrant liability based on the Black-Scholes option pricing model. See Note 10 in the accompanying Financial Statements.

**NET LOSS:** Net loss for the three months ended March 31, 2011 increased by \$1,254,080 to \$3,282,145 from \$2,028,065 for the three months ended March 31, 2010. The increase in net loss is primarily due to the increase in selling, general and administrative expenses, interest expense and the change in fair value of warrant liability as discussed above.

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 not achieved profitability in any 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™ units, 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.





Table of Contents

We have filed a registration statement on Form S-1 with the SEC for a contemplated public offering of common stock for gross proceeds of up to fifteen million dollars. We have engaged MDB Capital Group LLC to be the underwriter of this public offering. However, we have not entered into an underwriting agreement with MDB Capital Group LLC, and we may not be able to consummate a public offering. As disclosed in our registration statement, we intend to use the proceeds of the public offering for working capital, general corporate purposes and repayment of certain outstanding indebtedness.

During the three months ended March 31, 2011, \$50,000 of principal on the Convertible Notes was outstanding, in default and due and payable in full. On March 23, 2011 this note was paid in full by Company. As of the date of this filing all Convertible Notes issued under the Financing have been paid in full or converted.

In December 2009, we secured a 10% loan in the principal amount of \$1,000,000 from an investor. Pursuant to the terms of the note, we are to pay the holder simple interest at the rate of ten percent per annum commencing on the date of issuance with all interest and principal due and payable in cash on or before June 17, 2010. The note's maturity date was extended to April 30, 2011. On March 22, 2011, the Company entered into a Securities Amendment and Exchange Agreement and an Amended and Restated Convertible Promissory Note ("2011 Convertible Note", collectively "Exchange Agreements") with this investor. Pursuant to the terms and subject to the conditions set forth in the Exchange Agreements, the Company and the Investor amended and restated the \$1,000,000 unsecured promissory note issued by the Company to Investor on or about December 17, 2009 ("Original Note") to, among other things, add a conversion option to the Original Note and extend maturity date to March 22, 2012. Interest in the amount of 10% per annum, commencing on December 17, 2009 and calculated on a 365 day year, and the principal amount of \$1,000,000 will be due in full on March 22, 2012. Subject to the terms and conditions of the 2011 Convertible Note, including limitations on conversion, the outstanding principal and interest under the 2011 Convertible Note will automatically convert into shares of the Company's common stock at the then-effective conversion price upon the closing of a qualified firm commitment underwritten public offering or may be voluntarily converted by the investor at anytime during the debt term. The initial conversion price is \$0.26 per share. Any principal or interest which is not converted will be repaid by the Company at the earlier of a qualified offering, (as defined in the "2011 Convertible Note" which is filed as an exhibit to the Form 8K filed with the Securities and Exchange Commission on March 28, 2011 and is incorporated by reference to this annual report on Form 10K), or March 22, 2012. Pursuant to and during the term of the 2011 Convertible Note, the Company will not issue or allow to exist any obligation for borrowed money, except for subordinate indebtedness in payment and priority, trade payables incurred in the ordinary course of business, purchase money secured indebtedness for equipment or inventory, unsecured and subordinate, or unsecured and subordinate working capital guarantees provided by, the Export Import Bank of the United States (the "EXIM Bank"), and indebtedness evidenced by the promissory note dated February 19, 2010 issued to RBC Capital Markets-Custodian of Leonard Samuels IRA (as amended) in the principal amount of \$620,000.

On March 22, 2011, in connection with the above Exchange Agreements, the Company entered into an Amendment to 2007 Warrant and an Amendment to 2009 Warrant to extend the term of the Stock Purchase Warrant, dated on or about December 31, 2007, and the term of the Stock Purchase Warrant, dated on or about March 12, 2009, respectively, to March 22, 2016 and to provide for cashless exercise unless such warrant shares are registered for resale under a registration statement. In addition, on March 22, 2011, the Company issued an additional Stock Purchase Warrant to the Investor to purchase 1,000,000 shares of the Company's common stock at \$0.45 per share, exercisable commencing on the earliest of the consummation of the qualified offering (as defined in the Exchange Agreements), the date of conversion of the 2011 Convertible Note in full, or the date of conversion of the 2011 Convertible Note by the Investor in the greatest number of shares of the Company's common stock not to exceed 9.99% beneficial ownership of Company outstanding common stock and terminating on March 22, 2016.



Table of Contents

The 2011 Convertible Note is a hybrid financial instruments that blends characteristics of both debt and equity securities. The note embodies settlement alternatives to the holder providing for either redemption of principal and interest in cash (forward component) or conversion into the Company's common stock (embedded conversion feature). The forward component was valued using the present value of discounted cash flows arising from the contractual principal and interest payment terms and the embedded conversion feature was valued using the Monte Carlo simulation method. The fair value of the 2011 Convertible Note was estimated to be \$1,964,905 on the date of the exchange, which resulted in a loss on extinguishment of debt of \$964,905. Further, in accordance with ASC 470-20-25 and ASC 470-50-40, the net premium of \$964,905 associated with the 2011 Convertible Note was reclassified to capital in excess of par value under the presumption that such net premium represented a capital contribution. Consequently, the 2011 Convertible Note is being carried at face value. The fair value of the additional warrant to purchase 1,000,000 shares and the value associated with the previously issued warrants that were amended was determined to be \$716,890 using the Black-Scholes option model and is included in the aggregate loss on extinguishment of \$1,681,795. Since the loan is held by a related party, the loss on extinguishment has been treated as a capital transaction and, as a result, this transaction had no net effect on capital in excess of par value.

Also, on March 22, 2011, the Company entered into a 10% Note and Warrant Purchase Agreement, Secured Convertible Promissory Note and Patent Security Agreement ("Financing Agreements") with the Investor. Pursuant to the terms and subject to the conditions set forth in the Financing Agreements, the Investor has provided a bridge loan in the amount of \$1,500,000 ("Loan") to the Company, which will be secured by all patents, patent applications and similar protections of the Company and all rents, royalties, license fees and "accounts" with respect to such intellectual property assets ("collateral"). Pursuant to the Secured Convertible Promissory Note ("Secured Note"), interest in the amount of 10% per annum, calculated on a 365 day year, and the principal amount of \$1,500,000 is due and payable on March 22, 2012, but repayment is accelerated upon a qualified offering (as defined in the note). In the event of such qualified offering, and subject to the terms and conditions of the Secured Note, the outstanding principal and interest under the Secured Note will automatically convert, subject to the limitations on conversion described in the note, into shares of the Company's common stock at the then-effective conversion price upon the closing of such qualified offering. The initial conversion price is \$0.26 per share. Any principal or interest which is not converted will be repaid by the Company at the earlier of a qualified offering or March 22, 2012. No cash fees were paid to any party to the transaction in exchange for lending the money.

On March 22, 2011, in connection with the Financing Agreements, the Company issued a Stock Purchase Warrant to the Investor to purchase 3,000,000 shares of the Company's common stock at \$0.45 per share, exercisable until March 22, 2016. The Warrant was fair valued on the date of issuance, which amounted to \$1,204,787. The warrant value was recorded as a debt discount based on the relative fair value of the warrant to the total proceeds received, which amounted to \$668,142. Warrant was fair valued using the Black-Scholes-Merton valuation model. In addition, the debt contained a beneficial conversion feature, which was valued at the date of issuance at \$2,019,231; however, since this amount is in excess of the net value of the debt less the warrant discount, the beneficial conversion feature will be limited to \$831,859 and recorded as a discount on the loan. The total debt discount of \$1,500,000 is being amortized using the effective interest method over the 12-month term of the Secured Note and for the three months ended March 31, 2011, the Company recognized \$117,819 in additional interest expense representing amortization of this debt discount.

Pursuant to and during the term of the Secured Note, the Company will not issue or permit to exist any obligation for borrowed money, except for trade payables incurred in the ordinary course of business, purchase money secured indebtedness for equipment or inventory, unsecured and subordinate indebtedness to, or unsecured and subordinate working capital guarantees provided by, the EXIM Bank, the promissory note dated February 19, 2010 issued to RBC Capital Markets- Custodian of Leonard Samuels IRA (as amended) in the principal amount of \$620,000, the Amended and Restated Convertible Promissory Note, dated March 22, 2011, issued to the Investor in the principal amount of \$1,000,000 and other unsecured indebtedness for borrowed money in an amount not to exceed \$750,000.



Table of Contents

Pursuant to the Patent Security Agreement issued in connection with the Note and Warrant Purchase of March 22, 2011, the Company shall not, without the Investor's prior consent, sell, dispose or otherwise transfer all or any portion of the Collateral, except for license grants in the ordinary course of business. In addition, the Company will take all actions reasonably necessary to prosecute to allowance applications for patents and maintain all patents, and to seek to recover damages for infringement, misappropriation or dilution of the Collateral with limited exceptions.

In connection with such qualified offering, and subject to the terms and conditions of the Convertible Note, the Company will use reasonable efforts to include the Investor's securities in such offering. Pursuant to the terms and conditions of the Exchange Agreements, the Investor will not, if requested in writing by the underwriter, sell, offer to sell or otherwise transfer or dispose of (other than to affiliates) any securities of the Company held by it for a period of 180 days from the date of the final prospectus relating to such qualified offering, except for certain limited sales as more fully described in the Exchange Agreements.

The Company secured a loan from an investor in the principal amounts of \$620,000. The Company issued the lender an unsecured promissory note with respect to said loan on February 19, 2010. Pursuant to the terms of the note, the Company is to pay the holder simple interest at the rate of ten percent per annum commencing on the date of issuance with all interest and principal due and payable in cash on or before August 10, 2010. During the three months ended March 31, 2011, the note's maturity date was extended to May 31, 2011.

At maturity, we may not be able to repay all or any of the outstanding notes when due without severely impacting our ability to continue operations and we may not be able to secure additional financing to repay the notes on acceptable terms, if at all. Should we be unable to repay or renegotiate the notes, as an alternative, management could attempt to renegotiate the repayment terms of the notes and seek extension of the maturity dates. There is no guarantee that, if we should need to renegotiate these notes, any negotiated terms we may be able to secure would be favorable to the Company. Unfavorable terms, in either a financing transaction or a debt renegotiation, could adversely impact our business, financial condition and/or results of operations. Should we be unable to repay the loan and unsuccessful in securing additional financing or renegotiating the, \$1.5 million dollar secured convertible note the holder would have the option to foreclose on all of our patents and patent applications which would likely result in the failure of our business.

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.

Table of Contents

We will be dependent upon our existing cash of \$1,231,120 at March 31, 2011, product sales and additional debt and equity issuances to finance our operations through the next 12 months, including debt service of \$2,500,000 and other contractual obligations of approximately \$415,400. We need to raise additional capital of approximately \$13 million to \$18 million, net of costs, during the next eighteen months, the proceeds of which will be used to pay down existing debt, secure new patents for innovative applications of our core technology, purchase equipment, and fund our working capital requirements through September 2012. We currently have no commitments for any such funds. If we are unable to raise the funds we may delay development plans and reduce expenditures wherever possible.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. For the three months ended March 31, 2011, the Company incurred a net loss of \$3,282,145 and has incurred significant losses since inception. As of March 31, 2011, the Company has an accumulated deficit of \$38,920,107, negative working capital of \$1,894,975 and a stockholders' deficit of \$8,083,205. The Company used \$322,067 and \$576,116 of cash from operations during the three months ended March 31, 2011 and 2010, respectively, which was funded by proceeds from debt and equity financings. There is no assurance that such 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 pursuing the following sources of short and long-term working capital:

1. We are currently holding preliminary discussions with parties who are interested in licensing, purchasing the rights to, or establishing a joint venture to commercialize, certain applications of our technology.
2. We are seeking growth capital from certain strategic and/or government (grant) related sources. In addition to said capital, these sources may, pursuant to any agreements that may be developed in conjunction with such funding, assist in the product definition and design, roll-out, and channel penetration of our products. As part of this step we will attempt to take advantage of key programs associated with the recently enacted American Recovery and Reinvestment Act of 2009.

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.

Table of Contents

## Statement of Cash Flows

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

	Three Months Ended March 31,	
	2011	2010
Cash flows used in operating activities	\$ (322,067)	\$ (576,116)
Cash flows used in investing activities	(16,487)	(9,541)
Cash flows provided by financing activities	1,265,018	545,000
Net increase (decrease) in cash and cash equivalents	\$ 926,464	\$ (40,657)

Cash and cash equivalents as of March 31, 2011 was \$1,231,120 compared to \$1,044,971 as of March 31, 2010. Cash is primarily used to fund our working capital requirements.

As of March 31, 2011, the Company had an increase in working capital of \$899,603, resulting in a working capital deficit of \$1,961,885 compared to \$2,861,488 of working capital deficit as of December 31, 2010. During the three months ended 2011, we used approximately \$322,000 of cash to fund our operations, approximately \$50,000 to repay debt, and approximately \$16,500 to purchase property and equipment. These uses of cash are offset by approximately \$1,500,000 of proceeds from the issuance of convertible debt received during the three months ended March 31, 2011.

Net cash used in operating activities was approximately \$322,067 for the three months ended March 31, 2011 compared to approximately \$576,116 for the same period in 2010. During the three months ended March 31, 2011, we used additional cash to fund operating losses of approximately \$3,282,100 and working capital requirements of approximately \$2,090,000 compared to the same period in 2010.

Net cash used in investing activities was approximately \$16,500 for the three months ended March 31, 2011 compared to approximately \$9,500 for the same period in 2010. During the three months ended March 31, 2011, we used additional cash for patents and to purchase equipment.

Net cash provided by financing activities was approximately \$1,265,000 for the three months ended March 31, 2011 compared to approximately \$545,000 for the same period in 2010. During the three months ended March 31, 2011, we received net proceeds of \$1,500,000 from the issuance of debt net of \$50,000 of payments on notes payable.

## 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.



Table of Contents

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 4T. 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, 2011, the Company has enhanced our internal control processes in order to be able to comprehensively review the accounting and disclosure implications of complex, nonstandard transactions on a timely basis. These changes to our internal controls could materially affect, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

Table of Contents

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

We are not currently a party to any pending legal proceedings. In the ordinary course of business, we may become a party to various legal proceedings generally involving contractual matters, infringement actions, product liability claims and other matters.

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.

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

During the three months ended March 31, 2011, the Company issued 17,500 shares of common stock valued at \$6,475 for services provided. The issuance of these securities was exempt from registration under Section 4(2) and Regulation D of the Securities Act.

In December, 2009, we obtained \$1,000,000 of financing from Platinum-Montaur Life Sciences, LLC (“Investor”). Pursuant to the terms of the note, we are to pay the holder simple interest at the rate of ten percent per annum commencing on the date of issuance with all interest and principal due and payable in cash on or before June 17, 2010. The note’s maturity date was extended to April 30, 2011. On March 22, 2011, the Company entered into a Securities Amendment and Exchange Agreement and an Amended and Restated Convertible Promissory Note (“2011 Convertible Note”, collectively “Exchange Agreements”) with this investor. Pursuant to the terms and subject to the conditions set forth in the Exchange Agreements, the Company and the Investor amended and restated the \$1,000,000 unsecured promissory note issued by the Company to Investor on or about December 17, 2009 (“Original Note”) to, among other things, extend the term to March 22, 2012. Interest in the amount of 10% per annum, commencing on December 17, 2009 and calculated on a 365 day year, and the principal amount of \$1,000,000 will be paid on March 22, 2012. Subject to the terms and conditions of the 2011 Convertible Note, including limitations on conversion, the outstanding principal and interest under the 2011 Convertible Note will automatically convert into shares of the Company’s common stock at the then-effective conversion price upon the closing of a qualified firm commitment underwritten public offering or may be voluntarily converted by the investor at anytime during the term. The initial conversion price is \$0.26 per share. Any principal or interest which is not converted will be repaid by the Company at the earlier of a qualified offering, (as defined in the 2011 Convertible Note which is filed as an exhibit to the Form 8K filed with the Securities and Exchange Commission on March 28, 2011), or March 22, 2012. In addition, on March 22, 2011, in connection with the above Exchange Agreements, the Company entered into an Amendment to 2007 Warrant and an Amendment to 2009 Warrant to extend the term of the Stock Purchase Warrant, dated on or about December 31, 2007, and the term of the Stock Purchase Warrant, dated on or about March 12, 2009, respectively, to March 22, 2016 and to provide for cashless exercise unless such warrant shares are registered for resale under a registration statement. In addition, on March 22, 2011, the Company issued a Stock Purchase Warrant to the Investor to purchase 1,000,000 shares of the Company’s common stock at \$0.45 per share, exercisable commencing on the earliest of the consummation of the qualified offering (as defined in the Exchange Agreements), the date of conversion of the 2011 Convertible Note in full, or the date of conversion of the Convertible Note by the Investor in the greatest number of shares of the Company’s common stock not to exceed 9.99% beneficial ownership of Company outstanding common stock and terminating on March 22, 2016.



Table of Contents

Also, on March 22, 2011, the Company entered into a Note and Warrant Purchase Agreement, Secured Convertible Promissory Note and Patent Security Agreement (“Financing Agreements”) with the above Investor. Pursuant to the terms and subject to the conditions set forth in the Financing Agreements, the Investor has provided a bridge loan in the amount of \$1,500,000 (“Loan”) to the Company, which is secured by all patents, patent applications and similar protections of the Company and all rents, royalties, license fees and “accounts” with respect to such intellectual property assets. Pursuant to this Secured Convertible Promissory Note (“Secured Note”), interest in the amount of 10% per annum, calculated on a 365 day year, and the principal amount of \$1,500,000 will be paid on March 22, 2012, but repayment is accelerated upon a qualified offering (as defined in the note). In the event of such qualified offering, and subject to the terms and conditions of the Secured Note, the outstanding principal and interest under the Secured Note will automatically convert, subject to the limitations on conversion described in the note, into shares of the Company’s common stock at the then-effective conversion price upon the closing of such qualified offering. The initial conversion price is \$0.26 per share. Any principal or interest which is not converted will be repaid by the Company at the earlier of a qualified offering or March 22, 2012. No cash fees were paid to any party to the transaction in exchange for lending the money. On March 22, 2011, in connection with the Financing Agreements, the Company issued a Stock Purchase Warrant to the Investor to purchase 3,000,000 shares of the Company’s common stock at \$0.45 per share, exercisable until March 22, 2012.

Item 3. Default Upon Senior Securities

Other than disclosed in Company’s Form 8-K filings with the Securities and Exchange Commission there have been no defaults in any material payments during the covered period.

Item 4. Reserved

During the three months ended March 31, 2011, the Company did not submit any matters to a vote of its security holders.

Item 5. Other Information

On May 12, 2011, the holder of a promissory note issued by Dais Analytic Corporation (the “Company”) elected to apply all of the proceeds due and payable to the holder pursuant to such note in the principal amount of \$620,000, plus accrued interest, to purchase the Company’s common stock, par value \$0.01 per share (the “Common Stock”). The investor subscribed for and purchased from the Company 2,667,503 shares of Common Stock at a purchase price of \$0.26 per share, resulting in an aggregate purchase price of \$693,550 (the principal amount and related accrued interest under the note). As part of the purchase, the investor also received a five-year warrant to purchase 962,500 shares of Common Stock, at an exercise price of \$.45 per share. The warrants are immediately exercisable and subject to adjustment for standard anti-dilution events, including but not limited to stock dividends, split-up, reclassification or combination of Company’s shares, exchange of stock for other Company stock, or certain capital reorganizations or reclassification of the capital stock or consolidation, merger or sale of substantially all Company’s assets. In addition, as part of this transaction, the warrants issued to this investor on December 20, 2007 and December 31, 2007 were amended to include a cashless exercise provision. The Common Stock was issued pursuant to exemption from registration pursuant to Regulation D and Section 4(2) of the Securities Act of 1933 (the “Securities Act”).

Table of Contents

Item 6. Exhibits

- 4.36 Fifth Amendment to Unsecured Promissory Note from RBC Capital Markets – Custodian for Leonard Samuels IRA, dated April 29, 2011 (incorporated by reference to Form 10-Q as filed on May 16, 2011)
- 4.37 Amendment to 2007 Warrant by and between Dais Analytic Corporation and RBC Capital Markets- Custodian for Leonard Samuels IRA dated May 12, 2011 (incorporated by reference to Form 10-Q as filed on May 16, 2011)
- 4.38 Amendment to 2009 Warrant by and between Dais Analytic Corporation and RBC Capital Markets- Custodian for Leonard Samuels IRA dated May 12, 2011 (incorporated by reference to Form 10-Q as filed on May 16, 2011)
- 4.39 Stock Purchase Warrant by and between Dais Analytic Corporation and RBC Capital Markets- Custodian for Leonard Samuels IRA dated May 12, 2011 (incorporated by reference to Form 10-Q as filed on May 16, 2011)
- 4.40 Stock and Warrant Purchase Agreement dated May 12, 2011 (incorporated by reference to Form 10-Q as filed on May 16, 2011)
- 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

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)

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

Dated: June 14, 2011

/s/ JUDITH C. NORSTRUD  
Judith C. Norstrud  
Chief Financial Officer and Treasurer  
(Principal Financial and Accounting  
Officer)

Dated: June 14, 2011

