DAIS ANALYTIC CORP
Form 10-Q
August 14, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2009

¨ 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. 333-152940

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

New York	14-1760865
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

11552 Prosperous Drive, Odessa, 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 x No ¨

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

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

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

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

There were 19,080,037shares of the Registrant’s $0.01 par value common stock outstanding as of August 13, 2009.

Dais Analytic Corporation

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PART I—FINANCIAL INFORMATION

Dais Analytic Corporation
Balance Sheets

	June 30, 2009 (Unaudited)	December 31, 2008
Assets		
Current assets:		
Cash	$ 34,888	$ 26,867
Accounts receivable	273,564	188,970
Inventory	138,591	147,128
Loan costs, net of accumulated amortization	—	1,004
Prepaid expenses and other current assets	57,032	31,181
Total current assets	504,075	395,150
Property and equipment, net of accumulated depreciation of $311,734 and $307,286 at June 30, 2009 and December 31, 2008, respectively	22,486	26,933
Other assets:		
Deposits	2,280	2,280
Patents, net of accumulated amortization of $101,327 and $96,389 at June 30, 2009 and December 31, 2008, respectively	54,444	44,129
Total other assets	56,724	46,409
	$ 583,285	$ 468,492
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable, including related party payables of $130,321 and $105,925 at June 30, 2009 and December 31, 2008, respectively	$ 558,847	$ 380,022
Accrued expenses, other	338,029	340,115
Accrued compensation and related benefits	1,245,189	1,147,389
Current portion of deferred revenue	84,145	84,145
Current portion of notes payable, net of unamortized discount of $0 and $30,137 at June 30, 2009 and December 31, 2008, respectively, including related party payable of $62,524 and $624 at June 30, 2009 and December 31, 2008, respectively	2,087,524	2,245,488
Total current liabilities	4,313,734	4,197,159
Long-term liabilities:		
Long-term portion of notes payable, net of unamortized discount of $6,965	—	675,000
Deferred revenue, net of current portion	251,697	293,769
Total long-term liabilities	251,697	968,769
Stockholders' deficit:		
Series A preferred stock; $.01 par value; 10,000,000 shares authorized; 0 shares issued and outstanding		
	187,740	121,624

Common stock; $.01 par value; 100,000,000 shares authorized; 18,773,969 and 12,162,398 shares issued; 18,516,756 and 11,905,185 shares outstanding at June 30, 2009 and December 31, 2008, respectively		
Capital in excess of par value	26,872,179	25,253,196
Prepaid services paid for with common stock	—	(23,375)
Accumulated deficit	(29,769,953)	(28,776,769)
Treasury stock at cost, 257,213	(1,272,112)	(1,272,112)
Total stockholders' deficit	(3,982,146)	(4,697,436)
	$ 583,285	$ 468,492

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

Dais Analytic Corporation
Statements of Operations
(Unaudited)

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Revenue:				
Sales	$ 507,318	$ 263,043	$ 643,634	$ 455,517
License fees	21,035	21,035	42,072	42,072
	528,353	284,078	685,706	497,589
Expenses:				
Cost of goods sold	337,574	218,057	444,544	377,990
Selling, general and administrative	439,426	502,304	982,798	1,758,403
	777,000	720,361	1,427,342	2,136,393
Loss from operations	(248,647)	(436,283)	(741,636)	(1,638,804)
Other expense (income):				
Interest expense	95,353	831,435	251,585	1,690,655
Interest income	—	(5,526)	(37)	(16,282)
	95,353	825,909	251,548	1,674,373
Net loss	$ (344,000)	$ (1,262,192)	$ (993,184)	$ (3,313,177)
Net loss per common share, basic and diluted	$ (0.02)	$ (0.13)	$ (0.06)	$ (0.36)
Weighted average number of common shares, basic and diluted	17,821,497	9,470,517	15,600,875	9,208,487

Dais Analytic Corporation
Statements of Stockholders' Deficit
For the Six Months Ended June 30, 2009

	Series A Preferred Stock		Common Stock							
	Shares	Amount	Shares	Amount	Capital in Excess of Par Value		Accumulated Deficit	Prepaid Services Paid for with Common Stock	Treasury Stock	Stockholders' Deficit
Balance, December 31, 2008	$ -	$ -	12,162,398	$ 121,624	$ 25,253,196	$	(28,776,769)	$ (23,375)	$ (1,272,112)	$ (4,697,436)
Issuance of common stock for conversion of notes payable and related accrued interest (unaudited)	-	-	5,129,648	51,297	974,634	-	-	-	-	1,025,931
Issuance of common stock and warrant for services (unaudited)	-	-	208,846	2,088	67,657		-	23,375	-	93,120
Stock compensation expense (unaudited)	-	-	-	-	148,306	-	-	-	-	148,306
Issuance of warrants for debt conversion (unaudited)	-	-	-	-	110,117		-	-	-	110,117
Issuance of common stock and warrants for cash (unaudited)	-	-	1,273,077	12,731	318,269	-	-	-	-	331,000
Net loss for the six months ended June 30, 2009 (unaudited)	-	-	-	-	-	-	(993,184)	-	-	(993,184)

Balance, June 30, 2009 (unaudited)	$ -	$ -	18,773,969	$ 187,740	$ 26,872,179	$	(29,769,953)	-	$ (1,272,112)	$ (3,982,146)

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

Dais Analytic Corporation
Statements of Cash Flows
(Unaudited)

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Operating activities		
Net loss	$ (993,184)	$ (3,313,177)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	9,385	8,464
Amortization of deferred loan costs	1,004	52,742
Amortization of discount on convertible notes	144	772,165
Amortization of the beneficial conversion feature on convertible notes	29,992	667,287
Write off of deferred noncash offering costs	—	55,000
Stock based compensation	148,306	946,202
Issuance of common stock for future services and amortization of common stock issued for future services	65,395	2,125
Issuance of common stock warrants for conversion of notes payable	110,117	43,111
Issuance of options and warrants for services	27,726	—
Value of beneficial conversion feature for conversion of notes payable and related accrued interest	—	21,708
(Increase) decrease in:		
Accounts receivable	(84,594)	(187,874)
Inventory	8,537	(44,933)
Prepaid expenses and other current assets	(25,851)	(5,832)
Increase (decrease) in:		
Accounts payable and accrued expenses	277,669	69,615
Accrued compensation and related benefits	97,800	21,876
Deferred revenue	(42,072)	(42,072)
Net cash used by operating activities	(369,626)	(933,593)
Investing activities		
Purchase of property and equipment	—	(14,647)
Increase in patents	(15,253)	—
Net cash used by investing activities	(15,253)	(14,647)
Financing activities		
Proceeds from issuance of notes payable	—	500,000
Proceeds of issuance of notes payable, related party	61,900	—
Proceeds received from escrow	—	1,000,000
Payments on notes payable	—	(100,000)
Payments for loan costs	—	(34,000)
Issuance of common stock for cash	331,000	—
Net cash provided by financing activities	392,900	1,366,000
Net increase in cash	8,021	417,760

Cash, beginning of period		26,867		504,232
Cash, end of period	$	34,888	$	921,992
Cash paid for interest	$	403	$	10,100

Supplemental disclosures of noncash investing and financing activities:

During the six months ended June 30, 2009, the Company issued 208,846 shares of common stock valued at $69,745 for future services.
During the six months ended June 30, 2009, the Company issued 5,129,648 shares of common stock in conversion of $925,000 of notes payable and $100,930 of accrued interest.
During the six months ended June 30, 2008, the Company issued 240,000 shares of common stock valued at $86,000 as payment for future services.
During the six months ended June 30, 2008, the Company issued 439,293 shares of common stock in conversion of $100,000 of notes payable and $8,540 of accrued interest.
During the six months ended June 30, 2008, the Company issued convertible notes payable with a beneficial conversion feature of $245,106 and a discount equivalent to the relative fair value of the accompanying warrants of $254,894.

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

Dais Analytic Corporation
Notes to Financial Statements
Three and Six Months Ended June 30, 2009
(Unaudited)

1. Background Information

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

2. Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. For the six months ended June 30, 2009, the Company incurred a net loss of $993,184. As of June 30, 2009, the Company has an accumulated deficit of $29,769,953, negative working capital of $3,809,659 and a stockholder’s deficit of $3,982,146 and is in default on notes in the aggregate principal amount of $1,450,000. 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 with some additional funding from other traditional financing sources, including term notes and proceeds from sub-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.

3. Significant Accounting Policies

In the opinion of management, all adjustments consisting only of normal recurring adjustments necessary for a fair statement of (a) the results of operations for the three and six month periods ended June 30, 2009 and 2008, (b) the financial position at June 30, 2009 and December 31, 2008, and (c) cash flows for the six month periods ended June 30, 2009 and 2008, have been made.

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, 2008 included in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 31, 2009 and the Company’s quarterly report filed with the securities and Exchange Commission on May 20, 2009. The results of operations for the three and six month periods ended June 30, 2009 are not necessarily indicative of the results that may be expected for any future quarters or for the entire year ending December 31, 2009.

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.

Dais Analytic Corporation
Notes to Financial Statements
Three and Six Months Ended June 30, 2009
(Unaudited)

3. Significant Accounting Policies (continued)

Loan and stock issuance costs - Direct loan costs incurred with the issuance of notes payable are deferred and amortized to interest expense over the life of the related notes payable. For the three months ended June 30, 2009 and 2008, the Company incurred amortization from direct loan costs of $0 and $28,888, respectively. For the six months ended June 30, 2009 and 2008, the Company incurred amortization from direct loan costs of $1,004 and $52,742, respectively.

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

Inventory - Inventory consists 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. 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. A warranty reserve is recorded for estimated costs associated with potential warranty expenses on previous sales. Warranty cost has been immaterial to our overall operations. 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 $21,035 and $42,072 from license agreements for each of the three and six month periods ended June 30, 2009 and 2008, respectively.

Employee stock options - In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123 (Revised 2004), "Share-Based Payment" (SFAS 123R). SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized 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).

The value of each grant under SFAS 123(R) is estimated at the grant date using the Black-Scholes option model with the following assumptions for options granted during the six month periods ended June 30, 2009 and 2008:

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Dividend rate	0%	0%
Risk free interest rate	1.65% – 3.21%	2.64% - 3.98%
Expected term	5 – 10 years	5 – 10 years
Expected volatility	92% – 105%	80% – 114%

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 contractual life 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.

SFAS No. 123R requires forfeitures to be 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 zero percent for the six months ended June 30, 2009 and 2008 and incorporated this rate in the estimated fair value of employee option grants during 2009 and 2008.

Dais Analytic Corporation
Notes to Financial Statements
Three and Six Months Ended June 30, 2009
(Unaudited)

3. Significant Accounting Policies (continued)

Financial instruments – In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157 "Fair Value Measurements" (SFAS 157). SFAS 157 introduces a framework for measuring fair value and expands required disclosure about fair value measurements of assets and liabilities. SFAS 157 for financial assets and liabilities is effective for fiscal years beginning after November 15, 2007. The Company adopted the standard for those financial assets and liabilities as of the 2008 fiscal year and the impact of adoption was not significant. SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1—Quoted prices in active markets for identical assets or liabilities.
- Level 2—Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable.
- Level 3—Unobservable inputs that are supported by little or no market activity, therefore requiring an entity to develop its own assumptions about the assumptions that market participants would use in pricing.

Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management as of June 30, 2009. 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 accounts receivable, prepaid and other current expenses, accounts payable, accrued compensation and accrued expenses. The fair value of the Company's convertible 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.

On January 1, 2009, the Company applied FAS No. 157, "Fair Value Measurements" (FAS 157), for all non-financial assets and liabilities measured at fair value on a non-recurring basis in accordance with FASB Staff Position (FSP) FAS 157-2, "Effective Date of FAS 157" (FSP 157-2), which postponed the effective date of FAS 157 for those assets and liabilities to fiscal years beginning after November 15, 2008, which for the Company is January 1, 2009. The application of FSP 157-2 did not have an impact on the Company's financial position or results of operations.

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

The Company has adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes". The Company has not recognized a liability as a result of the implementation of Interpretation 48. 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 Interpretation 48.

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 June 30, 2009 and 2008, the Company had 42,535,122 and 41,247,638 potentially dilutive common shares, respectively, which were not included in the computation of loss per share because the effect would have been antidilutive. No shares potentially issuable to satisfy the in-the-money amount of our convertible notes payable have been included in the computation of diluted loss per share as the conversion options were not in-the-money.

Recent accounting pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued SFAS No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162," (SFAS 168). SFAS 168 replaces SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles," and establishes the FASB Accounting Standards Codification (Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The FASB will no longer issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts; instead the FASB will issue Accounting Standards Updates. Accounting Standards Updates will not be authoritative in their own right as they will only serve to update the Codification. The issuance of SFAS 168 and the Codification does not change GAAP. SFAS 168 becomes effective for the Company for the period ending September 30, 2009. The adoption of SFAS 168 will not have an impact on the financial statements.

In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)," (SFAS 167). SFAS 167 amends FASB Interpretation No. 46 (Revised December 2003), "Consolidation of Variable Interest Entities—an interpretation of ARB No. 51," (FIN 46(R)) to require an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity; to require ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity; to eliminate the quantitative approach previously required for determining the primary beneficiary of a variable interest entity; to add an additional reconsideration event for determining whether an entity is a variable interest entity when any changes in facts and circumstances occur such that holders of the equity investment at risk, as a group, lose the power from voting rights or similar rights of those investments to direct the activities of the entity that most significantly impact the entity's economic performance; and to require enhanced disclosures that will provide users of financial statements with more transparent information about an enterprise's involvement in a variable interest entity. SFAS 167 becomes effective for the Company on January 1, 2010. Management is currently evaluating the potential impact of SFAS 167 on the financial statements.

Other 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.

Dais Analytic Corporation
Notes to Financial Statements
Three and Six Months Ended June 30, 2009
(Unaudited)

4. Notes Payable

Notes payable consist of the following at June 30, 2009:

Convertible notes payable; interest at 9%; maturing from December 2008 to October 2009, collateralized by the Company's patents and patent applications	$ 2,025,000
Notes payable to a related party; non-interest bearing; due on demand; unsecured	62,524
Current portion of notes payable	$ 2,087,524

Convertible Notes Payable.

During December 2007 and January 2008, the Company issued convertible promissory notes (the "Convertible Notes") and warrants to purchase common stock in exchange for proceeds totaling $2,950,000. The Convertible Notes bear interest at 9% per annum and have stated maturity dates from December 2008 to January 2009. The Convertible Notes are repayable in cash or convertible into shares of the Company's stock at a rate of one share per $0.20 of outstanding principle and interest. Warrants to purchase 14,750,000 shares of the Company's common stock accompanying the Convertible Notes are subject to certain limitations, exercisable at $0.25 per share, vest immediately, and expire between December 2012 and January 2013.

The Convertible Notes contain an embedded conversion feature. The Company accounted for this conversion feature and detachable warrants in accordance with EITF Issue No. 98-5, "Accounting for Securities with Beneficial Conversion Feature or Contingently Adjustable Conversion Ratio," and EITF Issue No. 00-27, "Application of Issue No. 98-5 to Certain Convertible Instruments." In accordance with these standards, the Company allocated the proceeds from issuance of the convertible notes to the beneficial conversion feature and the warrants based on their relative fair values. The Company considered EITF No. 00-19 and concluded that the warrants should be recorded as a component of permanent equity.

To recognize the fair value of the warrants, the Company discounted the notes and increased additional paid in capital. The fair value of the beneficial conversion feature of $1,383,437 and discount related to the warrants of $1,566,563 were amortized over the term of the Convertible Notes. For the three months ended June 30, 2009 and 2008, the Company recognized interest expense from the amortization of the beneficial conversion feature and discount of $0 and $735,479, respectively. For the six months ended June 30, 2009 and 2008, the Company recognized interest expense from the amortization of the beneficial conversion feature and discount of $30,136 and $1,439,452, respectively.

The following table presents a reconciliation of the proceeds received from the financing to the carrying value of the Convertible Notes:

Principal balance of convertible notes	$ 2,950,000
Relative fair value of the warrants	(1,566,563)
Beneficial conversion feature	(1,383,437)
Amortization of the discount	1,566,563
Amortization of the beneficial conversion feature	1,383,437

Conversion of notes payable into common stock		(925,000)
Carrying value at June 30, 2009	$	2,025,000

Between December 11, 2008 and January 21, 2009, all amounts due under the Convertible Notes matured and became due and payable in full. The Company has not repaid any of the amounts due under the respective Convertible Notes. The Company is currently proposing that holders of matured Convertible Notes either (i) convert their notes into shares at this time in exchange for additional warrants or (ii) extend the maturity of the Convertible Notes and continue to accrue interest. In December 2008 three investors extended the term of their Convertible Notes and in the six month period ending June 30, 2009 five investors extended the term of their Convertible Notes. The total face value of these Convertible Notes was $575,000 of which $475,000 in face value was extended to September of 2009 and the remainder to October of 2009. In addition, during the six months ended June 30, 2009 four investors converted the principal balance of $925,000 plus accrued interest of $100,930 on their Convertible Notes into 5,129,648 shares of common stock. These investors also received an additional 1,540,125 warrants, exercisable immediately at $0.25 per share and valued at $110,117, which was recorded as interest expense during the six months ended June 30, 2009.

Four investors holding Convertible Notes with an aggregate outstanding principal balance of approximately $450,000 at December 31, 2008 had notified the Company that they were asserting their rights to receive payment of the principal and interest pursuant to the terms of the Convertible Notes. In June of 2009, three of these investors, holding an aggregate principal note balance of $250,000, agreed to extend the term of their Convertible Notes to September 2009 in exchange for Company entering into a confession of judgment. Under that agreement, the three investors have the right, should the Company fail to pay all principal and interest due pursuant to their Convertible Notes on or before September 11, 2009, to file the confession of judgment with the court and seek to secure a judgment against the Company in the amount of all principal and interest due under their Convertible Notes together with the reasonable cost and expense of collection. The total number of investors extending their Convertible Notes and the face value of said Convertible Notes, as stated in the previous paragraph, is inclusive of these three investors and the aggregate face value of their Convertible Notes. In July of 2009, the fourth investor, who had previously provided notice and holds a Convertible Note in the principal amount of $200,000, agreed to extend the Convertible Note to September 2009. . As of June 30, 2009, $2,025,000 of convertible notes were outstanding, of which $575,000 have been extended to September/October 2009 with the remaining notes due and payable in full.

Accrued interest on the notes was $276,191 and $268,453 at June 30, 2009 and December 31, 2008, respectively.

Dais Analytic Corporation