

DAIS ANALYTIC CORP
Form 10-Q
August 16, 2010
Table of Contents

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

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 30, 2010

“ **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)

Edgar Filing: DAIS ANALYTIC CORP - Form 10-Q

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

14-1760865
(IRS Employer

Identification No.)

11552 Prosperous Drive, Odessa, FL 33556

(Address of principal executive offices) (Zip Code)

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

There were 29,666,717 shares of the Registrant's \$0.01 par value common stock outstanding as of August 13, 2010.

Table of Contents

Dais Analytic Corporation

INDEX

	Page No.
Part I. Financial Information	
Item 1. Financial Statements	
<u>Balance Sheets June 30, 2010 (Unaudited) and December 31, 2009</u>	3
<u>Statements of Operations three and six months ended June 30, 2010 and 2009 (Unaudited)</u>	4
<u>Statement of Stockholders' Deficit six months ended June 30, 2010 (Unaudited)</u>	5
<u>Statements of Cash Flows six months ended June 30, 2010 and 2009 (Unaudited)</u>	6
<u>Notes to Financial Statements (Unaudited)</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operation</u>	16
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	21
Item 4T. <u>Controls and Procedures</u>	21
Part II. Other Information	
Item 1. <u>Legal Proceedings</u>	21
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	22
Item 3. <u>Default Upon Senior Securities</u>	22
Item 4. <u>Reserved</u>	22
Item 5. <u>Other Information</u>	22
Item 6. <u>Exhibits</u>	22
<u>Signatures</u>	23

Table of Contents**PART I FINANCIAL INFORMATION****Dais Analytic Corporation****Balance Sheets**

	June 30, 2010 (Unaudited)	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 411,439	\$ 1,085,628
Accounts receivable	1,187,263	187,434
Inventory	246,968	149,986
Prepaid expenses and other current assets	121,933	103,571
Total current assets	1,967,603	1,526,619
Property and equipment, net	26,436	19,383
Other assets:		
Deposits	2,280	2,280
Patents, net of accumulated amortization of \$106,042 and \$107,319 at June 30, 2010 and December 31, 2009, respectively	73,742	72,464
Total other assets	76,022	74,744
	\$ 2,070,061	\$ 1,620,746
Liabilities and Stockholders Deficit		
Current liabilities:		
Accounts payable, including related party payables of \$138,189 and \$150,740 at June 30, 2010 and December 31, 2009, respectively	\$ 316,630	\$ 385,955
Accrued compensation and related benefits	1,371,023	1,314,356
Accrued expenses, other	344,201	223,597
Current portion of deferred revenue	643,741	292,457
Current portion of notes payable	2,320,624	1,575,624
Total current liabilities	4,996,219	3,791,989
Long-term liabilities:		
Long-term portion of notes payable		300,000
Deferred revenue, less current portion	168,840	207,696
Total long-term liabilities	168,840	507,696
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; 29,913,930 and 29,352,930 shares issued; 29,656,717 and 29,095,717 shares outstanding at June 30, 2010 and December 31, 2009, respectively	299,140	293,530

Edgar Filing: DAIS ANALYTIC CORP - Form 10-Q

Capital in excess of par value	31,184,843	30,461,794
Accumulated deficit	(33,306,869)	(32,162,151)
	(1,822,886)	(1,406,827)
Treasury stock at cost, 257,213 shares	(1,272,112)	(1,272,112)
Total stockholders' deficit	(3,094,998)	(2,678,939)
	\$ 2,070,061	\$ 1,620,746

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

Table of Contents**Dais Analytic Corporation****Statements of Operations****(Unaudited)**

	Three Months Ended		Six Months Ended	
	2010	2009	2010	2009
Revenue:				
Sales	\$ 989,642	\$ 507,318	\$ 1,376,424	\$ 643,634
License fees	20,500	21,035	41,030	42,072
	1,010,142	528,353	1,417,454	685,706
Expenses:				
Cost of goods sold	550,196	337,574	871,522	444,544
Selling, general and administrative	1,029,394	439,426	1,588,914	982,798
	1,579,590	777,000	2,460,436	1,427,342
Loss from operations	(569,448)	(248,647)	(1,042,982)	(741,636)
Other expense (income):				
Interest expense	55,233	95,353	101,736	251,585
Interest income				(37)
	55,233	95,353	101,736	251,548
Net loss	\$ (624,681)	\$ (344,000)	\$ (1,144,718)	\$ (993,184)
Net loss per common share, basic and diluted	\$ (0.02)	\$ (0.02)	\$ (0.04)	\$ (0.06)
Weighted average number of common shares, basic and diluted	29,800,194	17,821,497	29,577,797	15,600,875

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

Table of Contents

Dais Analytic Corporation

Statements of Stockholders Deficit

(Unaudited)

For the Six Months Ended June 30, 2010

	Common Stock		Capital in	Accumulated	Treasury	Total
	Shares	Amount	Excess of Par Value			
Balance, December 31, 2009	29,352,930	\$ 293,530	\$ 30,461,794	\$ (32,162,151)	\$ (1,272,112)	\$ (2,678,939)
Issuance of common stock for services	186,000	1,860	173,251			175,111
Issuance of common stock for conversion of notes payable	375,000	3,750	71,250			75,000
Stock based compensation			478,548			478,548
Net loss				(1,144,718)		(1,144,718)
Balance, June 30, 2010	29,913,930	\$ 299,140	\$ 31,184,843	\$ (33,306,869)	\$ (1,272,112)	\$ (3,094,998)

Table of Contents**Dais Analytic Corporation****Statements of Cash Flows****(Unaudited)**

	Six Months Ended June 30	
	2010	2009
Operating activities		
Net loss	\$ (1,144,718)	\$ (993,184)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	2,153	9,385
Amortization of deferred loan costs		1,004
Amortization of discount on convertible notes		144
Amortization of the beneficial conversion feature on convertible notes		29,992
Issuance of options and warrants for services	175,111	27,726
Stock based compensation	478,548	148,306
Issuance of common stock for future services and amortization of common stock issued for future services	(11,947)	65,395
Issuance of common stock warrants to induce conversion of notes payable		110,117
(Increase) decrease in:		
Accounts receivable	(999,829)	(84,594)
Inventory	(96,982)	8,537
Prepaid expenses and other current assets	(6,415)	(25,851)
Increase (decrease) in:		
Accounts payable and accrued expenses	51,279	277,669
Accrued compensation and related benefits	56,667	97,800
Deferred revenue	312,428	(42,072)
Net cash used by operating activities	(1,183,705)	(369,626)
Investing activities		
Patent costs		(15,253)
Purchase of property and equipment	(10,484)	
Net cash used by investing activities	(10,484)	(15,253)
Financing activities		
Proceeds from issuance of notes payable	620,000	61,900
Payments on notes payable	(100,000)	
Proceeds from issuance of common stock for cash		331,000
Net cash provided by financing activities	520,000	392,900
Net (decrease) increase in cash and cash equivalents	(674,189)	8,021
Cash and cash equivalents, beginning of period	1,085,628	26,867
Cash and cash equivalents, end of period	\$ 411,439	\$ 34,888
Cash paid for Interest	\$	\$ 403

Supplemental disclosures of cash flow information

Edgar Filing: DAIS ANALYTIC CORP - Form 10-Q

and noncash investing and financing activities:

During the six months ended June 30, 2010, the Company issued 375,000 shares of common stock in conversion of \$75,000 of notes payable.

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.

Table of Contents

Dais Analytic Corporation

Notes to Financial Statements

(Unaudited)

The accompanying financial statements of Dais Analytic Corporation are unaudited, but in the opinion of management, reflect all adjustments (consisting only of normal recurring 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, 2009 included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 30, 2010. The results of operations for the three and six month periods ended June 30, 2010 are not necessarily indicative of the results that may be expected for any future quarters or for the entire year ending December 31, 2010.

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.

Table of Contents**2. Going Concern**

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. For the three and six months ended June 30, 2010, the Company incurred a net loss of \$624,681 and \$1,144,718, respectively. As of June 30, 2010, the Company has an accumulated deficit of \$33,306,869, negative working capital of \$3,028,616 and a stockholder's deficit of \$3,094,998 and is in default on promissory notes in the aggregate principal amount of \$150,000. 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 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.

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, 2010 and 2009, (b) the financial position at June 30, 2010 and December 31, 2009, and (c) cash flows for the six month periods ended June 30, 2010 and 2009, 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.

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. The Company has recorded an accrual of approximately \$3,800 for future warranty expenses at June 30, 2010. 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. Revenue recognized by the Company from license agreements was \$20,500 and \$41,030 for the three months ended June 30, 2010 and 2009, respectively, and \$21,035 and \$42,072 for the six months ended June 30, 2010 and 2009, 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 six months ended June 30, 2010 and 2009:

	Six Months Ended		Six Months Ended	
	June 30, 2010		June 30, 2009	
Dividend rate	0%		0%	
Risk free interest rate	2.38%	2.59%	1.65%	3.21%
Expected term	5 - 10 years		5 - 10 years	
Expected volatility	96%	107%	92%	105%

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 six month periods ended June 30, 2010 and 2009, respectively.

Deferred revenue Deferred revenue consists of payments received for products in advance of shipment to customers and also payments received under license agreements that have not yet been recognized as revenue.

Research and development costs Research and development expenses include costs directly attributable to the conduct of research and development programs primarily related to the development of new products and improving the efficiency of our existing products and production process. Such costs include salaries, payroll taxes, employee benefits, materials and supplies. All costs associated with research and development are expensed as incurred. The Company expensed approximately \$113,000 and \$120,000 during the three and six months ended June 30, 2010, respectively.

Non-employee stock-based compensation The Company accounts for stock based compensation awards issued to non-employees for services and financing arrangements, as prescribed by FASB ASC 505-50, *Equity-Based Payments to Non-Employees*, at either the fair value of the services rendered or the instruments issued in exchange for such services, whichever is more readily determinable. The fair value of common stock issued for services is based on the closing stock price on the date the common stock was issued. The fair value of warrants issued in 2010 and 2009 was calculated using the Black-Scholes model with the following assumptions: expected life in years: 5-10 years; estimated volatility 96 - 100% and 92% - 93%, respectively; risk-free interest rate: 2.38% - 2.57% and 1.65% - 1.92%, respectively; dividend yield: 0%.

Financial instruments Fair value is defined as the price that would be received to sell 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 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.

Table of Contents

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 June 30, 2010. The respective carrying value of certain on-balance-sheet financial instruments approximated their fair values due to the short-term nature of these instruments. These financial instruments include cash, accounts receivable, accounts payable, 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 Level 1 financial assets consist of cash equivalents of \$411,439 and \$1,085,628 as of June 30, 2010 and December 31, 2009, respectively.

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 June 30, 2010 and 2009, the Company had 38,043,167 and 42,535,122 potentially dilutive common shares, respectively, which were not included in the computation of loss per share.

Recent accounting pronouncements

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.

4. Notes Payable

Notes payable consist of the following:

	June 30, 2010 (unaudited)	December 31, 2009
Convertible notes payable; interest at 9.0%; \$150,000 currently in default; collateralized by the Company's patents and patent applications	\$ 150,000	\$ 325,000
Note payable to investor; 7% interest; unsecured; due January 16, 2011	300,000	300,000
Note payable to investor; interest at 10% per annum; unsecured; due September 30, 2010	1,000,000	1,000,000
Notes payable to an investor; 10% interest; unsecured; due September 30, 2010	870,000	250,000
Note payable; related party	624	624
	2,320,624	1,875,624
Less amounts currently due	2,320,624	1,575,624
Long-term notes payable	\$	\$ 300,000

Table of Contents***Convertible Notes***

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 nine percent 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 principal 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 the detachable warrants by allocating the proceeds from issuance of the convertible notes to the beneficial conversion feature and the warrants based on their relative fair values. The Company concluded that the warrants should be recorded as a component of permanent equity based on applicable accounting guidance.

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 of \$1,566,563 related to the warrants were amortized over the term of the *Convertible Notes*. For the three and six months ended June 30, 2009, the Company recognized interest expense from the amortization of the beneficial conversion feature and discount of \$0 and \$30,136, respectively. No interest expense was recognized for the three and six months ended June 30, 2010 as the beneficial conversion feature and debt discount were fully amortized as of December 31, 2009.

During the year ended December 31, 2009 eighteen holders converted their *Convertible Notes*, having an aggregate principal balance of \$2,350,000 plus accrued interest of \$361,600, into 13,557,993 shares of common stock. Some of the holders converted during periods in which we were offering an additional warrant as an inducement to convert. In accordance with said offers we issued additional warrants to purchase 1,665,000 shares of common stock, exercisable immediately at \$0.25 per share and valued at \$126,367, and 575,000 warrants, exercisable immediately at \$0.75 per share valued at \$286,641 which was recorded as interest expense during the twelve months ended December 31, 2009.

During 2009, four investors holding *Convertible Notes* with an aggregate outstanding principal balance of approximately \$450,000 at December 31, 2008 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, entered into a confession of judgment with the Company. Under that agreement, the three investors had 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. All accrued interest and principal related to the three *Convertible Notes*, \$289,803 in the aggregate, was paid in full by the Company on or before September 11, 2009. In July 2009, the fourth investor, holding a *Convertible Note* in the principal amount of \$200,000, agreed to extend said note to September 2009. In November 2009, this investor and the Company modified the *Convertible note* to extend the maturity date of said note to July 2010, pay the principal amount due in eight monthly installments commencing December of 2009, end the accrual of interest as of November 20, 2009 and convert the \$34,861 in interest due under the *Convertible Note* as of November 20, 2009 into 170,137 shares of the Company's common stock. During the six months ended June 30, 2010 the outstanding principal balance of said loan was \$100,000, the Company paid \$25,000 of the principal amount outstanding on this note and the investor converted his remaining balance of \$75,000 into 375,000 shares of common stock based on a per share conversion rate of \$0.20.

As of June 30, 2010, \$150,000 of principal on the *Convertible Notes* was outstanding and is currently in default and due and payable in full.

Other Notes

In July 2009 we secured a loan of \$300,000 from an investor and issued the lender an unsecured promissory note for the principal amount on December 8, 2009. Pursuant to the terms of the note, we are to pay the note holder simple

Table of Contents

interest at the rate of seven percent per annum commencing on July 17, 2009 with all interest and principal due there under payable in cash on or before January 16, 2011. If an event of default were to occur the interest rate would increase to ten percent for the duration of the event. Should we not cure the default within 60 days of receiving notice, the note holder may, at his option, declare all interest accrued and unpaid and principal outstanding immediately due and payable.

In December 2009 we secured a loan in the principal amount of \$1,000,000 from an investor and issued the lender an unsecured promissory note. 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 September 30, 2010. The note has equal standing with all other existing notes with respect to seniority. We may not incur more than \$500,000 in additional debt without the holder's prior approval and said additional debt may not be senior to this promissory note. During the term of the note, the holder has the right to participate, by investing additional funds the total amount of which may not exceed the outstanding balance of the 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 holder may declare all principal and interest due and payable without presentment, demand, protest or notice. Further, in addition to all remedies available under law the holder may in the event of a default opt to convert the principal and accrued and unpaid interest outstanding under the note into any debt or equity security which the Company issued after the date of this note and prior to the date of full payment of this note in accordance with the same terms as the subsequent financing.

The Company secured loans from two investors in the principal amounts of \$250,000 and \$620,000. The loan amounts were received by the Company on December 31, 2009 and February 18, 2010, respectively, and the Company issued the lenders unsecured promissory notes with respect to said loans on February 19, 2010. During the six months ended June 30, 2010, the notes were amended to extend the term of the notes to September 30, 2010, the Company is to pay the holders 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 September 30, 2010. The notes have equal standing with all other existing notes with respect to seniority. 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. During the term of the notes, each 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 the 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.

Total accrued interest on all of the above the notes was \$143,372 and \$257,258 at June 30, 2010 and December 31, 2009, 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 contributions. 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 and 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

Table of Contents

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.

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 \$12,800 and \$26,073 for the three months ended June 30, 2010 and 2009, respectively, and \$12,200 and \$24,396 for the six month periods ended June 30, 2010 and 2009, respectively. At June 30, 2010 and December 31, 2009, \$138,189 and \$150,740, respectively, were included in accounts payable for amounts owed to these stockholders.

The Company also has accrued compensation due to the Chief Executive Officer and one other employee for deferred salaries earned and unpaid as of June 30, 2010 and December 31, 2009 of \$1,371,023 and \$1,314,356, respectively.

6. Stock Options and Warrants**Options**

In June 2000 and November 2009, our Board of Directors adopted, and our shareholders approved, the 2000 Incentive Compensation Plan and 2009 Long-Term Incentive 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. As of June 30, 2010, 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 the six months ended June 30, 2010 was \$0.24 per option. There were no options exercised during the six months ended June 30, 2010.

The following summarizes the information relating to outstanding stock options activity with employees during the six months ended June 30, 2010:

	Common Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2009	12,298,882	\$ 0.26	7.64	\$ 1,052,839
Granted	2,830,000	\$ 0.30		
Forfeited	(38,625)	\$ 0.10		
Outstanding at June 30, 2010	15,090,257	\$ 0.26	7.62	\$ 1,049,114
Exercisable at June 30, 2010	13,776,174	\$ 0.25	7.46	\$ 1,047,323

Stock compensation expense was approximately \$397,743 and \$478,548 for the three and six months ended June 30, 2010, respectively, and \$69,591 and \$148,306 for the three and six months ended June 30, 2009, respectively. The total fair value of shares vested during the six months ended June 30, 2010 and 2009 was approximately \$30,808 and \$78,333, respectively.

As of June 30, 2010, there was approximately \$381,400 of unrecognized employee stock-based compensation expense related to non-vested stock options, of which \$107,600, \$129,600, \$104,500 and \$39,700 is expected to be recognized for the years ended December 31, 2010, 2011, 2012 and 2013, respectively.

The following table represents our non vested share-based payment activity with employees for the six months ended June 30, 2010:

	Number of Options	Weighted Average Grant Date Fair Value
Nonvested options - December 31, 2009	347,861	\$ 0.27
Granted	2,830,000	\$ 0.30
Vested	(1,863,778)	\$ 0.25
Forfeited		
Nonvested options June 30, 2010	1,314,083	\$ 0.26

Table of Contents**Warrants**

At June 30, 2010, 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:

Warrants	Remaining Number Outstanding	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price
Warrants-Daily Financing	197,055	1.49	\$ 0.55
Warrants-Additional Financing	428,637	2.29	\$ 0.40
Warrants-Robb Trust Note	50,000	1.93	\$ 0.55
Warrants-Financing	14,750,000	2.49	\$ 0.25
Warrants-Placement Agent Warrants	793,641	2.76	\$ 0.25
Warrants-Tangredi	3,000,000	2.76	\$ 0.36
Warrants-Ehrenberg	250,000	3.10	\$ 0.30
Warrants-Consulting Agreements	825,000	4.18	\$ 0.28
Warrants-Note Conversions	2,240,000	3.80	\$ 0.38
Warrants-Stock Purchases 2009	758,270	3.90	\$ 0.34
Warrants-Mandelbaum	50,000	3.84	\$ 0.19
Total	23,327,603		

Common Stock Issued For Services

The Company amended a consulting agreement as of October 2009 with an individual to provide consulting services to the Company. The term of the agreement is for nine months and calls for the Company to issue the consultant 10,000 shares of common stock in each of the nine months of service for total shares of 90,000, with no service or award of stock for January and February 2010. For the three and six months ended June 30, 2010, the Company has issued 30,000 and 86,000 shares of common stock, respectively, and recorded \$10,600 and \$34,800 as consulting expense on its statement of operations.

The Company entered into an agreement with a Company to provide 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 100,000 shares of common stock at \$53,000 and is expensing the fair value of those shares over six months.

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.

The Company entered into an agreement with the holders of the Convertible Notes to file a registration statement within a defined timeframe. The Company will incur penalties and damages of up to approximately \$236,000 if it does not file and keep the registration statement effective pursuant to the terms of this agreement. As of June 30, 2010, the Company has recorded a liability of \$41,000 in accrued expenses related to this agreement.

Table of Contents

8. Genertec Agreement

On August 21, 2009, the Company, entered into an Exclusive Distribution Agreement (the Agreement) with Genertec America, Inc., a California corporation (Genertec), to grant Genertec the exclusive right to obtain, distribute and market three of the Company's nanotechnology-based membrane products and related products in Great China, including main land China, Hong Kong, Macau and Taiwan (the Territory). The Agreement provides that during the initial term of the Agreement, Genertec agreed to order and purchase the Company's products in the aggregate amount of \$200 Million U.S. Dollars. Certain terms of the agreement have been granted confidential treatment by the Securities and Exchange Commission.

Under the Agreement, the Company will supply and Genertec will distribute the Company's products in the designated Territory on an exclusive basis. Genertec agreed to purchase from the Company a minimum of the Company's products during any contract year. In the event Genertec fails to purchase such minimum in any given year, the Company may convert the exclusivity to Genertec into a non-exclusive basis or terminate the Agreement. Pursuant to the terms of the Agreement, Genertec will engage and appoint authorized person(s) or firm(s), to install, engineer, perform maintenance, sell and use the products within the Territory. Neither Genertec nor its designated buyer is permitted to alter, decompile or modify the Company's products in any way. As consideration for entering into the Agreement, Genertec agreed to pay the Company a deposit in monthly installments beginning in September 2009 and continuing through April 2010. During the initial term of the Agreement, the Company and Genertec agreed to negotiate, in good faith, a royalty bearing license agreement whereby Genertec shall be granted a license to manufacture certain portions of the Company's products in the Territory. As of June 30, 2010, the Company has \$350,000 in accounts receivable and \$500,000 in the current portion of deferred revenue to be applied against future orders.

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 (1) year periods. The Company may terminate the Agreement in the event: (1) Genertec fails to pay the deposit as indicated, (2) that Genertec has not purchased a minimum amount of the Company's products during any contract year, (3) breach by Genertec of its obligations under the Agreement, or (4) at the discretion of the Company, 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 the prior written consent of the Company.

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 America, Inc. (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 disclosed in the Company's Current Report on Form 8-K, filed August 27, 2009. For the six months ended June 30, 2010, the Company recognized \$300,000 in revenue under this agreement.

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 and in our annual report on Form 10-K filed with the Securities and Exchange Commission on March 30, 2010.

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 product.

We also have new product applications in various developmental stages. We believe that three of these product applications, including an advanced air conditioning system which is projected to use less energy and emits fewer emissions than current HVAC equipment, a sea-water desalination product and an electrical energy storage device, can be brought to market in the foreseeable future if we receive adequate capital funding.

REVENUES

We generate our revenues primarily from the sale of our ConsERV products in residential and commercial HVAC markets. 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 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 to HVAC or ERV OEMs preferably having a dominant presence in existing direct related sales channels.

Table of Contents**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, this would create a delay in production.

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 other infrastructure costs such as insurance, information technology and occupancy expenses.

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 June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Sales, excludes license fees	\$ 989,642	\$ 507,318	\$ 1,376,424	\$ 643,634
Percentage of revenues	100%	100.0%	100.0%	100.0%
Cost of goods sold	\$ 550,196	\$ 337,574	\$ 871,522	\$ 444,544
Percentage of revenues	55.6%	66.5%	63.3%	69.1%
Selling, general and administrative expenses	\$ 1,029,394	\$ 439,426	\$ 1,588,914	\$ 982,798
Percentage of revenues	104.0%	86.6%	115.4%	152.7%
Interest expense	\$ 55,233	\$ 95,353	\$ 101,736	\$ 251,585
Percentage of revenues	5.6%	18.8%	7.0%	39.1%
Net loss	\$ (624,681)	\$ (344,000)	\$ (1,144,718)	\$ (993,184)
Percentage of revenues	(63.1)%	(67.8)%	(83.2)%	(154.3)%

Summary of Three Months Ended June 30, 2010 Results of Operations

REVENUES: Total revenues for the three months ended June 30, 2010 and 2009 were \$1,010,142 and \$528,353, respectively, an increase of \$481,789 or 91%. The increase in revenues in the 2010 period is primarily attributable to the recognition of \$300,000 of revenues from the Company's nanotechnology clean water process with CAST. In addition, the Company increased the sales price of the ConsERV products, introduced a new product to the ConsERV line generating additional sales in a new price category and increased the number and size of its sales transactions in 2010. During the three months ended June 30, 2010 and 2009, four customers accounted for approximately 64% and 69% of revenues, respectively.

COST OF GOODS SOLD: Cost of goods sold increased \$212,622 to \$550,196 and represented 54% of revenues, for the three months ended June 30, 2010 compared to \$337,574 or 64% of revenues for the three months ended

Table of Contents

June 30, 2009. The increase in cost of goods sold during 2010 is primarily due to the increase in sales. The decrease in cost of goods sold as a percentage of revenue in 2010 is primarily attributable to an increase in the sales price of the ConsERV product coupled by a decrease in the cost of materials due to the implementation of improvements to the production process of certain product components and a decrease in the cost of both labor and materials through outsourcing some of the production in order to maximize the gross margin.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES: Selling, general and administrative expenses of \$1,029,394 for the three months ended June 30, 2010 increased \$589,968 from \$439,426 in the same period of 2009 or 134%. The Company increased stock based compensation by approximately \$357,000, research and development expenses have increased approximately \$113,000 for new product development and modifications to ConsERV and professional fees increased by approximately \$55,000 due to additional consulting agreements entered into during 2010.

INTEREST EXPENSE: Interest expense was \$55,233 for the three months ended June 30, 2010 compared to \$95,353 for the same period of 2009, a decrease of \$40,120. The decrease in expense is due to approximately \$46,900 of interest expense relating to warrants issued in the three months ended June 30, 2009 to induce conversion of principal and interest accrued on two convertible notes having a principal value of \$250,000.

NET LOSS: Net loss for the three months ended June 30, 2010 increased by \$280,681 to \$624,681 from \$344,000 for the three months ended June 30, 2009. The increase in net loss is primarily due to the increase in selling, general and administrative expense as discussed above.

Summary of Six Months Ended June 30, 2010 Results of Operations

REVENUES: Total revenues for the six months ended June 30, 2010 and 2009 were \$1,417,454 and \$643,634, respectively, an increase of \$773,820 or 120%. The increase in revenues in the 2010 period is primarily attributable to recognition of \$300,000 of revenues from the Company's nanotechnology clean water process with CAST. In addition, the Company increased the sales price of the ConsERV products, introduced a new product to the ConsERV line generating additional sales in a new price category and increased the number and size of its sales transactions in 2010. During the six months ended June 30, 2010 and 2009, six and four customers accounted for approximately 62% and 68% of revenues, respectively.

COST OF GOODS SOLD: Cost of goods sold increased \$426,978 to \$871,522 and represented 61% of revenues, for the six months ended June 30, 2010 compared to \$444,544 or 69% of revenues for the six months ended June 30, 2009. The increase in cost of goods sold in 2010 is primarily a factor of the increase in sales. The decrease in cost of goods sold as a percentage of revenue in 2010 is primarily attributable to a decrease in the cost of materials due to the implementation of improvements to the production process of certain product components and a decrease in the cost of both labor and materials through outsourcing some of the production in order to maximize the gross margin.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES: Selling, general and administrative expenses of \$1,588,914 for the six months ended June 30, 2010 increased \$606,116 from \$982,798 in the same period of 2009 or 62%. This increase is primarily due to an increase in stock based compensation awards of approximately \$330,000. Also, there was an increase in professional fees expense of approximately \$118,000, which related to the new consulting agreements entered into during 2010. Finally, the Company has incurred approximately \$120,000 of research and development costs to develop modifications and new products but incurred insignificant expense for the corresponding three months ended June 30, 2009.

INTEREST EXPENSE: Interest expense was \$101,742 for the six months ended June 30, 2010 compared to \$251,585 for the same period of 2009, a decrease of \$149,843. The decrease in expense is due to approximately \$110,100 of interest expense relating to warrants issued in the three months ended June 30, 2009 to induce conversion of principal and interest accrued on two convertible notes having a principal value of \$925,000, and also was due to a reduction in debt outstanding due to payment or conversion of the notes to equity.

NET LOSS: Net loss for the six months ended June 30, 2010 increased by \$151,534 to \$1,144,718 from \$993,184 for the six months ended June 30, 2009. The increase in the net loss is primarily due to the increase in selling, general and administrative expenses as discussed above.

Table of Contents

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.

As of June 30, 2010, \$150,000 of principal on the Convertible Notes was outstanding, which is currently past maturity.

We cannot currently pay our outstanding promissory notes, including the Convertible Notes and the \$1,870,000 in unsecured promissory notes due in September of 2010, without severely impacting our ability to continue operations and the Company may not be able to secure additional financing to repay the notes on acceptable terms, if at all. As an alternative, management may attempt to renegotiate the repayment terms of the notes and seek extension of the maturity dates. If we are able to renegotiate the terms there is no guarantee that the terms would be favorable to the Company. Unfavorable terms, in either a financing transaction or debt renegotiation, would adversely impact our business, financial condition and/or results of operations. In the event (i) we are unable to secure additional financing sufficient to pay these notes, (ii) the Convertible Notes are not converted into shares of our common stock pursuant to their terms, (iii) we are unable to renegotiate the terms of the notes, or (iv) we are unable to generate sufficient funds from operations to repay these loans, the Convertible Note holders will have the option to foreclose on our patents and patent applications securing the Convertible Notes which may result in the failure of our business and, subject to the terms of the notes, the unsecured note holders have the option to seek a judgment against our unsecured assets which will have a detrimental impact on our business.

In July 2009, we secured a loan of \$300,000 from an investor. Pursuant to the terms of the note, we are to pay the note holder simple interest at the rate of seven percent per annum commencing on July 17, 2009 with all interest and principal due thereunder payable in cash on or before January 16, 2011.

In December 2009, we secured a 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. Effective June 28, 2010, each of these secured loans were extended through September 30, 2010.

The Company secured loans from two investors in the principal amounts of \$250,000 and \$620,000. The loan amounts were received by the Company on December 31, 2009 and February 18, 2010, respectively. Pursuant to the terms of the notes, the Company is to pay the holders 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 30, 2010 and August 10, 2010. Effective June 28, 2010, each of these secured loans were extended through September 30, 2010.

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, clinical studies and commercialization efforts, will have material adverse consequences on our financial condition, results of operations and cash flows.

We will be dependent upon our existing cash of \$411,439 at June 30, 2010, product sales, collection of receivables and additional debt and equity issuances to finance our operations through the next 12 months. We need to raise additional capital of approximately \$13 million to \$18 million, net of costs, during the next eighteen months, the

Table of Contents

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 December 2011. 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 and six months ended June 30, 2010, the Company incurred a net loss of \$624,681 and \$1,144,718, and has incurred significant losses since inception. As of June 30, 2010, the Company has an accumulated deficit of \$33,306,869, negative working capital of \$3,028,616 and a stockholders' deficit of \$3,094,998. The Company used \$1,158,705 and \$369,326 of cash from operations during the six months ended June 30, 2010 and 2009, 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.

Statement of Cash Flows

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

	Six Months Ended June 30,	
	2010	2009
Cash flows used in operating activities	\$ (1,158,705)	\$ (369,626)
Cash flows used in investing activities	(10,484)	(15,253)
Cash flows provided by financing activities	495,000	392,900
Net (decrease) increase in cash and cash equivalents	\$ (674,189)	\$ 8,021

During the six months ended June 30, 2010, cash used in operating activities consisted of our net loss of \$1,144,718 less non-cash adjustments such as issuance of stock-based compensation and stock and warrants issued for services totaling \$643,865 and also adjusted for cash used by other changes in operating assets and liabilities which net to a decrease in cash of approximately \$657,852. Financing activities provided \$495,000 from the issuance of notes payable, net of repayments.

During the six months ended June 30, 2009, cash used in operating activities consisted of our net loss of \$993,184, less non-cash adjustments such as issuance of stock options and warrants for services and debt conversions totaling \$373,807 and also adjusted for cash provided by increases in accounts payable and accrued expenses of \$277,669, as well as other changes in operating assets and liabilities. Financing activities provided \$392,900 of cash from net proceeds from the issuance of common stock of \$331,000 and \$61,900 proceeds from the issuance of a note payable.

Table of Contents

ECONOMY AND INFLATION

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

OFF-BALANCE SHEET ARRANGEMENTS

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 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

No change in the Company's internal control over financial reporting occurred during the three months ended June 30, 2010, that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II OTHER INFORMATION

Item 1. Legal Proceedings

The status of our legal proceedings, as disclosed in our Annual Report remains unchanged.

The Company is party to lawsuits from time to time arising in the ordinary course of its business. The Company provides for costs relating to these matters when a loss is probable and the amount is reasonably estimable. The effect of the outcome of these matters on the Company's future results of operations cannot be predicted because any such effect depends on future results of operations and the amount and timing of the resolution of such matters.

Table of Contents

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

During the three months ended June 30, 2010, the Company issued 130,000 shares of common stock valued at \$63,600 for services provided. The issuance of these securities was exempt from registration under Section 4(2) and Regulation D of the Securities Act.

On April 20, 2010 an investor elected to convert the balance of his 9% secured convertible note in the amount of \$75,000 into 375,000 shares of Company's Common Stock. The Common Stock was issued pursuant to exemption from registration under Section 3(a)(9) of the Securities Act.

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

Item 5. Other Information

The Company does not have any other material information to report with respect to the three months ended June 30, 2010.

Item 6. Exhibits

No.	Exhibit
4.16	First Amendment to Promissory Note issued December 17, 2009 from Platinum-Montaur
4.17	First Amendment to Promissory Note issued February 19, 2010 from Samuels
4.18	First Amendment to Promissory Note issued February 19, 2010 from RBC Capital Corp.
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: August 16, 2010

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

Dated: August 16, 2010