SECURITIES & EXCHANGE COMMISSION EDGAR FILING

DYADIC INTERNATIONAL INC

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-KSB

(Mark one)

{x} ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2006

{ } TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from_____ to _____

Commission file number 333-102629

Dyadic International, Inc.

(Name of small business issuer in its charter)

Delaware	**45-0486747**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
140 Intracoastal Pointe Drive, Suite 404 Jupiter, Florida	**33477**
(Address of principal executive offices)	(Zip Code)

Issuer's telephone number **(561) 743-8333**

Securities registered under Section 12(b) of the Exchange Act:

Title of each class	Name of each exchange on which registered
Common Stock, $.001 par value per share	**American Stock Exchange**

Securities registered under Section 12(g) of the Exchange Act: **None**

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. { }

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 the past 90 days. Yes {X} No { }

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. { }

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

State issuer's revenues for its most recent fiscal year: $15,383,754

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of a specified date within the past 60 days. (See definition of affiliate in Rule 12b-2 of the Exchange Act.) As of March 28, 2007 the aggregate market value held by non-affiliates was approximately $120,398,355.

As of March 28, 2007, there were 29,939,375 shares of registrant's common stock outstanding, par value $.001 (including 19,698 shares held in escrow).

Transitional Small Business Disclosure Format (Check One): Yes { }; No {X}

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Forward Looking Statements

This Annual Report on Form 10-KSB contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, that involve substantial risks and uncertainties. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They use words such as “may”, “will”, “expect”, “intend”, “anticipate”, “believe”, “estimate”, “continue”, “project”, “plan”, “shall”, “should”, and other similar words. You should read statements that contain these words carefully because they discuss our future expectations, making projections of our future results of operations or our financial condition or state other "forward-looking" information. Forward-looking statements involve known and unknown risks and uncertainties that may cause the actual results, performance or achievements of the Company to be materially different from those that may be expressed or implied by such statements. Important factors that could cause the actual results, performance or achievement of the Company to differ materially from the Company’s forward-looking statements include (i) assumptions or cautionary factors discussed in connection with a particular forward-looking statement or elsewhere in this Form 10-KSB, including the section titled “Description of Business - Risk Factors That May Affect Future Results”, or (ii) cautionary factors set forth in subsequent filings of the Company made from time to time with the Securities and Exchange Commission. All forward-looking statements attributable to the Company are expressly qualified in their entirety by these and other factors. Except as required by law or regulation, we do not undertake any obligation to publicly update forward-looking statements to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events.

PART I

The term “the Company”, “Dyadic”, “we”, “us” or “our” refers to Dyadic International, Inc. and its consolidated subsidiaries, unless the context indicates otherwise.

We obtained statistical data, market data and certain other industry data and forecasts used throughout this Annual Report on 10-KSB from market research, publicly available information and industry publications. Industry publications generally state that they obtain their information from sources that they believe to be reliable, but they do not guarantee the accuracy and completeness of the information. Similarly, while we believe that the statistical data, industry data and forecasts and market research are reliable, we have not independently verified the data, and we do not make any representation as to the accuracy of the information. We have not sought the consent of the sources to refer to their reports in this Annual Report.

ITEM 1. DESCRIPTION OF BUSINESS

The Company

General

Dyadic International, Inc., based in Jupiter, Florida, with operations in the United States, Hong Kong and mainland China, Poland and The Netherlands, is a global biotechnology company that uses its patented and proprietary technologies (the “Dyadic Platform Technology”) to conduct research and development activities for the discovery, development, and manufacture of products and enabling solutions to the bioenergy, industrial enzyme and pharmaceutical industries. These enabling solutions primarily include:

- Novel, cost efficient production strains, enzyme mixes and related processes and manufacturing technologies currently in the research and development stage for producing abundant low cost fermentable sugars from agricultural residues and energy crops which may be used in the manufacturing of cellulosic ethanol, butanol, chemicals, chemical intermediates, polymers and other biomolecules of commercial interest, obviating the need for petroleum as a feedstock, and refer to our activities in this market as our **BioEnergy Business**;

- Enzymes and other biological products for a variety of industrial and commercial applications. We currently sell more than 55 liquid and dry enzyme products to more then 200 industrial customers in approximately 50 countries and we generated net sales of approximately $15.3 million in 2006, and refer to our activities in this market as our **Enzyme Business**; and

- Low-cost production hosts for therapeutic protein production for the biopharmaceutical industry, and refer to our activities in this market as our **BioPharma Business**.

As more and more industries come to appreciate the financial, process efficiency, environmental and other advantages of applying biological solutions such as enzymes to their manufacturing processes in lieu of chemicals and other legacy technologies, we expect a variety of new market opportunities to emerge for which we anticipate we will be able to apply the Dyadic Platform Technology.

Since 1994 we have been engaged in the development and application of a number of fungal strains and large-scale industrial fermentation processes. We utilize both classical and recombinant biotechnology methods to discover, develop and manufacture our enzyme products. For our recombinant strain development, we have principally focused on our system for protein production, which we now call our patented and proprietary C1 Production Technology. We have spent more than a decade developing our recombinant patented and proprietary C1 Fungus, also referred to throughout this report as C1 (see Figure 1.), on which our C1 Production Technology is based, to manufacture large volumes of low cost proteins and enzymes for diverse market opportunities.

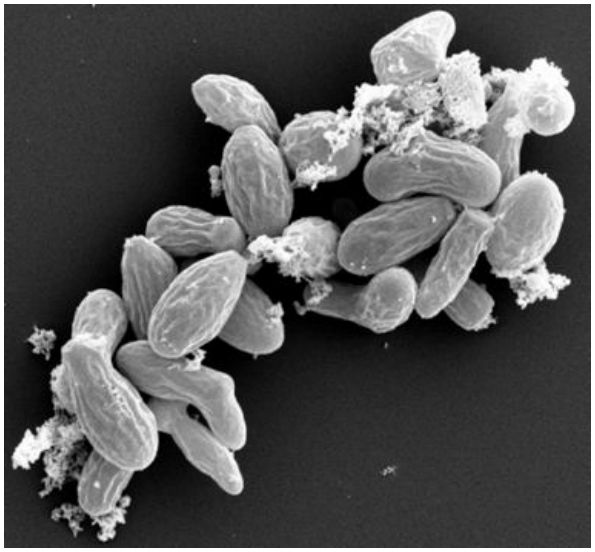

Figure 1. C1 Fungus

C1 Features and Competitive Advantages

C1 is a soil-derived filamentous fungal microorganism that has a variety of unique research and commercial capabilities including its ability to be grown in microtiter dishes and in large industrial fermentors under very low viscosity due to its novel morphology. Leveraging these unique C1 traits, we have also been working to develop our patented and proprietary C1 High Throughput Screening (HTS) Technology to rapidly screen for the discovery of genes and the proteins they produce, as well as to identify improved protein variants resulting from modifications to their genes. The Dyadic Platform Technology (see Figure 2.) which is based on C1, provides us with a complete set of capabilities and competencies to up regulate (over produce) and/or down regulate (shut off the production of) the gene encoding for enzymes of commercial interest.

C1 Attributes Summary:

- **Stable morphological mutant**
- **3-4X protein/gram biomass**
- **Capable of > 100 g/l total protein**
- **Versatile fermentation conditions:**
  - **Low viscosity**
  - **Less energy**
  - **Shorter cycle time**
  - **Wider Temp and pH range**
  - **Low cost, on-site production, critical for bioenergy**
- **Molecular tools developed**
- **Genome sequenced, annotated**
- **Discovery to production in one host**
- **High Throughput Screening**

Some additional economic benefits of protein production in C1, leading to low cost production include reduced energy consumption due to the lower viscosity, shorter fermentation cycles and a wider temperature and pH range than other industrial fungi. The morphology of the C1 culture allows the use of culture conditions that are not normally attainable with fungi and which lead to increased protein yields and more protein-friendly production processes. This ability to grow under non-acidic and low viscosity in culture conditions allows the production of acid-sensitive and shear-sensitive human proteins that may otherwise be unstable under typical fungal fermentation conditions.

A unique feature of the Dyadic Platform Technology is that it may provide a “one-stop shop” for gene discovery and production, in the same recombinant host. This has significant opportunity cost and time cost advantages as it may reduce discovery and development time by more than six months to over a year and may enable the discovery and identification of proteins which are unable to be identified and/or produced in competitive HTS systems, e.g. yeast.

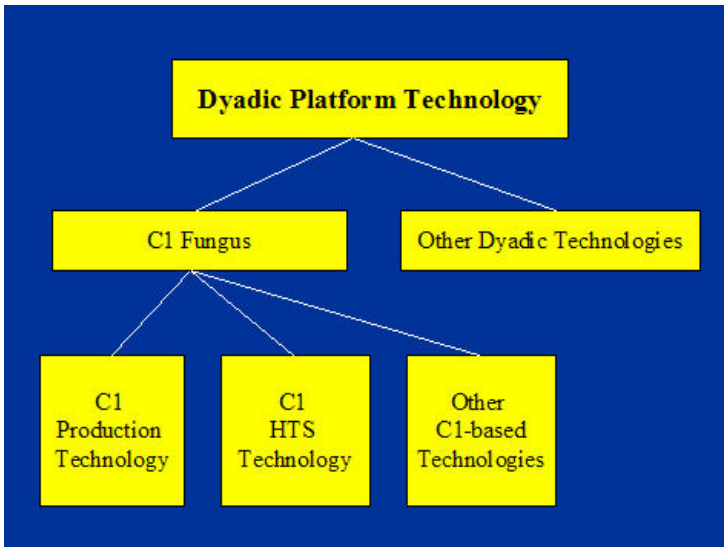

Figure 2. Dyadic Platform Technology

Dyadic's Strategy and Markets

Historically, substantially all of our revenues have been derived from our Enzyme Business, which we continue to invest in, both to support and maintain our market position in textile enzymes and to penetrate new applications, such as pulp & paper, and animal feed. Our long-term plans are focused on our BioEnergy Business to enable the production of cellulosic ethanol, and our BioPharma Business, to enable the production of therapeutic monoclonal antibodies (and other therapeutic proteins) for pharmaceutical discovery and production.

We intend to accomplish these objectives by using and continuing to further develop the Dyadic Platform Technology and by leveraging and building on our existing business, technical, and marketing infrastructures. We also expect to continue to identify new market opportunities and the technologies to exploit those opportunities, both on our own and through strategic business collaborations with others.

We expect to generate revenues from these efforts by: (i) collecting R&D revenues from third parties; (ii) entering into collaborative business arrangements, joint ventures, profit sharing arrangements, or partnerships with our customers; (iii) earning technology access fees, milestone payments, and royalties; (iv) selling products, whether developed internally through our own distribution channels for both current markets and markets we believe will emerge in the future or for customer-collaborators; (v) spinning-off new commercial entities utilizing the Dyadic Platform Technology; and/or (vi) obtaining grants from the United States government, foreign governments or other agencies.

BioEnergy Business Strategy and Markets

In 2006, we accelerated our R&D efforts in the field of bioenergy where we are leveraging more than a decade of R&D on cellulases and hemicellulases originally developed for textile, pulp and paper, food and feed and saccharification applications. The purpose of our BioEnergy Business is to provide enabling solutions to the field of alternative energy and, more generally, to provide a route to inexpensive sugar production from all agricultural biomass feedstocks such as sugar cane bagasse, distiller dried grains, wheat bran and straw, various corn and soy fibers, wood fibers and pulp streams, energy crops and other lignocellulosics. Such inexpensive sugar sources may be used by microorganisms to ferment production of ethanol, butanol, chemicals, chemical intermediates, polymers and other biomolecules of commercial interest.

Most of the consumer goods and products used in the world today are derived via chemistry from the carbon atom building blocks found in petroleum. Thus, cracking open a barrel of oil yields, through chemistry, thousands of products used everyday. However, many of these consumer goods and products, as well as novel ones, can also be derived via microbial fermentation (and in some cases, where necessary, then followed by chemistry)

of the carbon atom building blocks found in sugar molecules (e.g. glucose and xylose), that are locked up in sugar polymers (e.g. cellulose and hemicellulose) present in abundance in agricultural biomass (lignocellulosics). This biomass conversion “unlocks” the sugars, creating the potential for the mass production of inexpensive sugars from the abundant varieties of biomass the world-over. This can be accomplished through the use of enzymes - Dyadic’s core competency. Beyond the production of enzymes for deriving fermentable sugars from biomass, we will also explore corporate partnering opportunities for engineering strains to make various biomolecules (e.g. chemicals and chemical intermediates) from biomass sugars.

In his 2007 State of the Union address, President Bush called for the U.S. to produce 35 billion gallons of ethanol annually by 2017. Since many cars today can run on 85% ethanol (E85) and many can be made to do so with relatively inexpensive conversion, there is both a strategic energy security interest, as well as an environmental interest in seeing increased use of ethanol as a transportation fuel. In addition, there are a growing number of foreign countries initiating their own increased ethanol mandates.

In 2006, the U.S. used about 140 billion gallons of gasoline which was blended with about 5 billion gallons of ethanol - derived from corn starch - produced from 110 biorefineries in 19 states across the U.S. This represents a current U.S. biofuels market that is estimated to be over $12 billion per year. This level of ethanol production represented a volume increase of about 25% over 2005. According to publicly announced plans, additional corn to ethanol production capacity is about to become available from 73 additional biorefineries under construction and 8 expansions, which will add approximately 6 billion gallons of new annual capacity in the U.S. by 2009, according to the Renewable Fuels Association. Though this new capacity will represent a significant increase in production, the resulting total of 11 billion gallons capacity will represent only 8% of the U.S.’s transportation fuel requirements. It is generally estimated that conversion of corn starch to ethanol could provide up to 10% of the U.S’s annual transportation fuel needs (14 billion gallons). Going beyond this level would require a level of use of corn-derived ethanol that could potentially disrupt the food and feed corn markets. Thus, there is an approximate annual gap of 21 billion gallons of ethanol. Consequently, we believe that significant expansion of ethanol capacity above existing levels necessitates the use of agricultural residue from feedstock and energy crops. The U.S. Department of Energy (DOE) has estimated that the U.S. has enough biomass for ethanol conversion to replace more than 30% of its annual transportation fuel needs. The DOE estimates that the U.S. has enough annual biomass to produce about 1.3 billion tons per year, which could yield more than 100 billion gallons of ethanol per year. Commercially practicable exploitation of that biomass requires the use of cellulase and hemicellulase enzymes for the conversion of biomass into fermentable sugars.

We believe the development of alternative fuels such as cellulosic ethanol can reduce the world’s dependence on oil. According to the DOE, ethanol from cellulose produces 85 percent fewer greenhouse gas emissions than gasoline. We have developed enzyme mixtures that successfully convert a number of agricultural biomass feedstocks and energy crops into sugars. We already tested more than 40 different biomass feedstocks and have been successful in biomass conversion to fermentable sugars and at higher yields than previously achieved. We are conducting research and development efforts to bring the cost of enzymes per gallon of ethanol below $0.10, a benchmark that the industry is currently targeting. Thus, depending on the market share and feedstock involved, we believe that the potential for enzymes for the cellulose-to-ethanol market is in the hundreds of millions of dollars, as is the current market for amylases in the corn-to-ethanol conversion market. Leveraging our leadership in enzyme hydrolysis, we are focusing on the development of cost-effective enzyme mixtures and related processing and manufacturing technologies required to economically produce abundant low cost fermentable sugars from agricultural residues and energy crops.

To this end, we are engaged in active discussions with a number of oil, agricultural, chemical and biofuel companies to develop potential collaborative partnerships to assist us in our efforts and/or wherein they may benefit from access to the Dyadic Platform Technology. For example, in October 2006, we entered into a collaborative, non-exclusive relationship with Abengoa Bioenergy R&D, Inc. (“Abengoa”), a subsidiary of Abengoa S.A., the second largest ethanol producer in the world, for the purpose of initiating an R&D program focused on cellulosic ethanol. In particular, under this R&D program, we will apply the Dyadic Platform Technology to develop cost-effective enzyme mixtures and related processing and manufacturing technologies for commercial application in Abengoa’s bioethanol (cellulosic ethanol) production process. For additional information concerning our relationship with Abengoa, please see “Abengoa R&D Agreement” and Note 1, Organization and Operations - *Capital Raising Activities*, to our consolidated financial statements included elsewhere in this report.

In addition, in January 2007, we announced that that through Dyadic Nederland BV, our subsidiary in Zeist, The Netherlands, we have joined with one of Europe's leading producers of bioethanol, Royal Nedalco, and other partners in R&D projects funded by the Netherlands government to develop technologies to produce ethanol from sugar beet pulp and wheat bran. We expect our share of funding for these types of collaborative government-sponsored research projects to contribute only modestly to our overall R&D budget.

Based on the recent and rapid increase in world interest in bioethanol, in 2006 we began to put significantly more focus on our efforts on our BioEnergy Business and in 2007, we are accelerating our research and development and commercial efforts by opening up and staffing a new R&D center in Davis, California, further staffing and expanding our Dutch research subsidiary Dyadic, Nederland, BV and hiring additional personnel for business development and continuing to build out our infrastructure to accommodate our anticipated research and business collaborations in our BioEnergy business.

Enzyme Business Strategy and Markets

Using the Dyadic Platform Technology, we have been producing enzymes with C1 as well as with our commercially productive strains and fermentation processes of *Aspergillus* and *Trichoderma*, in 50,000 and 150,000 liter fermentors for more than a decade. We currently sell more than 55 liquid and dry enzyme products to more than 200 industrial customers in approximately 50 countries and we generated sales of approximately $15.3 million in 2006 from the conduct of the Enzyme Business. Our customers, in turn, use our products as key processing aids to enhance the functionality or durability of their products, to improve production yields and efficiency and/or to realize environmental benefits. For example:

- the textile industry uses enzymes to soften and fade denim, as well as to reduce pilling and improve smoothness, softness and color brightness of cotton and other cellulosic fabrics;

- pulp and paper manufacturers are beginning to use specialty enzymes to modify cellulose fibers and reduce chemical consumption, increase plant productivity, and/or reduce energy use as a way to improve operating efficiencies and enhance pulp and paper properties such as strength and brightness; and

- animal feed producers use biological products to improve the nutritional value of animal feeds and to improve production efficiency.

It is our understanding that the current potential market for biological products in the industrial, chemical and agricultural sectors exceeds $100 billion per year. Depending on the source, estimates of the size of the industrial enzyme market range between $2.0 and $3.6 billion per year.

Using the Dyadic Platform Technology, and capitalizing on our experience in the textile market, our goal for the **Enzyme Business** is to become a top-tier provider of enzymes to faster growing and more profitable markets, including pulp and paper, animal feed, starch, and food. To accomplish this goal, we intend to:

- Stabilize sales volume in textiles by developing and introducing new products;

- Continue to increase the performance and yields of our existing enzyme products to improve their margins and enhance our competitiveness;

- Discover and develop new, enhanced enzyme products to replace existing products and apply them for new uses in existing and new markets;

- Undertake required health and safety registration processes for our products where required; and

- Collaborate with leading companies and selected customers to develop targeted, innovative technology and know-how that can be leveraged across entire industries.

BioPharma Business Strategy and Markets

The goal of our **BioPharma Business** is to harness the Dyadic Platform Technology to help solve the protein discovery problems in the field of monoclonal antibodies and other therapeutic proteins, as well as protein production problems confronting the global biopharmaceutical industry. For the past six years, we have been developing the Dyadic Platform Technology for this application. Our primary focus has been to expand the application of this technology beyond our Enzyme Business to enable pharmaceutical and biotechnology companies to not only successfully carry out the discovery and development of biopharmaceuticals, but also to manufacture those biopharmaceuticals at economically viable costs. Nonetheless, it is not Dyadic's strategy to become a pharmaceutical company, but instead, through collaboration and/or licensing arrangements with pharmaceutical companies, enable them to discover and produce low cost biopharmaceuticals.

According to Datamonitor PLC, the market for therapeutic proteins and monoclonal antibodies was estimated to be about $62 billion in 2005 and is expected to grow to about $106 billion by 2010. It is our understanding that roughly one-third of the nearly 500 therapeutic proteins under active development could be targets for expression in a suitable host production organism. To this end, we have used our expertise in recombinant expression in C1 for producing microbial enzymes and applied it directly to producing human gene products in C1. Despite devoting only limited R&D and financial resources, we have been successful in producing a fully biologically active human monoclonal antibody in C1 at more than one gram per liter. We believe that our technology will be useful to enable (through strategic partnership) pharmaceutical companies to conduct novel gene discovery and low cost production of monoclonal antibodies and other proteins.

As human monoclonal antibodies represent the most exciting and largest area of research for the pharmaceutical companies, with more than 350 such compounds in their research pipelines, our initial work has focused on expressing a number of well-known, challenging antibodies in our C1 Production Technology, as well as further validating our C1 HTS Technology by expressing the genes for these antibodies and proteins in microtiter plates, and then screening for and finding the target molecules using our high-speed robotic system which is currently under development. In particular, we expect that our C1 Production Technology will facilitate the production of biopharmaceuticals that might otherwise be shelved, and will enable development of functionally improved drugs using molecular evolution techniques in conjunction with the C1 HTS Technology we are developing.

Currently, most human monoclonal antibodies are produced in mammalian cells, which take a year or more to get stable cell lines and are not amenable to high-speed screening in a robotic set up for finding new and/or improved versions of antibodies and human proteins. We believe that our C1 HTS Technology could thus be at least an intermediate step to speeding up the first phase of the human monoclonal discovery and development process, even in situations where a biopharmaceutical company decides to use a conventional production host, such as CHO cells. We further believe that if the discovery of the new/improved human biotherapeutic were achieved in the C1 HTS Technology, in many cases these companies will use our C1 Production Technology to both avoid delays and expression problems often encountered when the production host is switched, and exploit the low-cost production capabilities of our C1 Production Technology.

History

Dyadic was founded in 1979 and throughout the 1980's was the leading provider of pumice stones to the denim industry for stone-washing blue jeans. In the mid 1980's as the industry shifted to the use of enzymes in place of pumice stones to achieve the same effects on the jeans' fabric, the Company adapted to the shift and initially became a distributor of such enzymes, then later, in the 1990's became a developer and large scale industrial manufacturer of enzymes for this application. In its efforts to discover a prolific organism to produce enzymes that broke down cotton (cellulose) in blue jeans, in the early 1990's it discovered the C1 organism. The Company has since been engaged in continuing R&D efforts to further perfect and improve C1 for superior fermentation and genetic properties, which enables it to produce enzymes and other proteins at large industrial scale. Further, the Company has successfully adapted C1 for a variety of additional targeted applications, including bioenergy, textiles, animal feed, pulp & paper, and others.

From 2001 to the present, the Company has raised approximately $60 million of equity capital to fund its growth and expansion into new markets. During this timeframe, the Company also has significantly strengthened its management team, Board of Directors and Scientific Advisory Board and in 2005, the Company's common stock began trading on the American Stock Exchange. Today, the Company has a global infrastructure comprised of subsidiaries operating in Hong Kong, mainland China, Poland and The Netherlands and an international network of collaborators to assist in the continuing development of the Dyadic Platform Technology.

Merger

Prior to October 2004, the Company was a public reporting company known as CCP Worldwide, Inc. In October 2004, the Company entered into an Agreement of Merger and Plan of Reorganization (the "Merger Agreement") with Dyadic International (USA), Inc., a privately-held Florida corporation (formerly called Dyadic International, Inc.)("Dyadic-Florida") and a wholly-owned subsidiary of the Company formed by it for the purpose of being merged with and into Dyadic-Florida, CCP Worldwide, Inc. (the "Merger"). As a result of the Merger, CCP Acquisition Corp. was merged with and into Dyadic-Florida, all of the stockholders of Dyadic-Florida received, in exchange for all of the outstanding shares of Dyadic-Florida, shares of the Company on a one-for-one basis, making Dyadic-Florida a wholly-owned subsidiary of the Company, the Company changed its name to Dyadic International, Inc., and Dyadic-Florida changed its name to its existing name. For financial accounting purposes the Merger is treated as an acquisition by Dyadic-Florida of CCP Worldwide, Inc.

As part of, and immediately prior to the Merger, the Company disposed of its then only operating subsidiary as part of a Split-Off Agreement between Company, that then only operating subsidiary, and a former member of the Board of Directors of the Company. As a result of the Merger Agreement and the Split-Off Agreement, the only business operations of Dyadic International, Inc., formerly CCP Worldwide, Inc., are the operations of the Dyadic-Florida and its subsidiaries, and the Company's real estate holding subsidiary, Dyadic Real Estate Holdings, Inc.

Research and Development

Dyadic uses all the classical, molecular and systems biology tools of modern industrial biotechnology and large-scale fermentation, either in-house or through our significant network of collaborators to discover, develop and manufacture commercial quantities of novel products produced by microorganisms (e.g. enzymes). In addition, we have specialized knowledge in the areas of pulp & paper technology, bioenergy, animal feed, textile, chemistry

and quality control. Our laboratories are located in Jupiter, Florida; Greensboro, North Carolina; Zeist, The Netherlands; mainland China, and we are in the process of adding a laboratory facility in Davis, California. Our own facilities are supplemented by commercial R&D collaborations with The Scripps Research Institute in Florida, Bio-Technical Resources in Wisconsin, TNO Quality of Life, in Zeist, Netherlands and at Moscow State University in Russia.

Dyadic R&D Activities

Our C1 Production Technology is based on a fungal microorganism called C1, which we believe has superior genetic and fermentation characteristics as compared to other industrial fungi. The C1 strain, originally isolated from soil, has undergone classical mutagenesis resulting in a stable morphological change (mutation) that results in small mycelial fragments in liquid culture. One of the economic benefits of this morphological change is that it enables low viscosity growth in microtiter dishes, shake-flasks and large-scale fermentation (production scale). We have further developed molecular genetics tools that enable high level recombinant gene expression in C1 - from both genes derived from C1 (homologous expression) and genes derived from other organisms (heterologous expression). These molecular genetics tools also have the ability to delete unwanted genes, such as proteases or other enzymes from the C1 background. Further, we have sequenced the genome of C1, which gives us a blueprint of the organism. We believe that this information will be both useful to better manipulate C1 for overall greater economic production of proteins and other biomolecules, as well as, for the discovery of potentially new products.

Our C1 Production Technology also forms the basis for our C1 HTS Technology for the discovery of novel and/or modified genes. We believe that this C1 HTS Technology has advantages over other screening systems in its use of the C1 filamentous Fungus, thereby permitting the efficient expression and screening of eukaryotic genes, and the secretion and glycosylation of their protein products, which other screening systems developed in yeast and bacteria are unable to efficiently perform. The C1 HTS Technology has utility for:

- Discovery of novel genes;
- Discovery of molecularly evolved genes resulting in gene products (e.g. enzymes, other proteins) with improved commercial properties;
- Expression of genes not previously expressed in other expression systems; and
- Discovery of novel monoclonal antibodies and other pharmaceutical proteins.

In May 2005, we obtained a high quality DNA sequence of the 38 MB in the C1 genome. We identified more than 11,600 genes and found more than 120 carbohydrates that may be relevant as product opportunities in the markets we address. Interestingly, C1 appears to have approximately two times more cellulase and hemicellulase genes (biofuel genes) as compared to other industrial fungi (e.g. *Aspergillus* and *Trichoderma*). In addition to potential product opportunities from this genome sequence, the sequence provides a blueprint of the metabolism of C1which may be used to further enhance C1's potential to make products at low cost. We continue to annotate the C1 genome. The annotated genome will allow identification of key metabolic functions that influence expression of genes, and further will facilitate the use of advanced genetic technologies, e.g. microarrays, to monitor and eventually modify and modulate these functions for optimizing host strain development and expression optimization in those hosts.

Through our R&D we expect to provide unique enzymes to companies in various industries to alleviate production process bottlenecks, high manufacturing costs and envirnmental challenges they often face, as well as to enable manufacturing of many products in their R&D pipelines for which no suitable production processes have yet been found. We also expect that this genome sequence information will allow Dyadic to improve the Dyadic Platform Technology by (i) readily identifying and isolating genes that interfere with high-level expression of proteins and knocking them out and (ii) allowing the identification and improvement of genes and proteins that have a positive impact on gene expression.

On October 26, 2006, we entered into a securities purchase agreement (the "Abengoa Securities Purchase Agreement") with Abengoa. We also entered into a non-exclusive Research and Development Agreement with Abengoa pertaining to the conduct of an R&D program to be completed over a period of up to three and one-half years, under which we will seek to apply our proprietary technologies to the development of cost-effective enzyme mixtures and related processing and manufacturing technologies for commercial application in Abengoa's bioethanol (cellulosic ethanol) production process (the "R&D Agreement").

The R&D Agreement contemplates that we will perform both (i) research of general application to the cellulosic ethanol field furthering our extensive research & development and large-scale manufacturing technologies for producing large volumes of low cost cellulases, xylanases and other hemicellulases and (ii) research of specific applications for the achievement of the goals of Abengoa's R&D Program to develop an economically viable commercial process for the production of large volumes of effective, low cost enzyme mixtures for the proprietary biomass substrates of specific interest to Abengoa. In general, Dyadic is granted exclusive ownership of all intellectual property it develops in connection with its performance obligation under the R&D Agreement.

Abengoa is considered to be the second largest ethanol producer in the world and a leader in the fields of both corn-derived and cellulose-derived ethanol production. Dyadic's goal in its collaborative relationship with Abengoa is to leverage the Dyadic Platform Technology to enable commercial development of biomass derived ethanol. The primary goal of the Abengoa R&D Program is the development of large-scale enzyme production systems and manufacturing processes for use in the production of abundant low cost fermentable sugars from biomass, with initial focus on cellulosic ethanol production. Nonetheless, we can offer no assurance that this R&D Program will be successful in achieving this goal. For additional information concerning our relationship with Abengoa, please see "Abengoa R&D Agreement" and Note 1, Organization and Operations - *Capital Raising Activities*, to our consolidated financial statements included elsewhere in this report.

In January 2007, we announced that that we have joined with one of Europe's leading producers of bioethanol, Royal Nedalco, and other partners in R&D projects funded by the Netherlands government to develop technologies to produce ethanol from sugar beet pulp and wheat bran. Dyadic Nederland BV, our subsidiary in Zeist, The Netherlands, will focus on the development of optimal enzyme preparations for the extraction of sugars from these feedstocks.

Activities of Dyadic R&D Collaborators

For over a decade, we have supplemented our internal R&D capabilities with focused strategic industry collaborations with leading scientific organizations such as Moscow State University, the Russian Academy of Sciences, TNO Quality of Life (The Netherlands) and Bio-Technical Resources (USA), and most recently, The Scripps Research Institute, as well as outsourced R&D and manufacturing relationships via our exclusive agreements and collaborations with Polfa Tarchomin in Europe, which provides low-cost manufacturing capacity, and Martek BioSciences in the U.S. When combined with our internal staff of 14 scientists, we currently have approximately 50 scientists working in laboratories across the globe on a variety of R&D programs for us. The following is a summary description of our main scientific collaborators:

The Scripps Research Institute, Jupiter, Florida and La Jolla, California

In March 2006, we announced the engagement of The Scripps Research Institute to work with Dyadic scientists to provide a comprehensive annotation of the C1 genome. We expect that the annotation will provide tools for identifying and classifying genes, their corresponding proteins, and metabolic pathways in a searchable and user-friendly format. These tools would allow us to identify additional commercial enzyme product leads, including improved cellulases and hemicellulases for use in textile, pulp & paper, food and animal feed applications, and for the production of ethanol from lignocellulosic biomass. Scripps has a host of diverse biotechnologies and we continue to explore other areas for mutual collaboration.

Bio-Technical Resources, Manitowoc, Wisconsin

Bio-Technical Resources (BTR), a division of Arkion Life Sciences LLC, is a contract research organization with expertise in areas of strain and process development for fermentation of microbial products. We have worked with BTR continuously since 1995 on a variety of development programs for the production of several commercial enzyme products, most notably C1, for the commercial scale production of neutral cellulase enzymes. BTR also has worked on the development and commercialization of recombinant cellulase and xylanase enzyme products utilizing the Dyadic Platform Technology.

TNO Quality of Life, Zeist, The Netherlands

TNO *Quality of Life*, or TNO, is a contract research organization sponsored by the Dutch government and is one of the Institutes comprising the Netherlands Organization for Applied Scientific Research. Since 1998 we have worked with and continue to work with TNO through our wholly owned Dutch subsidiary Dyadic NL on the development of technologies for gene expression and gene discovery. The TNO scientists working with us are widely recognized as leaders in the area of fungal genetics and molecular biology. Thus, we intend to leverage their expertise to continue to optimize our C1 Production Technology to make it more efficient and productive.

Moscow State University, Moscow, Russia

We have had our longest research collaboration with experts in industrial enzymology at Moscow State University (MSU), in the Division of Chemical Enzymology in the Chemical Department, as well as collaborating with microbiology experts at the Russian Academy of Sciences. In 1992, we initiated the development of our first enzyme product, an acid cellulase, which was commercialized in 1994. These collaborators have been instrumental in the discovery of new enzyme products for us and in the detailed characterization and analysis of existing enzyme products.
The R&D efforts conducted in collaboration with MSU over the last decade serve as a significant foundation for our cellulosic ethanol related research.

Dyadic's Products and Services

BioEnergy Business

We believe that the Dyadic Platform Technology will enable us to offer products that address energy problems more effectively and economically. We have a stable of well characterized fungal strains and enzymes which are directly applicable to the conversion of agricultural residue products, energy crops and forestry industry residues (lignocellulosic substrates) into fermentable sugars, which in turn can be used to produce ethanol and other chemicals. This technology offers a renewable approach to producing biomolecules that have historically been petroleum-derived.

Enzyme Business

Our Enzyme Business addresses major needs in diverse industrial enzyme markets, including textiles, animal feed, pulp and paper, starch, food, beverage and brewing and other markets and has a customer base of approximately 200 customers in approximately 50 countries, including the United States. We sell our enzyme products directly, through our own sales force, and indirectly through distributors. In addition, we sell products through our Asian subsidiary. We have deployed our sales force to effectively target the main markets and customers for our products, including locations in Europe, North America, South and Central America, and North and South Asia. We employ distributors to sell our textile, food and animal feed enzymes, and sell starch and pulp and paper enzymes both directly and through resellers. We also have applications labs in the U.S. and China to conduct customer-specific studies in textiles and pulp and paper to support our sales efforts in those markets.

Textiles Industry

We offer a wide range of cellulase enzyme products for applications such as:

- denim finishing where cellulases are used to soften and fade the denim fabric, including Rocksoft ACE series and numerous other Rocksoft series; and

- biofinishing of cotton and cellulosics using BioACE series, which is a biofinishing process to reduce pilling and improve smoothness, softness and color brightness, and biopolishing.

We have identified, cloned and expressed genes for additional textile products that are in various stages of development, and have also developed several new enzyme formulations that can be used for denim washing. In March of 2007, utilizing our C1 Production Technology, we successfully scaled up and manufactured two new cellulase enzyme products which we expect will generate additional sales. We believe that these new cellulases will provide our customers with better performance characteristics at lower costs with improved profit margins for Dyadic as compared to the existing products we anticipate replacing. We believe that these will increase the competitiveness of our textile product line during 2007 and beyond.

Pulp and Paper Industry

Our experience over the past few years has demonstrated that enzymes offer certain mills within the pulp and paper industry significant processing and environmental benefits. We serve this market by developing, producing and selling cellulase and hemicellulase enzymes that improve the efficiencies of a number of processes within the overall pulp and paper manufacturing process. These include the bleaching of Kraft pulps, the removal of xerographic

inks from waste paper during its conversion to recycled paper, and the reduction in the amount of energy used to refine and dry pulp fibers and paper. The latter is particularly important, as we have shown that reduced energy consumption in the drying process can translate to increased production rates. In addition, our products can also enhance several important pulp and paper properties, including strength, brightness, and cleanliness. Our products can be used to treat cellulosic sludge and particles during waste water treatment, thereby helping to reduce the environmental impact of the paper manufacturing process. In summary, we believe that our products offer the pulp and paper producers a new option beyond traditional chemistries such as synthetic polymers and surfactants that are based on petroleum and also near the end of their respective product life cycles.

Dyadic currently offers twelve products in four FibreZyme product lines for commercial use in pulp and paper mills. These product lines include Bio-refining, Bleach Boosting, Deinking and Waste Water Treatment. Currently, the products are being purchased by customers as well as being trialed by new customers in diverse geographical areas, using a variety of manufacturing conditions and materials to make a wide range of pulp and paper products. We believe the wide applicability of our products thus far is an indication that our core technology is, in general, highly suitable for the pulp and paper industry. However, it has also been our experience that, due to the highly variable nature of the feedstocks, operating conditions, and final products encountered in the pulp and paper industry, significant R&D will need to be conducted in order to develop the suite of products necessary to fully penetrate the market.

Animal Feed Industry

Dyadic provides specialty enzymes for customers who process grains such as barley, wheat and rye to produce animal feed. These grains are not totally digested by poultry or livestock but, by adding enzymes to the feed, their digestibility can be improved. As a result, our feed enzymes can be used to allow feed producers to supplement feeds with lower cost raw materials and also to improve the efficiency of existing formulations. The main benefits of supplementing feed with enzymes, as revealed by feed trials carried out to date, are faster growth of the animal, better feed utilization, or feed conversion ratio, more uniform production, better health status and reduced environmental waste.

We make and sell six animal feed products in our GrainGain line of products that are tailored for use with specific types of feed depending on the levels of wheat, barley, and rye used. Registration of these products in various countries is in the early stages and upon completion, is expected to help increase the distribution of our products. Additionally, by conducting R&D with the Dyadic Platform Technology to discover and produce more efficient carbohydrate degrading enzymes, we intend to develop other animal feed products for specific diets in which highly effective enzymes are currently neither commercially available nor provide an improved cost efficacy ratio.

BioPharma Business

We expect our BioPharma Business to generate future revenues by using the Dyadic Platform Technology to enable its business partners to discover new and/or improved genes and successfully make sufficient quantities of promising therapeutic proteins for preclinical and clinical testing, thereby improving prospects for a drug candidate's advancement from discovery through development, accelerating development time and reducing R&D costs. Relationships with business partners will vary, ranging from pure contract research, to collaborations, to strategic business partnerships such as joint ventures and product co-development and co-marketing on a project by project basis.

Manufacturing

We do not own enzyme manufacturing facilities, but instead have employed two contract manufacturers who have produced all of our products for us. Our key contract manufacturer is Polfa Tarchomin, SA, or Polfa, located in Warsaw, Poland, which has been producing commercial enzymes for us continuously, and without interruption, since 2001 under a 10-year contract, which is cancellable under certain circumstances, with several 10-year renewal options exercisable in our discretion. Our second contract manufacturer, Martek BioSciences, has been used by us on a continual basis since 1994 and is currently used by us only on a limited basis; however, we believe that we could produce additional quantities of our enzyme products at Martek Biosciences, if needed.

The Polfa contract manufacturing agreement provides for a tolling fee based upon the actual utilization of fermentation time, and also requires Dyadic-Florida to pay a fixed monthly fee to compensate Polfa for its capital investment in the modernization of the plant and equipment. The initial modernization fee will be fully paid in 2008. We requested that Polfa expand their production capacity to enable us to produce higher volumes of existing and new products. We concluded an agreement in December 2004 with Polfa to provide an additional 50 cubic meters of fermentation capacity and associated recovery capacity with the majority of the capital necessary for this expansion provided by Polfa. The expansion was completed and became fully operational in October 2006.

When combined with our internal staff of four manufacturing personnel, we currently employ, or retain as independent contractors, more than 60 persons to manufacture over 55 different liquid and dry enzyme products, including employees of our Polish subsidiary, whose main responsibility is oversight of Polfa's production, warehousing and shipping of our products.

Competition

BioEnergy Business

The bioenergy field (using biomass as a feedstock) is a new and growing industry. In the bioenergy field we believe that there are relatively few companies offering enzyme hydrolysis solutions for biomass conversion and an even smaller number of companies employing fungal production systems, like Dyadic. In this specialized category there are two large Danish industrial companies, Novozymes A/S and Danisco (which recently purchased Genencor International) and a smaller Canadian company Iogen. Another smaller enzyme company is U.S.-based Diversa, who uses production hosts other than fungi.

Enzyme Business

According to Novozymes, the worldwide market for industrial enzymes is $2.0 billion, while another of our competitors, Diversa Corporation, has sized the combined industrial and specialty enzymes market at approximately $3.6 billion. Our Enzyme Business faces several major competitors in its industry, both on a global and regional basis. Principal global competitors are Novozymes (Danish: all markets), Danisco (Danish: all markets), DSM (Dutch: food and animal feed), AB Enzymes (British: all markets), and BASF (German: animal feed). Together, these four companies control more than 70% of the industrial enzyme market, with Novozymes being the largest enzyme maker having 2006 revenues estimated at over $1.2 billion. Additional competitors are entering the industrial enzyme business, such as Diversa, and others can be expected to enter the market in the future. Other smaller regional producers, located primarily in Japan, India and China, are also participants in this industry and, from time to time, can directly compete with us in those regions. Each of the major competitors, particularly Novozymes and Danisco, currently enjoys competitive advantages associated with their much larger size: developed technologies, more resources, strong distribution systems and dominant market positions.

BioPharma Business

There are many companies, such as DSM, Invitrogen, Danisco, Novozymes, Lonza Biologics, and Crucell, with proprietary protein production systems that compete with our C1 Production Technology. We believe our C1 Production Technology will overcome many of the limitations of the expression systems being used by our competitors and will provide the drug development industry with a superior, low-cost production alternative for human therapeutic and other proteins.

Our C1 HTS Technology will face competition from a large number of technologies in use and under development for the discovery of new genes. In addition to many development stage companies, competitors of our C1 HTS Technology include many well-known companies, such as Novozymes, Diversa, and Maxygen. There are also many companies, such as Diversa, Maxygen, Codexis, which are active in the field of directed evolution and, therefore, have an interest in fungi-based screening systems or other eukaryotic hosts capable of functioning in a high-throughput mode with eukaryotic genes.

Government Regulation

Regulation by the governmental authorities in the United States and other countries is a significant factor in the development, production and marketing of our products.

Products Not Considered Pharmaceuticals

Biologically derived products are regulated in the United States by varying federal agencies based on the application or use of the product. A product may fall under the jurisdiction of one or many federal agencies at the same time, depending on the proposed use of the product. The federal Food and Drug Administration (“FDA”) operates under the authority granted by the Federal Food Drug and Cosmetic Act (“FD&C Act”) regulating not only pharmaceutical products, but also foods, food supplements, food additives, food processing aids, animal feed and feed additives, among others. Another agency, the United States Department of Agriculture (“USDA”), has shared jurisdiction on issues related to food safety, animal feed, biotechnology and crop and livestock directives. In addition, the federal Environmental Protection Agency (“EPA”) is the agency with jurisdiction over enzyme-based biological products with industrial applications.

International regulations governing enzyme-based products derived from microorganisms have undergone significant change in the recent past. The regulations in Europe, for example, continue to evolve as quickly as the EU itself. There are EU Directives and EU Legislation which are meant to represent cohesive regulatory policies on genetically modified organisms, animal feed enzymes, enzymes used as a processing aid in the production of pulp and paper, among others, however there are instances when individual national laws seem to contradict EU Directives presenting regulatory hurdles in the registration and sale of Dyadic's products. Depending on the use of the product and existing legislation, the product may require little regulatory oversight, or a lengthy and expensive registration process. There are other regions of the world with decidedly less rigorous regulatory review processes; generally accepting the US regulatory status of a product. We believe that these areas present Dyadic with many opportunities for immediate growth.

Human Therapeutic Products

The FDA in the United States and similar health authorities in foreign countries subject human therapeutic products to rigorous preclinical and clinical testing and other approval procedures. Various federal statutes and regulations also govern or influence the testing, manufacturing, quality control, safety, labeling, storage, record-keeping and marketing of human therapeutic products. The process of obtaining these approvals and the subsequent compliance with appropriate federal and foreign statutes and regulations require the expenditure of substantial resources. Any failure by us or our collaborators or licensees to obtain, or any delay in obtaining, regulatory approval could adversely affect the marketing and revenue generating potential of our products. We have neither applied for nor received regulatory approval to market any human therapeutic products.

Intellectual Property

In October 2006, we were granted U.S. patent 7,122,330, “High-Throughput Screening of Expressed DNA Libraries in Filamentous Fungi,” by the U.S. Patent and Trademark Office. This patent grant will expand the patent protection for the C1 HTS Technology and broad claims covering a number of other industrially relevant fungi for applications in cellulosic ethanol and other key markets. We own 4 issued U.S. patents, 28 issued and 2 allowed International patents and 52 U.S. and International filed and pending patent applications which we believe provide broad protection for the Dyadic Platform Technology and their products and commercial applications.

Over the years in which we have been in business, we have also developed trade secrets and know-how involving our industrial enzyme products. Our employment and other agreements with our employees contain provisions that protect and require confidential treatment for our trade secrets and developed inventions.

Employees

As of December 31, 2006, we had approximately 125 full-time employees. None of our employees are represented by labor unions or covered by collective bargaining agreements. We have not experienced any work stoppages and consider our employee relations to be good.

Abengoa R&D Agreement

As reported in our Current Report on Form 8-K dated October 26, 2006, as filed with the Securities and Exchange Commission on November 1, 2006, our R&D Agreement with Abengoa contemplates our conducting R&D activities pertaining to the field of cellulosic ethanol (“CE R&D Activities”) for Abengoa (the “Abengoa R&D Program”), as well as other collaboration partners, as part of our much broader R&D effort in the field of cellulosic ethanol (collectively, the “Master R&D Program”). These CE R&D Activities are of two types: “Foundational R&D” and “Applications R&D.”

An essential component of the R&D Agreement is our entitlement to use Foundational R&D performed in the Master R&D Program, for other collaboration partners, in the Abengoa R&D Program, and vice versa, as well as Applications R&D performed by us for Abengoa. “Foundational R&D” broadly means all technology developed by us out of our conduct of CE R&D Activities, in either R&D program, except to the extent and of our conduct constitutes “Applications R&D.” “Applications R&D” is defined to mean technology developed by us out of our conduct of CE R&D Activities in which the Dyadic technology is used or applied to specific treated or untreated biomass for any customer of Dyadic. The objective of Abengoa’s R&D Program is the development of a cost-effective enzyme production system for commercial application in Abengoa’s bioethanol (cellulosic ethanol) production process.

Under the R&D Agreement, Abengoa will furnish to us certain treated “Substrates” (biomass which has been pre-treated by Abengoa’s use of certain technologies which are proprietary to Abengoa). Our objective under the Abengoa R&D Program will be to conduct certain Foundational R&D and Applications R&D with the objective of developing for Abengoa for each of those Substrates an enzyme mixture and related processing technology and manufacturing technology (to the extent accomplished, as to each such Substrate, referred to as the “Custom Enzyme Mixture,” “Custom Processing Technology” and “Custom Manufacturing Technology,” respectively).

Our CE R&D Activities under the Abengoa R&D Program are to be regulated by a “Steering Committee” comprised of key employees of us and Abengoa, as mandated by (i) the R&D Agreement, (ii) the R&D plan specified in the R&D Agreement and (iii) “Statements of Work” to be approved annually by the Steering Committee consistent with the R&D Plan. These CE R&D Activities are to be conducted over an “R&D Spend Measurement Period” beginning with October 26, 2006 (the date of the R&D Agreement), and ending 3 years following the Steering Committee’s approval of the initial Statement of Work for the balance of calendar year 2007. This initial Statement of Work was approved by the Steering Committee in early 2007.

In general, we have been granted exclusive ownership of all intellectual property we develop in connection with our performance of Foundational R&D and Applications R&D. Further, consistent with our “Corporate Partnering Open Access Policy,” in conducting our CE R&D Activities, we are assured of being entitled to a license to any intellectual property of Abengoa that it might furnish to us in connection with our conduct of the Abengoa R&D Program and which we reasonably elect to incorporate into any of our intellectual property, in order that it may be freely licensed to others by us.

If we are not able to successfully develop for Abengoa any Custom Enzyme Mixture and related Custom Processing Technology and Custom Manufacturing Technology for any Substrate furnished to us by Abengoa under the Abengoa R&D Program (collectively, as to each Substrate, the “Applications Technology”), then Abengoa will be granted an option to acquire a non-exclusive license to that Applications Technology from us for a period of ninety (90) days following the completion by Abengoa of verification testing to be concluded by Abengoa within a thirty (30) day period following the date we furnish Abengoa a completed Custom Enzyme Mixture and related Processing Technology and Manufacturing Technology for the applicable Substrate. These non-exclusive license option terms provide for Abengoa’s payment to us of certain license fees, technology transfer fees and royalties.

Subject to regulatory oversight by the Steering Committee, we have assumed the R&D Spending Obligation to spend (or be deemed, under the R&D Agreement, to have spent) not less than $10.0 million over the course of the R&D Spend Measurement Period in the performance of CE R&D Activities (“Applicable R&D Spend”) which is divided into two categories:

(a) Foundational R&D for us, Abengoa and\or any other persons (but not Applications R&D for us or any person other than Abengoa), either under the Abengoa R&D Program or in conjunction with activities conducted by us under the Master R&D Program; and

(b) Applications R&D for the benefit of Abengoa under the R&D Agreement.

In determining the amount of our Applicable R&D Spend, all funds expended by us in connection with Foundational R&D, whether it is conducted as part of the Abengoa R&D Program or whether it is being conducted for us or under the Master R&D Program, are included in the Applicable R&D Spend, subject only to the requirement that such Foundational R&D was approved by the Steering Committee. Further, in calculating the Applicable R&D Spend, we will be credited with spending a fixed per “full time equivalent” (“FTE”) scientist dollar rate for all FTE’s performing CE R&D Activities which is materially greater than our anticipated actual out-of-pocket costs of employing those FTE’s.

For further information regarding our relationship with Abengoa, please see Note 1. Organization and Operations - *Capital Raising Activities*, to our consolidated financial statements included elsewhere herein.

Investor Information

You can learn more about the Company by visiting our website at www.Dyadic.com. Information on the website is neither incorporated into, nor a part of this report. We encourage you to read this and other reports filed by the Company with the Securities and Exchange Commission. Dyadic will provide you with a copy of any or all of these reports (except exhibits) at no charge. You may read and copy any reports, statements or other information that we file at the SEC’s public reference facility at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information regarding the public reference facilities. The SEC maintains a web site, http://www.sec.gov., that contains reports, proxy statements and information statements and other information regarding registrants that file electronically with the SEC, including the Company. The Company’s SEC filings are also available to the public from commercial document retrieval services.

RISK FACTORS THAT MAY AFFECT FUTURE RESULTS

You should carefully consider the following material risks, together with the other matters described in this Annual Report on Form 10-KSB in evaluating our business and prospects. If any of the following risks actually occur, our business, results of operations and financial condition could be materially adversely affected. In such circumstances, the trading price of our common stock could decline, and in some cases, such declines could be significant. The risks described below are not the only ones we face. Additional risks and uncertainties, including those that are not yet identified or that we currently believe are immaterial, may also adversely affect our business, financial condition or results of operations. Certain statements contained in this Annual Report on Form 10-KSB (including certain of the following risk factors) constitute forward-looking statements. Please refer to the section entitled “Forward Looking Statements” appearing on page 3 of this Annual Report on Form 10-KSB for important limitations on these forward-looking statements.

Risks General to Our Businesses

We should be viewed as an early-stage company.

The combination of the reliance by all of our business units upon the expansion of the capabilities of our C1 Production Technology and the early-stage, developmental nature of our BioPharma Business and our BioEnergy Business requires that Dyadic be characterized as an early-stage company. Our conduct of the BioPharma Business and our commercialization of our BioEnergy Business, in particular, are subject to the risks customarily attending the operations of any early-stage company, including the risks of failure associated with the development of new technologies and products, the successful assembly and development of production and R&D capabilities, the effective construction of channels of distribution and the management of growth, as discussed in the following risk factors.

We have a history of net losses, and may not achieve or maintain profitability.

We have an accumulated deficit of approximately $44.8 million at December 31, 2006. Because we accelerated our R&D activities and expanded both our sales and marketing and technical support staffs, we have experienced increased levels of net losses and negative cash flow. Whether we achieve profitability, and the size of our net losses prior to that time, will depend, in large part, on the rate of growth, if any, of our Enzyme Business, whether our BioPharma Business is able to generate contract sales or other sales, whether our BioEnergy Business can commercialize enzymes for its market, on our ability to enter into additional research or commercial relationships such as those relationships we have entered into with Abengoa and Royal Nedalco and on the level of our expenses. To date, we have derived almost 100% of our sales from the operations of our Enzyme Business. We do not anticipate material sales from the operation of the BioPharma Business sooner than 2008 or later. We anticipate revenues from our BioEnergy Business, but how much will depend almost entirely on our ability to secure collaborations with other companies in arrangements like the arrangements with Abengoa and Royal Nedalco. Our Enzyme Business may not be able to penetrate new markets or enjoy the improved profit margins we anticipate, which could materially adversely impact that business’s growth potential and profitability. Sales from our BioPharma Business are uncertain because our ability to secure future collaboration agreements will depend upon the ability of the BioPharma Business to perfect the Dyadic Platform Technology to address the needs of the pharmaceutical and biotech industries. Similarly, the ability of our BioEnergy Business to successfully commercial enzyme products is uncertain. We expect to spend significant amounts to fund R&D and enhance our core technologies used in all three Businesses. As a result, we expect that our operating expenses will increase significantly in the near term and, consequently, that we will need to generate significant additional sales to achieve profitability. Even if we do achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis.

We could fail to manage our growth, which would impair our business.

Our business plan contemplates that we will grow at a rapid rate. It is difficult to manage growth, and our future success depends on our ability to efficiently and effectively implement:

- research and product development programs which overcome scientific challenges and develop new products and processes;
- sales, marketing, technical service and customer support programs;
- operational and financial control systems; and
- recruiting and training programs.

Our ability to offer products and services successfully and to implement our business plan in a rapidly evolving global market requires effective planning, reporting and management processes. We expect that we will need to continue to improve our financial and managerial controls, reporting systems and procedures and to expand and train our workforce worldwide. We also need to continue to manufacture our products efficiently and to control or adjust the expenses related to R&D, marketing, sales and general and administrative activities in response to changes in sales. If we are not successful in efficiently manufacturing our products or managing such expenses, there could be an adverse impact on our results of operations, our financial condition and the continued viability of our business.

Risks Specific to Our Enzyme Business

Our market share growth depends on costly new product introductions and market acceptance.

The future success of our Enzyme Business will depend greatly on our ability to continuously and timely develop and introduce new products that address evolving market requirements and are attractive to customers. We are relying on our C1 Production Technology and our other proprietary technologies to expand the product line of our Enzyme Business and improve our gross margins on those products. If we fail to introduce new and innovative products, we could fail to obtain an adequate return on our R&D investments and could lose market share to our competitors, which might be difficult or impossible to regain. Any inability, for technological or other reasons, to develop successfully and introduce new products could reduce our growth rate or otherwise damage our business.

Further, in the past we have experienced, and we are likely in the future to experience, delays in the development and introduction of products. We may not be able to keep pace with the rapid rate of change in our markets or to develop new products or processes that will meet the requirements of the marketplace or achieve market acceptance. Some of the factors affecting market acceptance of our products include:

- availability, quality, performance and price as compared to competitive products;
- the functionality of new and existing products;
- the timing of introduction of our products as compared to competitive products;
- scientists' and customers' opinions of our products' utility and our ability to incorporate their feedback into our future products; and
- citation of the products in published research.

The expenses or losses associated with unsuccessful product development activities or lack of market acceptance of our new products could seriously harm our business, financial condition and results of operations.

Our dependence on contract manufacturers could harm our business.

Our Enzyme Business currently relies on contract manufacturers for all of its manufacturing. If we require additional manufacturing capacity and are unable to obtain it in sufficient quantity, we may not be able to increase our sales, or may be required to make very substantial capital investments to build that capacity.

Our manufacturing capabilities, and any current or future arrangements with third parties for these activities, may not be adequate for the successful commercialization of our industrial enzyme products. In the operation of the Enzyme Business, all of our industrial enzymes have over the past decade, and are expected over the foreseeable future to be, produced at the manufacturing facilities of one or more contract manufacturers. As a result, we are dependent upon the performance and plant capacity of third-party manufacturers. Though we formerly used two contract manufacturers, we let our agreement with one of those contract manufacturers expire and now only use it on a highly limited basis. Our Enzyme Business, therefore, faces risks of difficulties with, and interruptions in, performance by the one contract manufacturer we are currently using of its manufacturing responsibilities, the occurrence of which could adversely impact the availability, launch and/or sales of our products in the future. While our principal contract manufacturer, Polfa Tarchomin, S.A. ("Polfa"), which has been producing a number of our products since 2001 without interruption, completed the expansion of its capacity with an additional 50 cubic meters of fermentation capacity and associated recovery capacity in October 2006, there can be no assurance that Polfa will be able to maintain its capacity commitments to Dyadic in the future without additional Dyadic financial commitments to Polfa.

Should we require additional capacity in the future, and if Polfa cannot obtain the funding necessary to provide the needed capital to honor its obligation to us under its Manufacturing Agreement with us, our ability to meet our production requirements would be negatively affected, thereby negatively affecting our financial position, results of operations and cash flows. In such an event, the Company would have to locate additional capacity with either Martek Biosciences or another contract manufacturing facility. The Company believes it has these resources available if needed, to support any additional production needs. Although we feel there are other alternatives, the fact that the majority of our production requirements will be satisfied by the single manufacturing facility operated by our Polish contract manufacturer does leave us vulnerable to a failure of performance by it.

Regulations may limit or impair our ability to sell genetically engineered products in the future.

We develop enzyme products using both non-genetically engineered microorganisms, as well as those that have undergone some degree of genetic modification. Products derived from genetically modified organisms ("GMOs"), are subject to regulation by federal, state, local and foreign government agencies. These agencies administering existing or future applicable regulation or legislation may not allow us to produce and market our products derived from GMOs in a timely manner or under technically or commercially feasible conditions.

In addition, regulatory action or private litigation could result in expenses, delays or other impediments to our product development programs or the commercialization of resulting products. The U.S. Food and Drug Administration, or FDA, currently applies the same regulatory standards to products made through genetic engineering as those applied to products developed through traditional methodologies. Depending on a product's application and regardless of its GMO status, it may be subject to lengthy FDA reviews and unfavorable FDA determinations if there are safety concerns or if the FDA changes its current regulatory policy. The European Union, or the EU, has regulations regarding the development, production and marketing of products from GMOs which are generally more restrictive than present U.S. regulations. For example, among other requirements, EU animal feed registration requires in-vivo efficacy testing, as well as toxicological testing of all enzyme products, including products from non-GMO microorganisms. The regulatory agencies administering these and future regulations may hinder our ability to produce and bring to market some of our enzyme products in a timely manner or under technically or commercially feasible conditions.

Risks Specific to Our BioPharma Business

We may fail to commercialize the Dyadic Platform Technology for the expression of therapeutic proteins.

Although our Enzyme Business has developed and sold industrial enzyme products and has used our C1 Production Technology to develop such products, our BioPharma Business has not yet completed commercialization of our C1 Production Technology for the expression of therapeutic proteins. If our BioPharma Business fails to do this, we may be forced to terminate the BioPharma Business's operations and liquidate it.

Our BioPharma Business must be evaluated as having the same risks as those inherent in early-stage biotechnology companies because the application of our C1 Production Technology to the expression of pre-clinical and clinical quantities of therapeutic proteins is still in development. We may not be able to successfully harness the C1 Production Technology to achieve those objectives. Further, we may not be able to expand the capabilities of the C1 Production Technology to produce commercial volumes of therapeutic proteins at reasonable costs. Also, we may not ever be able to successfully complete development of our fungal high throughput system. And, even if the BioPharma Business is able to achieve any of those accomplishments, we may not be able to successfully develop the C1 HTS Technology to serve the functions of gene discovery or the development of new and/or improved protein drugs. Successful development of the Dyadic Platform Technology for these purposes will require significant development and investment, including testing, to prove its efficacy and cost-effectiveness. To date, drug companies have developed and commercialized only a small number of gene-based products in comparison to the total number of drug molecules available in the marketplace. In this regard, we are heavily dependent upon our use of third-party research organizations to assist us in the development of the Dyadic Platform Technology. In general, our experience has been that each step in the process has taken longer and cost more to accomplish then we had originally projected, and we anticipate that this is likely to remain the case with respect to our BioPharma Business' continuing development efforts.

Commercialization of the Dyadic Platform Technology for therapeutic proteins depends on collaborations.

Commercialization of the Dyadic Platform Technology by our BioPharma Business depends on collaborations with other parties. If we are not able to find collaborators in the future, the BioPharma Business may not be able to develop the Dyadic Platform Technology for therapeutic protein products. Further, our business model relies on a revenue stream derived from collaboration projects to be conducted with our customers to express laboratory-testing quantities of therapeutic proteins. A large portion of the anticipated financial reward depends on those therapeutic proteins progressing through drug development and into commercially successful drugs. Apart from risks relating to whether our BioPharma Business can capture such customers, or capture them on satisfactory terms, we will have no control over post-collaboration project drug

development and commercialization. Further, conflicts could arise between us and our customers or among them and third parties that could discourage or impede the activities of our BioPharma Business.

Since we do not currently possess the financial resources necessary to develop and commercialize potential drug products that may result from the Dyadic Platform Technology, or the resources to complete any approval processes which may be required for these products, we must enter into collaborative arrangements to develop and commercialize drug products. It is expected that these arrangements will be for fixed terms and will expire after a fixed period of time. If they are not renewed or if we do not enter into new collaborative agreements, our sales will be reduced and our products may not be commercialized.

We have limited or no control over the resources that any collaborator may devote to our programs.

We have limited or no control over the resources that any collaborator may devote to our products. Any of our future collaborators may not perform their obligations as expected. These collaborators may breach or terminate their agreement with us or otherwise fail to conduct their collaborative activities successfully and in a timely manner. Further, our collaborators may elect not to develop products arising out of our collaborative arrangements or devote sufficient resources to the development, manufacture, market or sale of these products. If any of these events occur, we may not be able to develop our technologies or commercialize our products.

Potential therapeutic products developed by us or with our customers or collaborators are subject to a lengthy and uncertain regulatory process. If these therapeutic protein products are not approved, we or our customers or collaborators will not be able to commercialize them, and we may not receive the milestone and royalty payments which are based upon the successful advancement of these products through the drug development and approval process.

The FDA must approve any therapeutic product before it can be marketed in the United States. Before our collaborators can file a new drug application or biologic license application with the FDA, the product candidate must undergo extensive testing, including animal and human clinical trials, which can take many years and require substantial expenditures. Data obtained from such testing are susceptible to varying interpretations which could delay, limit or prevent regulatory approval. In addition, changes in regulatory policy for product approval during the period of product development and regulatory agency review of each submitted new application or product license application may cause delays or rejections.

Because these products involve the application of new technologies and may be based upon new therapeutic approaches, they may be subject to substantial review by government regulatory authorities and, government regulatory authorities may grant regulatory approvals more slowly for these products than for products using more conventional technologies. While we anticipate that most of our collaborators will have experience submitting an application to the FDA or any other regulatory authority, we have no such experience, and neither we nor any collaborator has yet submitted an application with the FDA or any other regulatory authority for any product candidate generated through the use of our C1 Production Technology, nor has the FDA nor any other regulatory authority approved any therapeutic product candidate developed using our C1 Production Technology for commercialization in the United States or elsewhere. Our collaborators may not be able to conduct clinical testing or obtain the necessary approvals from the FDA or other regulatory authorities for our products. The regulatory agencies of foreign governments must also approve our therapeutic products before the products can be sold in those other countries.

Even after investing significant time and expenditures, our collaborators may not obtain regulatory approval for their products. Even if they receive regulatory approval, this approval may entail limitations on the indicated uses for which we can market a product. Further, once regulatory approval is obtained, a marketed product and its manufacturer are subject to continual review, and discovery of previously unknown problems with a product or manufacturer may result in restrictions on the product, manufacturer and manufacturing facility, including withdrawal of the product from the market. In certain countries, regulatory agencies also set or approve prices.

Health care reform may limit our profitability or that of our customers.

The Dyadic Platform Technology is being developed to assist our customers or collaborators in the development of future therapeutic products, including pharmaceutical products. The ability of our collaborators to commercialize pharmaceutical products developed with the Dyadic Platform Technology may depend in part on the extent to which reimbursement for the cost of those products will be available from government health administration authorities, private health insurers and other organizations. Third-party payers are increasingly challenging prices of medical products and services. Significant uncertainty exists as to the reimbursement status of newly approved health care products, and there can be no assurance that adequate third party coverage will be available for any product to enable us to maintain price levels sufficient to realize an appropriate return on our investment in research and product development.

Adverse events in the field of therapeutic products may adversely affect us or our collaborators.

Currently, we are not engaged in developing therapeutic products for our own account, but instead intend to collaborate with drug companies to express therapeutic products requested by them for the ultimate purpose of their development, testing and introduction as new drugs. We may, however, engage in these activities in the future for our own account. If we or our collaborators develop therapeutic products, these products may encounter substantial delays in development and approval due to the government regulation and approval process. Adverse events reported in gene therapy clinical trials may lead to more government scrutiny of proposed clinical trials of therapeutic products, stricter labeling requirements for these products and delays in the approval of other types of products for commercial sale.

Our C1 Production Technology has been tested for use in pulp and paper production, which requires FDA approval as generally regarded as safe, or GRAS, and has generated promising safety and toxicity data for one enzyme. A risk nonetheless exists that the C1 Production Technology will produce therapeutic products and enzymes that have safety and toxicity issues associated with them.

We believe our determination of the genome sequence of C1 could help to mitigate our risk that there are unexpected safety and toxicity issues associated with our C1 Production Technology and facilitate our ability to find and express new genes of bio-therapeutic and other commercial value. However, there can be no assurance that annotation of C1will be fully or adequately completed, and until it is successfully completed, we are at a distinct competitive disadvantage to some of our competitors, whose host organisms have been more thoroughly researched and whose genomes have been fully annotated.

Risks Specific to the Our BioEnergy Products

We may fail to develop commercially viable enzymes to convert sugar into ethanol.

Although we have developed enzymes using our C1 Production Technology that do, in fact, convert biomass into sugar that can then be fermented into ethanol, we are still working on developing those enzymes into commercially viable products for the ethanol marketplace. If our BioEnergy Business fails to do this, we may be forced to terminate the BioEnergy Business's operations and liquidate it. Our C1 HTS Technology is still under development and if or how useful it will be in accelerating the development of identifying, evaluating and developing new and better enzymes that can be produced using our C1 Production Technology or other proprietary technologies is yet to be proven.

Our BioEnergy Business must be evaluated as having the same risks as those inherent in early-stage biotechnology companies because our enzymes for this application are still in development to achieve required cost-efficiencies. We may not be able to successfully develop cost-efficient enzymes. Further, we may be able to develop commercially viable enzymes for only some of the alternative types of biomass, and these may not be the ones with the greatest market potential. Successful development of the Dyadic Platform Technology to discover, develop and produce commercially viable enzymes for the cellulosic ethanol market will require significant development and investment, including testing, to prove its efficacy and cost-effectiveness. In this regard, we are heavily dependent upon our use of third-party research organizations to assist us in the development of the Dyadic Platform Technology. In general, our experience has been that each step in the process has taken longer and cost more to accomplish then we had originally projected, and we anticipate that this is likely to remain the case with respect to our BioEnergy Business' continuing development efforts.

Commercialization of BioEnergy Products depends on collaborative partnerships.

Because we do not have the manufacturing infrastructure and financial resources to develop large scale-enzyme production and manufacturing processes for the commercialization of our BioEnergy products, our ability to commercialize those products will depend on our entering into collaborative partnerships like our recent one with Abengoa Bioenergy R&D, Inc. and Royal Nedalco. We are in discussions with and are considering additional collaborative partnerships, though there is no assurance that we will able to complete any additional ones on terms acceptable to us or at all.

Commercialization of Cellulosic Ethanol may not be feasible.

Although cellulosic ethanol should reduce the United States' and other countries' dependence on imported oil, increase its energy security and reduce its trade deficit, commercialization of cellulosic ethanol in the United States or elsewhere may not be feasible for a variety of reasons. Among others, to date there has been a lack of significant private and government funding for research and development in conversion and processing technologies, as well as for the development of biorefineries. Furthermore, there has been to date very little, if any, well directed public policies emphasizing investment and providing incentives for the commercialization and transition to cellulosic ethanol. The current United States Presidential administration has recently been publicizing the benefits of cellulosic ethanol, though it remains to be seen whether or not such publicity will engender significant government funding and economic incentives to mitigate some of the foregoing barriers to commercialization of cellulosic ethanol. Our recent collaborative partnership with Abengoa Bioenergy R&D, Inc. and Royal Nedalco may suggest that these barriers are surmountable, although there are no assurances in this regard and there are a variety of risks that may not be directly or indirectly under our control.

Further, substantial development of infrastructure will be required by persons or entities outside of our control for our operations, and the ethanol industry generally, to grow. Areas requiring expansion include, but are not limited to, additional rail capacity, additional storage facilities for ethanol, increases in truck fleets capable of transporting ethanol within localized markets, expansion of refining and blending facilities to handle ethanol, and growth in the fleet of vehicles capable of using E85 (85% ethanol) fuel. Substantial investments required for infrastructure changes and expansions may not be made or may not be made on a timely basis. Any delay or failure in making the changes to or expansion of infrastructure could harm demand or prices for our enzyme products, impose additional costs on us or otherwise have a material adverse effect on the results of our operations of financial position.

If the expected increase in ethanol demand does not occur, or if ethanol demand decreases, there may be excess capacity in the ethanol industry which would likely diminish demand for services and products from our BioEnergy Business.

Domestic ethanol production capacity has increased steadily from an annualized rate of 1.7 billion gallons per year in January of 1999 to 5.5 billion gallons per year in December 2006 according to the Renewable Fuels Association. In addition, there is a significant amount of capacity being added to the ethanol industry. It is believed that approximately 4.6 billion gallons per year of production capacity is currently under construction. This capacity is being added to address anticipated increases in demand. However, demand for ethanol may not increase as quickly as expected, or at all. Demand could be impaired due to a number of factors, including regulatory developments and reduced United States gasoline consumption. Reduced gasoline consumption could occur as a result of increased gasoline or oil prices. For example, price increases could cause businesses and consumers to reduce driving or acquire vehicles with more favorable gasoline mileage capabilities. Significant diminished demand for ethanol, for any reason whatsoever, would likely diminish the demand for services and products from our BioEnergy Business.

The United States Ethanol Industry is highly dependent upon a myriad of federal and state legislation and regulations and any changes in such legislation or regulation could materially and adversely affect the demand for the Services and Products of our BioEnergy Business.

The United States Ethanol Industry is highly dependent upon a myriad of federal and state legislation and regulations. Any changes in such legislation or regulation could materially and adversely affect the demand for our BioEnergy Products. For example, under the Energy Policy Act of 2005, the U.S. Department of Energy, in consultation with the U.S. Secretary of Agriculture and the U.S. Secretary of Energy, may waive the Renewable Fuels Standard, or RFS, mandate with respect to one or more states if the Administrator determines that implementing the requirements would severely harm the economy or the environment of a state, a region or the United States, or that there is inadequate supply to meet the requirement. Any waiver of the RFS with respect to one or more states or with respect to 2006 would adversely offset demand for ethanol and, thus, diminish demand for our services and products in our BioEnergy Business.

The market price of ethanol is volatile and subject to significant fluctuations, which may cause our profitability from the production of cellulosic ethanol to fluctuate significantly.

The market price of ethanol is dependent upon many factors, including the price of gasoline, which is in turn dependent upon the price of petroleum. Petroleum prices are highly volatile and difficult to forecast due to frequent changes in global politics and the world economy. The distribution of petroleum throughout the world is affected by incidents in unstable political environments, such as Iraq, Iran, Kuwait, Saudi Arabia, Nigeria, Venezuela, the former U.S.S.R. and other countries and regions. The industrialized world depends critically upon oil from these areas, and any disruption or other reduction in oil supply can cause significant fluctuations in the prices of oil and gasoline. We cannot predict the future price of oil or gasoline and may establish unprofitable prices for the sale of ethanol due to significant fluctuations in market prices. In recent years, the prices of gasoline, petroleum and ethanol have all reached historically unprecedented high levels. If the prices of gasoline and petroleum decline, we believe that the demand for and price of ethanol may be adversely affected. Fluctuations in the market price of ethanol may cause our profitability to fluctuate significantly.

Risks Applicable to Our Enzyme Business, BioPharma Business and BioEnergy Products

Alternative technologies may diminish the need for producing some enzymes the way we do.

Many of our enzyme products are produced in fermenters. Some of the product segments we hope to serve may not find it efficient to use the fermenter processes we employ. For example, bio-ethanol and other bio-fuels production represents a considerable market opportunity for enzymes comprising BioEnergy Products. However, research being conducted within the auspices of major seed producers, U.S. federal government and corn growers association may supplant the need for enzymes produced in fermenters, which is the enzyme production process we currently use.

Reductions in R&D budgets may affect the sales of our Businesses.

Our customers include researchers at customers of our Enzyme Business, potential drug company customers of our BioPharma Business and potential energy companies for our BioEnergy Products. Fluctuations in the R&D budgets of these researchers and their organizations could have a significant effect on the demand for our products. Research and development budgets fluctuate due to changes in available resources, consolidation in the pharmaceutical and energy industries, spending priorities and institutional budgetary policies. Our Businesses could be seriously damaged by any significant decrease in life sciences and/or renewable fuels R&D expenditures by these existing and potential customers, academic institutions, government laboratories or private foundations.

Conflicts with our collaborators could harm our business.

An important part of our strategy involves conducting proprietary research programs. We may pursue opportunities in fields that could conflict with those of our collaborators. Moreover, disagreements with our collaborators could develop over rights to our intellectual property. Any conflict with our collaborators could reduce our ability to obtain future collaboration agreements and negatively impact our relationship with existing collaborators, which could reduce our sales.

Certain of our collaborators could also become competitors in the future. Our collaborators could develop competing products, preclude us from entering into collaborations with their competitors, fail to obtain timely regulatory approvals, terminate their agreements with us prematurely or fail to devote sufficient resources to the development and commercialization of products. Any of these developments could harm our product development efforts.

We will either commercialize products resulting from our proprietary programs directly or through licensing to other companies. We have limited experience in manufacturing and marketing products for the pharmaceutical, biotechnology and energy industries. In order for us to commercialize these products directly, we would need to develop, or obtain through outsourcing arrangements, the capability to market and sell these products. We do not have these capabilities, and we may not be able to develop or otherwise obtain the requisite marketing and sales capabilities. If we are unable to successfully commercialize products resulting from our proprietary research efforts, we will continue to incur losses.

Public views on ethical and social issues may limit use of our technologies and reduce our sales.

Our success will depend in part upon our ability to develop products discovered through the Dyadic Platform Technology. Governmental authorities could, for social or other purposes, limit the use of genetic processes or prohibit the practice of the Dyadic Platform Technology. Ethical and other concerns about the Dyadic Platform Technology, particularly the use of genes from nature for commercial purposes, and products resulting there from, could adversely affect their market acceptance.

If the public does not accept genetically engineered products, our product demand could decline.

The commercial success of our potential products will depend in part on public acceptance of the use of genetically engineered products including drugs, plants and plant products. Claims that genetically engineered products are unsafe for consumption or pose a danger to the environment may influence public attitudes. Our genetically engineered products may not gain public acceptance in the various industrial, pharmaceutical, biotechnology or energy industries. Negative public reaction to genetically modified organisms and products could result in greater government regulation of genetic research and resultant products, including stricter labeling laws or regulations, and could cause a decrease in the demand for our products.

The subject of genetically modified organisms has received negative publicity in Europe and other countries, which has aroused public debate. The adverse publicity in Europe could lead to greater regulation and trade restrictions on imports of genetically altered products. If similar adverse public reaction occurs in the United States, genetic research and resultant products could be subject to greater domestic regulation and a decrease in the demand for our products could result.

Other Business Risks That We Face

We must continually offer new products and technologies.

The industrial enzymes and biotechnology industries are characterized by rapid technological change, and the area of gene research is a rapidly evolving field. Our future success will depend on our ability to maintain a competitive position with respect to technological advances. Rapid technological development by others may result in our products and technologies becoming obsolete.

Any products that we develop through the Dyadic Platform Technology and our other proprietary technologies will compete in highly competitive markets. Many of the organizations competing with us in the markets for such products have greater capital resources, R&D and marketing staffs and facilities and capabilities, and greater experience in obtaining regulatory approvals, manufacturing products and marketing. Accordingly, our competitors may be able to develop technologies and products more easily which would render our technologies and products and those of our collaborators obsolete and noncompetitive. If a competitor develops superior technology or cost-effective alternatives to our products or processes, our business, operating results and financial condition could be seriously harmed. In addition, demand for our products may weaken due to reduction in R&D budgets or loss of distributors, any of which might have an adverse effect on our financial condition.

The markets for our Enzyme Business's products are, in many cases, very competitive and price sensitive. Our Enzyme Business currently competes with five much larger competitors, each with dominant market positions in segments in which we compete and who, as a group, hold approximately 70% market share in the present industrial enzymes marketplace. Each of these competitors has substantially greater financial, operational, sales and marketing resources than we do and very significant experience in R&D. Further, these competitors may possess other complementary technologies, such as proprietary directed molecular evolution technology, which may be more effective at implementing their technologies to develop commercial products than our complementary technologies implement the Dyadic Platform Technology. Also, some of these competitors have entered into collaborations with leading companies within our Enzyme Business's target markets to produce enzymes for commercial purposes.

Well-known, and better financed, biotechnology companies offer competing technologies for the same products and services as our BioPharma Business plans to offer using the Dyadic Platform Technology. Customers may prefer existing competing technologies over the Dyadic Platform Technology. Our BioPharma Business also faces, and will continue to face, intense competition from organizations such as large biotechnology companies, as well as academic and research institutions and government agencies that are pursuing competing technologies to enable production of therapeutic and other proteins and bio-molecules of commercial interest at economically viable costs. These organizations may develop technologies that are superior alternatives to the Dyadic Platform Technology. We anticipate that our BioPharma Business will face increased competition as new companies enter our markets and as development of biological products evolves.

Similarly, well-known, and better financed, biotechnology companies offer competing technologies for the same products and services as our BioEnergy Business plans to offer using the Dyadic Platform Technology and our other proprietary technologies. As with the BioPharma Business, prospective customers of the BioEnergy Business may prefer existing competing technologies over the Dyadic Platform Technology and our other proprietary technologies. Our BioEnergy Business also faces, and will continue to face, intense competition from organizations such as large biotechnology companies, as well as academic and research institutions and government agencies that are pursuing competing technologies to enable production of cellulosic ethanol at economically viable costs. These organizations may develop technologies that are superior alternatives to the Dyadic Platform Technology and our other proprietary technologies. We anticipate that our BioEnergy Business will face increased competition as new companies enter our markets and as development of biological products evolves.

We may need additional capital in the future.

Our future capital requirements may be substantial, particularly as we continue to develop the Dyadic Platform Technology and our other proprietary technologies to commercialize BioEnergy Products and if completion of the development of our C1 Production Technology for our BioPharma Business takes longer or requires greater resources than we had expected, if we continue to develop the C1 Production Technology to expand its production capabilities to manufacture commercial volumes of therapeutic proteins, if we continue to develop a C1 HTS Technology, or if our BioPharma Business develops a number of therapeutic products. Although we believe that we have sufficient cash on hand to fund our operations and meet our obligations through December 31, 2008, our need for additional capital will depend on many factors, including the financial success of our Enzyme Business, whether we are successful in obtaining payments from BioPharma Business customers under collaborative agreements, whether we are successful in our R&D efforts with Abengoa Bioenergy R&D, Inc. and Royal Nedalco, whether we can enter into additional collaborative partnerships for commercialization of our BioEnergy Products, the progress and scope of our collaborative and independent R&D projects performed by our customers and collaboration partners, the effect of any acquisitions of other businesses that we may make in the future, and the filing, prosecution and enforcement of patent claims.

If our capital resources are insufficient to meet our capital requirements, we will have to raise additional funds to continue the development of our technologies and complete the commercialization of products, if any, resulting from our technologies. If future raises of funds do occur, they may cause dilution to our existing stockholders. We may not be able to raise additional funds on terms that are acceptable to us or on any terms whatsoever, or we may be unable to raise sufficient additional capital. If we fail to raise sufficient funds, and our Enzyme Business is unable to generate sufficient levels of profitability, we may have to curtail or cease, or dispose of, one or more of our operations.

We will need to expand our existing marketing and sales resources.

While we have recently expanded our marketing and sales functions, each of our Enzyme Business, BioPharma Business and BioEnergy Business will need to continue to expand them to achieve our contemplated annual rates of growth and to successfully market the Dyadic Platform Technology. Currently, we rely primarily on our direct sales force for the United States market and contract with professional sales agents and distributors for the international market, including two controlled foreign subsidiaries. Direct salespeople are our employees and are paid a salary plus commissions on sales they make within their assigned territories. Contracted sales agents are paid a base rate of compensation plus commissions on sales they make within their assigned territories. Distributors purchase products from us and then resell our products and services to third parties. Our officers and employees develop and implement our marketing strategy, although we do periodically engage non-employee consultants, acting as independent contractors, to assist us in these efforts.

Market forces, such as increasing competition, increasing cost pressures on our customers and general economic conditions, may require us to devote more resources to our sales and marketing efforts than we currently contemplate, such as changing the composition of our sales and marketing staff and changing our marketing methods. These changes may result in additional expenses. In addition, we will incur additional salary expenses because we intend to increase our direct sales force. We also may hire direct sales representatives to replace independent sales representatives or distributors that we use. Similarly, if we increase our reliance on marketing consultants to assist us, we will incur greater costs. If we decide to increase our advertising, we will also incur higher sales and marketing costs. Our incurrence of increased costs will make it more difficult for us to operate profitably, and we may not have sufficient funds to support all of these costs.

If we expand our sales force and increase our marketing activities, we can offer no assurances that those efforts will result in more sales or higher revenue. Also, the increased costs we incur by expanding our sales and marketing resources may not result in greater sales or in higher revenue. Further, even if we increase our spending on sales and marketing, we may not be able to maintain our current level of sales and revenue.

Loss of key personnel could hurt our business.

We are highly dependent on the principal members of our management and scientific staff, the loss of whose services might adversely impact the achievement of our objectives. In addition, recruiting and retaining qualified scientific personnel to perform future R&D work will be critical to our success. We currently do not have sufficient executive management personnel to fully execute our business plan. Although we believe we will be successful in attracting and retaining qualified management and scientific personnel, such as the addition of our Chief Scientific Officer, Glenn Nedwin in March 2006, competition for experienced scientists from numerous companies and academic and other research institutions may limit our ability to do so on acceptable terms. Failure to attract and retain scientific personnel would prevent us from pursuing collaborations or developing our products or core technologies.

Our planned activities will require additional expertise in specific industries and areas applicable to the products developed through our technologies. These activities will require the addition of new personnel, including management, and the development of additional expertise by existing management personnel. The inability to acquire these services or to develop this expertise could impair the growth, if any, of our business.

Our directors and senior officers require that we maintain directors and officers insurance at levels comparable to those of similar sized public companies. We have purchased such directors' and officers' liability insurance. Our efforts to recruit additional directors could be impeded if the amount of insurance coverage is viewed to be insufficient. Further, if we are unable to provide adequate compensation or are unable to maintain sufficient directors' and officers' insurance coverage, we may not be able to attract or retain key personnel.

Personnel changes may disrupt our operations. Hiring and training new personnel will entail costs and may divert our resources and attention from revenue-generating efforts. From time to time, we also engage consultants to assist us in our business and operations. These consultants serve as independent contractors, and we, therefore, do not have as much control over their activities as we do over the activities of our employees. Our consultants may be affiliated with or employed by other parties, and some may have consulting or other advisory arrangements with other entities that may conflict or compete with their obligations to us. Inventions or processes discovered by these persons will not necessarily become our property.

Inability to protect our technologies could harm our ability to compete.

Our success will depend in part on our ability to obtain patents and maintain adequate protection of our other intellectual property for our technologies and products in the United States and other countries. If we do not adequately protect our intellectual property, competitors may be able to practice our technologies and erode our competitive advantage. The laws of some foreign countries do not protect proprietary rights to the same extent as the laws of the United States, and many companies have encountered significant problems in protecting their proprietary rights in these foreign countries. These problems can be caused by, for example, a lack of rules and methods for defending intellectual property rights.

In October 2006, we were granted U.S. patent 7,122,330, "High-Throughput Screening of Expressed DNA Libraries in Filamentous Fungi," by the U.S. Patent and Trademark Office. This patent grant will expand the patent protection for the C1 HTS Technology and broad claims covering a number of other industrially relevant fungi for applications in cellulosic ethanol and other key markets. We hold 4 issued U.S. patents and 28 issued and 2 allowed international patents, including claims that cover the Dyadic Platform Technology and 52 U.S. and international filed and pending patent applications which we believe provide broad protection for the Dyadic Platform Technology and its products and commercial applications. However, the patent positions of biotechnology companies, including our patent position, are generally uncertain and involve complex legal and factual questions. We will be able to protect our proprietary rights from unauthorized use by third parties only to the extent that our proprietary technologies are covered by valid and enforceable patents or are effectively maintained as trade secrets. We intend to apply for patents covering both our technologies and products as we deem appropriate. However, existing and future patent applications may be challenged and may not result in issued patents. Our existing patents and any future patents we obtain may not be sufficiently broad to prevent others from practicing our technologies or from developing competing products. Furthermore, others may independently develop similar or alternative technologies or design around our patented technologies. In addition, others may challenge or invalidate our patents, or our patents may fail to provide us with any competitive advantages.

Not all of our proprietary technology is eligible for patent protection. Accordingly, as to significant portions of our various proprietary technologies, we rely upon trade secret protection for our confidential and proprietary information. We have taken security measures to protect our proprietary information. These measures may not provide adequate protection for our trade secrets or other proprietary information. We seek to protect our proprietary information by entering into confidentiality agreements with employees, collaborators and consultants. Nevertheless, employees, collaborators or consultants may still disclose our proprietary information, and we may not be able to meaningfully protect our trade secrets. In addition, others may independently develop substantially equivalent proprietary information or techniques or otherwise gain access to our trade secrets.

Intellectual property litigation could harm our business.

Our commercial success depends in part on neither infringing patents and proprietary rights of third parties, nor breaching any licenses that we have entered into with regard to our technologies and products. Others have filed, and in the future are likely to file, patent applications covering genes or gene fragments that we may wish to utilize with the Dyadic Platform Technology or products or systems that are similar to products developed with the use of it. If these patent applications result in issued patents and we wish to use the claimed technology, we would need to obtain a license from the third party.

Third parties may assert that we are employing their proprietary technology without authorization. In addition, third parties may obtain patents in the future and claim that use of our technologies infringes these patents. We could incur substantial costs and diversion of management and technical personnel in defending ourselves against any of these claims or enforcing our patents or other intellectual property rights against others. Furthermore, parties making claims against us may be able to obtain injunctive or other equitable relief which could effectively block our ability to further develop, commercialize and sell products, and could result in the award of substantial damages against us. If a claim of infringement against us is successful, we may be required to pay damages and obtain one or more licenses from third parties. We may not be able to obtain these licenses at a reasonable cost, if at all. In that event, we could encounter delays in product commercialization while we attempt to develop alternative methods or products. Defense of any lawsuit or failure to obtain any of these licenses could prevent us from commercializing available products.

Further, the taxonomic classification of C1 was determined using classical morphological methods. More modern taxonomic classification methods indicate that our C1 host organism will be reclassified as a different genus and species. With the genomic sequence and the partial annotation of the C1 genome to date, we are in the process of determining with higher certainty the most likely genus and species of the C1 host organism. Some of the possible species that the C1 host could be reclassified as could be the subject of patent rights owned by others. We believe, based on our evaluation of the relevant field of science and our discussions with our consulting professionals, that any such patent rights would be invalid, and were litigation over the issue to ensue, we believe we should prevail. If we did not prevail, to settle any such litigation or pre-litigation claims, we could be required to enter into a cross-licensing arrangement, pay royalties or be forced to stop commercialization of some of our activities.

We do not fully monitor the public disclosures of other companies operating in our industry regarding their technological development efforts. If we did evaluate the public disclosures of these companies in connection with their technological development efforts and determined that they violated our intellectual property or other rights, we would anticipate taking appropriate action, which could include litigation. However, any action we take could result in substantial costs and diversion of management and technical personnel. Furthermore, the outcome of any action we take to protect our rights may not be resolved in our favor or may not be resolved for a lengthy period of time.

We may be sued for product liability.

We may be held liable if any product we develop, or any product which is made with the use or incorporation of, any of our technologies, causes injury or is found otherwise unsuitable during product testing, manufacturing, marketing or sale. These risks are inherent in the development of chemical, agricultural and pharmaceutical products. While we maintain product liability insurance, it may not fully cover our potential liabilities. Inability to obtain sufficient insurance coverage at an acceptable cost or otherwise to protect against potential product liability claims could prevent or inhibit the commercialization of products developed by us or our collaborators. If we are sued for any injury caused by our products, our liability could exceed our total assets.

International unrest or foreign currency fluctuations could adversely affect our results.

International sales accounted for approximately 90% and 91% of our net sales in 2006 and 2005, respectively. Our key international markets are the European Union, Hong Kong, the Peoples Republic of China and India. Our international sales are made through international distributors and their wholly owned subsidiaries, including our Asian subsidiary, and direct to end-user plants with payments to us, in many cases, denominated in currencies other than U.S. dollars. In the conduct of our business, in a number of instances, we are required to pay our obligations in currencies other than U.S. dollars. Accordingly, we are exposed to changes in currency exchange rates with respect to our international sales and payment obligations. We incurred currency gains of $28,704 and $16,785 for the years ended December 31, 2006 and 2005, respectively.

Fluctuations in currency exchange rates have in the past and may in the future negatively affect our ability to price competitively against products denominated in local currencies. Also, changes in foreign currency exchange rates may have an adverse effect on our financial position and results of operations as expressed in U.S. dollars. Our management monitors foreign currency exposures and may, in the ordinary course of business, enter into foreign currency forward contracts or options contracts related to specific foreign currency transactions or anticipated cash flows. We do not hedge, and have no current plans to hedge in the future, the translation of financial statements of consolidated subsidiaries whose local books and records are maintained in foreign currency.

The imposition of duties or other trade barriers, trade embargoes, acts of terrorism, wars and other events outside our control may adversely affect international commerce and impinge on our ability to manufacture, transport or sell our products in international markets.

Business interruptions could keep us from developing our products and increasing our sales.

Natural or man-made disasters, such as fires, earthquakes, hurricanes, power losses, telecommunications failures, terrorist attacks, military operations and other events beyond our control may interrupt our operations. We do not have a detailed disaster recovery plan. In addition, we may not carry sufficient business interruption insurance to compensate us for losses that may occur and any losses or damages we incur could have a material adverse effect on our cash flows and success as an overall business.

We are dependent on several key customers.

In 2006, there was one customer that accounted for approximately 10% of net sales while in 2005 there were two customers that accounted for approximately 10% each of net sales. There were two customers in 2006 whose trade receivable balances equaled or exceeded 5% of total receivables, representing approximately 17%, and 6%, respectively, of total accounts receivable. The loss of business from one or a combination of the Company's significant customers could adversely affect its operations.

Risks Related to Our Common Stock

Securities of Biotechnology companies are often volatile.

The trading prices of biotechnology company stocks in general tend to experience extreme price fluctuations. The valuations of many biotechnology companies without consistent product sales and earnings are extraordinarily high based on conventional valuation standards such as price to earnings and price to sales ratios. These trading prices and valuations may not be sustained. Any negative change in the public's perception of the prospects of biotechnology companies could depress our stock price regardless of our results of operations. Other broad market and industry factors may decrease the trading price of our common stock, regardless of our performance. Market fluctuations, as well as general political and economic conditions such as war, recession or interest rate or currency rate fluctuations, also may decrease the trading price of our common stock. In addition, our stock price could be subject to wide fluctuations in response to factors including, but not limited to, the following:

- announcements of new technological innovations or new products by us or our competitors;

- changes in financial estimates by securities analysts;
- conditions or trends in the biotechnology industry;
- changes in the market valuations of other biotechnology companies;
- developments in domestic and international governmental policy or regulations;
- announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments;
- developments in patent or other proprietary rights held by us or by others;
- loss or expiration of our intellectual property rights;
- lawsuits initiated by or against us;
- period-to-period fluctuations in our operating results;
- future royalties from product sales, if any, by our strategic partners; and
- sales of our common stock or other securities in the open market.

In the past, stockholders have often instituted securities class action litigation after periods of volatility in the market price of a company's securities. If a stockholder files a securities class action suit against us, we would incur substantial legal fees and our management's attention and resources would be diverted from operating our business to respond to the litigation.

Our operating results and the market price of stock could be volatile.

Our quarterly operating results have fluctuated in the past and are likely to do so in the future. These fluctuations could cause our stock price to fluctuate significantly or decline. Some of the factors which could cause our operating results to fluctuate include:

- expiration of research contracts with collaborators, which may not be renewed or replaced;
- the success rate of our discovery efforts leading to milestones and royalties;
- the timing and willingness of collaborators to commercialize our products which would result in royalties;
- general and industry specific economic conditions, which may affect our collaborators' R&D expenditures;
- the adoption and acceptance of our industrial enzymes and other products by customers of our Enzyme Business;
- the adoption and acceptance of the Dyadic Platform Technology by bioenergy, biotechnology and pharmaceutical companies being marketed by our BioEnergy, Enzyme and BioPharma Businesses;
- the introduction by our competitors of new industrial enzyme products or lower prices of existing products to our Enzyme Business's customers;
- the addition or loss of one or more collaborative partners to commercialize our the products of our BioEnergy Business;
- the introduction by our competitors of new expression technologies competitive with our C1 Production Technology and new screening technologies competitive with our C1 HTS Technology; and

- disruption in our manufacturing capacity or our failure to bring on additional manufacturing capacity required to meet our projected growth.

A large portion of our expenses are relatively fixed, including expenses for facilities, equipment and personnel. Accordingly, if sales decline or do not grow as anticipated due to expiration of research contracts or government research grants, if any, failure to obtain new contracts or other factors, we may not be able to correspondingly reduce our operating expenses. Failure to achieve anticipated levels of sales could, therefore, significantly harm our operating results for a particular fiscal period.

Due to the possibility of fluctuations in our revenues and expenses, we believe that quarter-to-quarter comparisons of our operating results are not a good indication of our future performance. Our operating results in some quarters may not meet the expectations of stock market analysts and investors. In that case, our stock price would probably decline.

We may not be able to maintain our American Stock Exchange listing

Our common stock has been listed on the American Stock Exchange since May 27, 2005. There is no assurance that we will be able to satisfy the American Stock Exchange's continued listing standards, which include, among others, minimum stockholders' equity, market capitalization, pre-tax income and per share sales price. If our common stock is de-listed from the American Stock Exchange, we would be forced to list our common stock on the OTC Bulletin Board or some other quotation medium, depending on our ability to meet the specific requirements of those quotation systems. Selling our common stock would be more difficult because smaller quantities of shares would likely be bought and sold and transactions could be delayed. These factors could result in lower prices and larger spreads in the bid and ask prices for shares of our common stock. If this happens, we will have greater difficulty accessing the capital markets to raise any additional necessary capital.

We do not expect to pay dividends in the future.

We have never paid cash dividends on our stock and do not anticipate paying cash dividends on our stock in the foreseeable future. The payment of dividends on our shares, if ever, will depend on our earnings, financial condition and other business and economic factors affecting us at such time as the Board of Directors may consider relevant. If we do not pay dividends, our stock may be less valuable because a return on investment will only occur if and to the extent that our stock price appreciates, and if the price of our stock does not appreciate, then there will be no return on investment.

Our anti-takeover defense provisions may deter potential acquirers and depress our stock price.

Certain provisions of our certificate of incorporation, bylaws and Delaware law, as well as certain agreements we have with our executives, could be used by our incumbent management to make it substantially more difficult for a third party to acquire control of us. These provisions include the following:

- we may issue preferred stock with rights senior to those of our common stock;
- we have a classified Board of Directors;
- action by written consent by stockholders is not permitted;
- our Board of Directors has the exclusive right to fill vacancies and set the number of directors;
- cumulative voting by our stockholders is not allowed; and
- we require advance notice for nomination of directors by our stockholders and for stockholder proposals.

These provisions may discourage certain types of transactions involving an actual or potential change in control. These provisions may also limit our stockholders' ability to approve transactions that they may deem to be in their best interests and discourage transactions in which our stockholders might otherwise receive a premium for their shares over the then current market price.

We have controlling stockholders.

Our officers, directors and principal stockholders together control approximately 35.4% of our outstanding common stock as of March 28, 2007. Our founder and chief executive officer, Mark Emalfarb, through a trust of which he is the trustee and beneficiary, the Mark A. Emalfarb Trust, owns approximately 19.5% of our outstanding common stock as of March 28, 2007. Further, the Francisco Trust, whose beneficiaries are the spouse and descendants of Mark Emalfarb, owns approximately 15.9% of our outstanding common stock as of March 28, 2007, while friends and relatives of Mr. Emalfarb, who are not officers, directors, or principal stockholders, own approximately an additional 5% of our outstanding common stock as of March 28, 2007. As a result, these stockholders, if they act together, will be able to exert a significant degree of influence over our management and affairs and over matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. In addition, this concentration of ownership may delay or prevent a change in control of us and might affect the market price of our shares, even when a change may be in the best interests of all stockholders. Moreover, the interests of this concentration of ownership may not always coincide with our interests or the interests of other stockholders, and, accordingly, they could cause us to enter into transactions or agreements which we would not otherwise consider.

We are indebted to our largest stockholders.

As of December 31, 2006, we owed the Mark A. Emalfarb Trust indebtedness of approximately $2.4 million under a bridge loan. All of our assets are mortgaged or pledged to secure the bridge loan owed to the Mark A. Emalfarb Trust. If we were unable to generate sufficient cash flow or otherwise obtain funds necessary to pay this indebtedness when due, we would be in default, and this debt holder would have the right to foreclose on its liens and security interests that secure the defaulted debt. Further, not only is this indebtedness evidenced by a promissory note that is transferable by its holder, but we could decide to refinance this indebtedness through similar secured borrowings from banks or other commercial lenders. Any transferee or new lender, no longer constrained by the stockholder interests of the Mark A. Emalfarb Trust, may not have the same attitude about any failure on our part to meet our binding repayment obligations as the Mark A. Emalfarb Trust.

We are exposed to potential risks resulting from new requirements that we evaluate financial reporting controls under Section 404 of the Sarbanes-Oxley Act of 2002.

We are evaluating our internal controls in order to allow management to report on our internal controls over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act of 2002. We may encounter unexpected delays in implementing the requirements relating to internal controls over financial reporting, therefore, we cannot be certain about the timing of completion of our evaluation, testing and remediation actions or the impact that these activities will have on our operations since there is no precedent available by which to measure the adequacy of our compliance. We also expect to incur additional expenses and diversion of management's time as a result of performing the system and process evaluation, testing and remediation required in order to comply with the management certification requirements. If we are not able to timely comply with the requirements set forth in Section 404, we might be subject to sanctions or investigation by regulatory authorities. Any such action could adversely affect our business and financial results. The requirement to comply with Section 404 of the Sarbanes-Oxley Act of 2002 will become effective no earlier than for our fiscal year ending December 31, 2007.

In addition, in our system of internal controls we may rely on the internal controls of third parties. In our evaluation of our internal controls, we will consider the implication of our reliance on the internal controls of third parties. Until we have completed our evaluation, we are unable to determine the extent of our reliance on those controls, the extent and nature of the testing of those controls, and remediation actions necessary where that reliance cannot be adequately evaluated and tested.

Future sales of shares of our common stock may negatively affect our stock price.

As of March 28, 2007, there were 29,939,375 shares of our common stock outstanding. Approximately 35.4% of these shares are beneficially owned by our executive officers, directors and principal stockholders. Accordingly, our common stock has a relatively small public float.

As a result of our relatively small public float, sales of substantial amounts of shares of our common stock, or even the potential for such sales, may materially and adversely affect prevailing market prices for our common stock. In addition, any adverse effect on the market price of our common stock could make it difficult for us to raise additional capital through sales of equity securities at a time and at a price that we deem appropriate.

ITEM 2. DESCRIPTION OF PROPERTY.

The Company's corporate headquarters are located at 140 Intracoastal Pointe Drive, Suite 404, Jupiter, Florida, in approximately 8,500 square feet of space occupied under a lease with a monthly rental rate of $15,550 that expires on December 31, 2007. The lease includes an option to extend for a two-year period, which must be exercised by July 1, 2007.

In May 2005, the Company purchased an undeveloped 1.13 acre parcel of land (the "Site") pursuant to a real estate purchase contract with F&C Holdings, LLC ("Holdings") dated July 31, 2004 (the "Commercial Land Purchase And Sale Agreement") (see Note 10 to our consolidated financial statements). The Company formed Dyadic Real Estate Holdings, Inc., a Florida corporation and wholly-owned subsidiary in May 2005, to which it has assigned the Commercial Land Purchase and Sale Agreement and the Site. The Site, which is in a planned community known as "Abacoa" is located in the Town of Jupiter, Florida (the "Town"). The Company has obtained final approval from the Town of Jupiter to construct an approximately 40,000 square foot commercial office biotech research and development building.

The Commercial Land Purchase and Sale Agreement obligates Dyadic to commence development of the Site within two (2) years following the closing date. During this two-year period, Dyadic is prohibited from re-transferring the Site to any other person other than (i) in connection with a sale of Dyadic, (ii) to an affiliate or (iii) with the approval of Dyadic's Board of Directors (a majority of its independent directors), to the Francisco Trust, the Mark A. Emalfarb Trust and/or any entity that is controlled, directly or indirectly, by Mark A. Emalfarb and/or his family members. It is not the Company's intention to use its own funds to develop this Site, therefore the Company is considering such options as a joint venture or other arrangement to accomplish the development of the Site. There can be no assurance, however, that any joint venture or other arrangements will occur within the prescribed timeframe.

If after the two-year commencement period, Dyadic has not commenced development of the Site, then at the election of Holdings, in exchange for a reconveyance Deed, it must pay to Dyadic a "Reconveyance Purchase Price" equal to the greater of the following: (i) $1.0 million or (ii) the "Market Value" of the shares of the Company's common stock, as defined, determined as of the date of the reconveyance notice from Holdings. The Reconveyance Purchase Price can be paid in all cash, or return of all the shares of the Company's common stock to the Company so long as the Market Value of the shares of the Company's common stock is greater than or equal to $1.0 million, or by combination of shares of the Company's common stock and cash, as determined in the sole and absolute discretion of Holdings. The Company is currently assessing its alternatives for development of the Site.

ITEM 3. LEGAL PROCEEDINGS.

The Company is not a party to any material legal proceedings.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Not applicable.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

As of March 28, 2007, there were 29,939,375 shares of Dyadic common stock outstanding (including 19,698 shares held in escrow), with approximately 144 stockholders of record. The Company's common stock was traded on the OTC Bulletin Board System (OTCBB) for the period October 29, 2004 through May 26, 2005. Since May 27, 2005, the Company's common stock has been trading on the American Stock Exchange under the symbol DIL. These quotations reflect inter-dealer prices, without retail mark-up, mark-down or commissions, and may not represent actual transactions.

The following table sets forth the high and low bids for Dyadic common stock for the quarterly periods for the years ended December 31, 2006 and 2005 as reported by the OTCBB for the period January 1, 2005 through May 26, 2005 and as reported by the American Stock Exchange for the period from May 27, 2005 through December 31, 2006:

Quarter Ended	2006 Sales Price		2005 Sales Price	
	High	Low	High	Low
March 31	$ 5.10	$ 1.53	$ 6.50	$ 2.75
June 30	$ 9.06	$ 3.89	$ 3.05	$ 2.25
September 30	$ 7.10	$ 4.05	$ 2.80	$ 1.87
December 31	$ 6.93	$ 3.65	$ 3.23	$ 1.50

Dividend Policy

While there are no restrictions on the payment of dividends, Dyadic has not declared or paid any cash dividends on shares of Dyadic common stock in the last two fiscal years, and we presently have no intention of paying any cash dividend in the foreseeable future. The Company's current policy is to retain earnings, if any, to finance the expansion of it business. The future payment of dividends will depend on the results of operations, financial condition, capital expenditure plans and other factors that we deem relevant and will be at the sole discretion of the Board of Directors.

Equity Compensation Plan Information

The following table provides information regarding the status of the Company's existing equity compensation plans at December 31, 2006.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance
Equity compensation plans approved by security holders (1)	2,961,911	$ 4.12	4,197,940
Equity compensation plans not approved by security holders	--	--	--
Total	2,961,911	$ 4.12	4,197,940

(1) Consists of Dyadic International, Inc. Amended and Restated 2001 Equity Compensation Plan and the 2006 Stock Option Plan, both of which plans were adopted by the Company's Board of Directors in April 2006 and approved by stockholders at the 2006 Annual Meeting of Stockholders in June 2006.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

All references to "the Company", "Dyadic", "we", "us" or "our" refers to Dyadic International, Inc. and its consolidated subsidiaries, unless the context otherwise indicates.

Dyadic International, Inc., based in Jupiter, Florida, with operations in the United States, Hong Kong and mainland China, Poland and The Netherlands, is a global biotechnology company that uses its patented and proprietary technologies (the "Dyadic Platform Technology") to conduct research and development activities for the discovery, development, and manufacture of products and enabling solutions to the bioenergy, industrial enzyme and pharmaceutical industries. These enabling solutions primarily include:

- Novel, cost efficient production strains, enzyme mixes and related processes and manufacturing technologies currently in the research and development stage for producing abundant low cost fermentable sugars from agricultural residues and energy crops which may be used in the manufacturing of cellulosic ethanol, butanol, chemicals, chemical intermediates, polymers and other biomolecules of commercial interest, obviating the need for petroleum as a feedstock, and refer to our activities in this market as our **BioEnergy Business**;

- Enzymes and other biological products for a variety of industrial and commercial applications. We currently sell more than 55 liquid and dry enzyme products to more then 200 industrial customers in approximately 50 countries and we generated net sales of approximately $15.3 million in 2006, and refer to our activities in this market as our **Enzyme Business**; and

- Low-cost production hosts for therapeutic protein production for the biopharmaceutical industry, and refer to our activities in this market as our **BioPharma Business**.

As more and more industries come to appreciate the financial, process efficiency, environmental and other advantages of applying biological solutions such as enzymes to their manufacturing processes in lieu of chemicals and other legacy technologies, we expect a variety of new market opportunities to emerge for which we anticipate we will be able to apply our proprietary technologies and other capabilities.

Dyadic's Strategy

Historically, substantially most our revenues have been derived from our Enzyme Business, which we continue to invest in, both to support and maintain our market position in textile enzymes and to penetrate new applications, such as pulp & paper, and animal feed. Our long-term plans are focused on our BioEnergy Business to enable the production of cellulosic ethanol, and our BioPharma Business, to enable the production of therapeutic monoclonal antibodies (and other therapeutic proteins) for pharmaceutical discovery and production.

We intend to accomplish these objectives by using and continuing to further develop the Dyadic Platform Technology and by leveraging and building on our existing business, technical, and marketing infrastructures. We also expect to continue to identify new market opportunities and the technologies to exploit those opportunities, both on our own and through strategic business collaborations with others.

We expect to generate revenues from these efforts by: (i) collecting R&D revenues from third parties; (ii) entering into collaborative business arrangements, joint ventures, profit sharing arrangements, or third parties; (iii) earning technology access fees, milestone payments, and royalties; (iv) selling products, whether developed internally through our own distribution channels for both current markets and markets we believe will emerge in the future or for customer-collaborators; (v) spinning-off new commercial entities utilizing the Dyadic Platform Technology; and/or (vi) obtaining grants from the United States government, foreign governments or other agencies. For additional information regarding the BioEnergy Business, Enzyme Business and BioPharma Business, see ITEM 1. Description of Business.

Results of Operations - Year Ended December 31, 2006 Compared to Year Ended December 31, 2005

The following table sets forth the Company's operating information for the years ended December 31, 2006 and 2005:

(in thousands)	2006	2005	Increase (Decrease)
Net sales	$ 15,384	$ 15,883	$ (499)
Cost of goods sold	11,345	12,857	(1,512)
Gross profit	4,039	3,026	1,013
Operating expenses:			
Research and development	4,237	4,655	(418)
Sales and marketing	3,417	2,809	608
General and administrative	7,149	5,565	1,584
Foreign currency exchange gain, net	(29)	(17)	(12)
Total operating expenses	14,774	13,012	1,762
Loss from operations	(10,735)	(9,986)	(749)
Other income (expense):			
Interest expense	(594)	(711)	117
Investment income	505	249	256
Minority interest	(14)	(5)	(9)
Other income, net	19	2	17
Total other expense	(84)	(465)	381
Loss before income taxes	(10,819)	(10,451)	368
Provision for income taxes	63	64	(1)
Net loss	$ (10,882)	$ (10,515)	$ 367

Net Sales

For the year ended December 31, 2006, we generated net sales of approximately $15,384,000 as compared to net sales of approximately $15,883,000 for the year ended December 31, 2005, a decrease of $499,000. Our net sales from the Enzyme Business decreased by approximately $362,000. In 2006 and 2005, the BioPharma Business generated $12,500 and $150,000 in sales, respectively. To date, we have derived almost all of our sales from the conduct of our Enzyme Business, and have thus far generated only nominal sales from our conduct of our BioPharma Business. We anticipate that we will begin recognizing revenue from our BioEnergy Business in 2007 (see below for a description of the Abengoa R&D Agreement).

The decrease in enzyme sales of approximately $362,000 consists of a decrease in textile sales of approximately $1,484,000 offset by an increase in sales to all other industries of approximately $1,122,000. The textile industry is quite commoditized and pricing by competitors in the industry is aggressive. The Company in recent years has focused, and intends to continue to focus, its efforts in the enzyme business towards industries where enzyme use is evolving. However, the markets for our products in these industries are generally characterized by longer sales cycles for reasons relating to various factors, such as required governmental registration processes (e.g. food and animal feed enzymes in Europe) and required product trials at customers' facilities of multi-month durations or longer (e.g. pulp & paper), and we can, therefore, offer no guidance as to when, or if, these new products will penetrate or achieve desired growth in those markets. Textile sales are important as they help sustain our worldwide network of sales people as well as utilization of the fermentation tanks at our contract manufacturer so we continue to support this business for which we have recently introduced several new products. These new products are expected to help stabilize sales in this area.

The following table reflects the Company's net sales by industry for the years ended December 31, 2006 and 2005:

(In thousands)	2006	%	2005	%	Increase / (Decrease)	%
Textile	$ 9,970	65%	$ 11,454	72%	$ (1,484)	(13)%
Animal Feed	1,361	9%	1,037	7%	324	31%
Pulp & Paper	2,641	17%	1,869	12%	772	41%
Others (5 industries)	1,399	9%	1,373	9%	26	2%
Total Industrial Enzymes	$ 15,371	100%	$ 15,733	100%	$ (362)	(2)%
BioPharma	13	*%	150	*%	(137)	(91)%
	$ 15,384	100%	$ 15,883	100%	$ (499)	(3)%

* Less than 1%

In 2006, we began to focus significant efforts on our BioEnergy Business. To this end, in October 2006, Dyadic entered into a securities purchase agreement (the "Abengoa Securities Purchase Agreement") and Dyadic-Florida entered into a non-exclusive Research and Development Agreement with Abengoa Bioenergy R&D, Inc. ("Abengoa"), a subsidiary of Abengoa S.A., pertaining to the conduct of a research and development ("R&D") program to be completed over a period of up to three and one-half years, under which the Company will seek to apply its proprietary technologies to the development of cost-effective enzyme mixtures and related processing and manufacturing technologies for commercial application in Abengoa's bioethanol (cellulosic ethanol) production process (the "R&D Agreement").

Under the terms of the Abengoa Securities Purchase Agreement, Abengoa paid the Company $10,000,000 for which it was issued 2,136,752 shares of Dyadic Common Stock at $4.68 per share (the closing share price on October 25, 2006, as reported on the American Stock Exchange). The Company will use the proceeds from this transaction to fund the performance of its R&D obligations under the R&D Agreement over a three and a half year period, under which it will seek to apply its proprietary technologies to the development of one or more enzyme mixtures and related processing and manufacturing technologies customized to Abengoa's proprietary biomass substrates. The R&D Agreement contemplates that the Company will perform both (i) research of general application to the cellulosic ethanol field furthering the Company's extensive research & development and large-scale manufacturing technologies for producing large volumes of low cost cellulases, xylanases and other hemicellulases and (ii) research of specific applications for the achievement of the goals of Abengoa's R&D Program to develop an economically viable commercial process for the production of large volumes of effective, low cost enzyme mixtures for the proprietary biomass substrates of specific interest to Abengoa. Accordingly, the Company expects to continue to incur significant R&D costs over the next several years.

For accounting purposes, the $10,000,000 received under the Abengoa Securities Purchase Agreement has been recorded as deferred research and development obligation, and will be amortized to sales as the R&D expenses described above are incurred. For further information regarding the accounting treatment, see Note 1, Organization and Operations **-** *Capital Raising Activities*, in our notes to consolidated financial statements.

Cost of Goods Sold

For the year ended December 31, 2006, cost of goods sold was approximately $11,345,000, or 73.7% of net sales, as compared to approximately $12,857,000, or 80.9% of net sales, for the year ended December 31, 2005, a decrease of approximately $1,512,000. This decrease in cost of goods sold was primarily the result of the shift to higher margin product sales as well as the decrease in total net sales, which in the aggregate, accounted for approximately $1,140,000 of the decrease. The increase in sales of higher margin products allows the Company to sell fewer products with higher margins and therefore reduces the cost of the products sold. Additionally, an inventory reserve increase of approximately $354,000 charged to cost of sales in 2005 and a decrease of the reserve in 2006 of approximately $55,000 was netted against cost of sales. This total change in reserves accounts for $409,000 of the decrease in cost of goods sold year over year.

Gross Profit

For the year ended December 31, 2006, gross profit was approximately $4,039,000, or 26.3% of net sales, as compared to approximately $3,026,000, or 19.1% of net sales, for the year ended December 31, 2005, representing an increase of approximately $1,013,000. The 33.5% increase in gross profit and gross profit percentage is due to the combination of the increase in net sales of higher margin products and the cumulative changes in the inventory reserve, which are described above. It is the Company's goal to develop products, or sell existing products, for markets in which gross profits can be improved. We believe we are making significant progress in our efforts to create a line of higher profit-margined products by developing better products using our technologies and by applying existing products to new markets. Nonetheless, there can be no assurance that our efforts will successfully lead to improved gross profits in the future.

Operating Expenses

Research and Development

For the year ended December 31, 2006, research and development expenses, or R&D, were approximately $4,237,000, or 27.5% of net sales, as compared to approximately $4,655,000, or 29.3% of net sales for the year ended December 31, 2005, representing a decrease of approximately $418,000. The Company continued its R&D efforts in 2006, working on such projects as the annotation currently being performed in collaboration with Scripps-Florida whereby Dyadic intends to further improve its capabilities for production of therapeutics and other foreign proteins in C1. The decrease of approximately $418,000 was primarily a result of the decrease in depreciation expense of approximately $379,000 on the screening system equipment, which was fully depreciated in 2005.

Sales and Marketing

For the year ended December 31, 2006, sales and marketing expenses were approximately $3,417,000, or 22.2% of net sales, compared to approximately $2,809,000, or 17.7% for the year ended December 31, 2005, representing an increase of approximately $608,000. This increase is attributable to several factors, including an increase in salaries and wages of approximately $162,000 due to the addition of nine sales employees including a Vice President - Pulp and Paper, in the latter half of 2005. This has resulted in increased commission, travel and entertainment costs of approximately $172,000. These additions are a part of the investments both in personnel and other initiatives we will continue to make to expand our sales, marketing and product development efforts. The increase is also attributable to samples and supplies expenses of approximately $77,000 incurred for new and ongoing pulp & paper trials. Additionally, approximately $68,000 of non-cash share-based compensation expense was recognized for stock options granted in 2006 under the provisions of FAS No. 123(R).

General and Administrative

For the year ended December 31, 2006, general and administrative expenses were approximately $7,149,000, or 46.5% of net sales, compared to approximately $5,565,000, or 35% of net sales for the year ended December 31, 2005, representing an increase of approximately $1,584,000. Of this increase approximately $554,000 is attributable to non-cash share-based compensation expense recognized under FAS No. 123(R). Accrued employee bonuses and increased salaries and wages (including recruitment fees) relating to the addition of Dr. Glenn Nedwin, President of the BioPharma Business, Chief Scientific Officer and member of the board, accounted for approximately $651,000 of the increase. The remaining increase is due to increased professional fees of approximately $295,000 related to accounting, legal and other service related expenses due to various agreements that were executed in 2006.

Foreign Currency Exchange Gain, Net

For the years ended December 31, 2006 and 2005, the Company incurred net foreign currency exchange gains of approximately $29,000 and $17,000, respectively, representing an increase of approximately $12,000. The increase is primarily a result of the settlement of a portion of the VAT receivable, which occurred in the latter half of 2006 and resulted in a net gain due to the increase in the value of the Polish PLN. A large portion of our business is transacted with foreign customers and vendors in foreign currency denominations. Accordingly, fluctuations in foreign currency exchange rates, primarily relating to the Euro and PLN, can greatly impact the amount of foreign currency gains (losses) we recognize in future periods relating to these transactions. We do not, and have no current plans to, engage in foreign currency exchange hedging transactions.

Other Income (Expense)

Interest Expense

For the year ended December 31, 2006, interest expense was approximately $594,000 as compared to approximately $711,000 for the year ended December 31, 2005, representing a decrease of approximately $117,000. The decrease is primarily the result of a reduction in the interest payable related to the convertible stockholders notes payable of approximately $63,000, which were converted to common stock on May 1, 2006. In addition, a reduction in the amortization of the beneficial conversion feature of approximately $46,000 related to the Bridge Loan as a result of the new amortization period from the extension of the Loan's maturity due date.

Investment Income

For the year ended December 31, 2006, interest income was approximately $505,000 as compared to approximately $249,000 for the year ended December 31, 2005, representing an increase of approximately $256,000. Interest income increased beginning in the fourth quarter of 2006 due to the proceeds from the agreement with Abengoa of approximately $10,000,000 and the proceeds from the private placement offering completed in early December 2006 of approximately $12,100,000.

Provision for Income Taxes

We have no provision for U.S. income taxes as we have incurred operating losses in all periods presented and provide full valuation allowances against the resulting tax benefits. For the year ended December 31, 2006, we had a foreign income tax provision of approximately $63,000 compared to approximately $64,000 for the year ended December 31, 2005. Our Asian subsidiary operates in Hong Kong. We also have operations in Poland and The Netherlands. Our Asian subsidiary and, to a lesser extent, our Polish subsidiary generate profits that are taxable in their local jurisdictions.

Net Loss

For the year ended December 31, 2006, the Company's net loss was approximately $10,882,000, compared to a net loss of approximately $10,515,000 for the year ended December 31, 2005. This increase in net loss was due primarily to increases in operating expenses, of which approximately $788,000 is attributable to non-cash share-based compensation expense that was recognized for stock options granted in 2006 under the provisions of FAS No. 123(R) as well as decreased sales, as discussed above. We believe that we will continue to incur net losses in the near term future primarily because of our planned levels of research and development and additional general and administrative expenditures that will be necessary to grow the Bioenergy, Enzyme and BioPharma Businesses.

Non-Cash, Share-Based Compensation Charges

In January 2006 we adopted Financial Accounting Standards Board Statement ("FASB"), Statement of Accounting Standard ("SFAS") No. 123(R), Share-Based Payment, which requires all share-based payments to employees and non-employee directors, including stock option grants, to be recognized in the consolidated statement of operations based on their fair values. Pro forma disclosure, which we previously used, is no longer an alternative.

Prior to January 1, 2006, we accounted for share-based employee compensation plans using the intrinsic value method of accounting in accordance with Accounting Principles Board Opinion, or APB, No. 25, *Accounting for Stock Issued to Employees* (APB 25), and its related interpretations. Under the provisions of APB 25, no compensation expense was recognized when stock options were granted with exercise prices equal to or greater than market value on the date of grant.

We recognized non-cash share-based compensation expense for our share-based awards of approximately $788,000 and $77,000 for the years ended December 31, 2006 and 2005, respectively. These charges had no impact on the Company's reported cash flows. Total non-cash share-based compensation expense was allocated among the following expense categories:

	Year Ended December 31	
	2006	2005
General and administrative	$ 592,000	$ 58,000
Research and development	89,000	19,000
Cost of goods sold	32,000	--
Selling and marketing	75,000	--
	$ 788,000	$ 77,000

Under the modified prospective method of transition under SFAS 123(R), we are not required to restate our prior period financial statements to reflect expensing of non-cash share-based compensation under the new standard. Therefore, the results for the year ended December 31, 2006 are not comparable to the prior year.

On December 15, 2005, our Board of Directors approved the acceleration of vesting for the unvested portion of all outstanding stock options awarded to employee and non-employee directors of the Company from May 2001 to December 15, 2005 under the 2001 Equity Plan, as amended. While we typically issue options that vest equally over four years, as a result of this vesting acceleration, stock options to purchase approximately 1,200,000 shares of our common stock, of which approximately 600,000 were then held by the Company's executive officers and non-employee directors, became immediately exercisable. The exercise prices of the affected stock options ranged from $1.90 to $5.93 and the closing price of our common stock on December 15, 2005, was $1.75.

The purpose of the accelerated vesting was to provide a non-cash benefit to Dyadic's employees and to eliminate future compensation expense we would otherwise recognize in our consolidated statements of operations with respect to these accelerated options upon the adoption of SFAS 123(R). The estimated future compensation expense associated with these accelerated options that would have been recognized in our consolidated statements of operations upon implementation of SFAS 123(R) is approximately $1,300,000. All option grants made on and after January 1, 2006 are accounted for in accordance with SFAS 123(R).

Liquidity and Capital Resources

Capital Raising Activities

Since inception, the Company has financed operations primarily with proceeds from the sales of the products from its Enzyme Business, external borrowings, borrowings from its stockholders and sales of preferred and common equity securities.

In July 2004, we completed a private offering of our common and preferred equity securities, and raised gross proceeds of $4,700,000. The equity securities were offered as an Investment Unit, with each unit consisting of two shares of common stock and one share of Series B Preferred Stock, at a price of $10 per unit. We used $1,500,000 of the proceeds from this offering to redeem all outstanding shares of Series A Preferred. After giving effect to the automatic conversion of the Series B Preferred Stock, a total of 1,422,099 shares of common stock were issued in connection with the offering. As we completed an additional private offering of our common shares pursuant to the Private Offering Memorandum described below, we granted the purchasers of these Investment Units warrants to acquire a total of 711,050 shares of our common stock at $5.50 per share.

In November 2004, in accordance with Subscription Agreements and a Private Offering Memorandum (the October Offering) dated October 2004, we sold 7,629,204 Investment Units, realizing gross proceeds of $25,405,249. An Investment Unit consists of one share of our common stock and one five-year callable warrant to purchase one share of our common stock at $5.50 per share for every two Investment Units purchased. Accordingly, 3,814,602 warrants to purchase our common stock were issued to purchasers in the October Offering. Concurrently, we issued 247,730 warrants to purchase our common stock at $5.50 per share and 495,460 warrants to purchase our common stock at $3.33 per share, both to placement agents in the October Offering.

We incurred $2,727,573 of costs related to the October Offering and the Merger, including the subsequent registration with the Securities and Exchange Commission of our shares issued in the Merger and the October Offering. These costs are included as a reduction of additional paid-in capital.

On October 26, 2006, we entered into the Abengoa Securities Purchase Agreement. Also on October 26, 2006, Dyadic-Florida entered into the R&D Agreement with Abengoa pertaining to the conduct of a research and development ("R&D") program to be completed over a period of up to three and one-half years, under which Dyadic-Florida will seek to apply its proprietary technologies to the development of cost-effective enzyme mixtures and related processing and manufacturing technologies for commercial application in Abengoa's bioethanol (cellulosic ethanol) production process.

Under the terms of the Abengoa Securities Purchase Agreement, Abengoa paid us $10,000,000, for which it was issued 2,136,752 shares of our common stock at $4.68 per share (the closing share price on October 25, 2006, as reported on the American Stock Exchange. We completed this transaction on November 8, 2006. Under certain circumstances, as described below, we may have to issue additional Dyadic securities to Abengoa. As of December 31, 2006, net proceeds of approximately $9,998,000 are recorded as deferred research and development obligation in the accompanying consolidated financial statements and will be amortized to income over the three and one half year contractual period, as the expenses associated with the R&D program described above are incurred. We will use these net proceeds to fund the completion of the R&D services we are required to furnish Abengoa under our R&D Agreement with Abengoa.

If within six months following the date of closing we have not entered into a specified type of transaction involving the sale of our securities totaling at least $20,000,000 in gross proceeds, then Abengoa is entitled to receive three-year warrants to purchase 427,351 shares at an exercise price of $5.85. If the sale of securities totaling at least $20,000,000 is at a price lower than $4.68 per share, Abengoa is entitled to have additional shares issued to them so that their investment is at the same price. If the sale of securities includes warrants, Abengoa's pro rata warrant coverage and other warrant terms are to be the same as those in the securities transaction rather than the warrant terms discussed above.

On November 17, 2006, we entered into a securities purchase agreement (the "Securities Purchase Agreement") with certain investors to purchase in a private placement 2,787,000 shares of our common stock at a price of $4.68 per share and warrants to purchase up to 557,400 shares of our common stock at an exercise price of $6.33 per share for gross proceeds of $13,043,160. We completed this private placement on December 1, 2006. Cowen and Company, LLC acted as the exclusive placement agent for the private placement for which we issued to it warrants to purchase up to 83,610 shares of our common stock at $5.24 per share and warrants to purchase up to 16,722 shares of our common stock at $6.33 per share.

We will use the resulting net proceeds of approximately $12,100,000 to continue development of the Dyadic Platform Technology for applications in the markets targeted by our businesses, with the goal of strengthening our product pipeline and accelerating the commercial launch of new products in pulp and paper, animal feed and other areas, and expanding R&D infrastructure as well as sales and marketing efforts.

Cash Flow

From Operating Activities

As reflected in our consolidated financial statements, we have incurred losses from operations during each of the last two years. Net cash provided by operating activities was approximately $791,000 in 2006 and net cash used in operating activities was approximately $7,818,000 in 2005. The net cash provided by operating activities of approximately $791,000 is a result of the receipt of approximately $9,998,000 of proceeds from the Abengoa Securities Purchase Agreement (see *Capital Raising Activities,* above*),* which is recorded as deferred research and development obligation in the accompanying consolidated balance sheet.

From Investing Activities

For the year ended December 31, 2006, our net cash used in investing activities was approximately $860,000 as compared to approximately $445,000 for the year ended December 31, 2005. This increase of approximately $415,000 is mainly due to the $375,000 payment to the former minority shareholders of our Asian subsidiary as part of a purchase and settlement agreement (see Notes 7 and 8 to the accompanying consolidated financial statements). The increase was also attributable to the purchase of manufacturing equipment located at our contract manufacturer in Poland as well as asset additions due to the expansion of the Jupiter, Florida office.

From Financing Activities

For the year ended December 31, 2006, net cash provided by financing activities was approximately $18,992,000. This amount is primarily due to cash received from a private placement resulting in net proceeds of approximately $12,088,000 and approximately $6,901,000 in proceeds from the exercises of the following instruments: (i) warrants to purchase an aggregate of 495,460 shares of our common stock, at an exercise price of $3.33 per share, (ii) warrants to purchase an aggregate of 709,664 shares of our common stock for an exercise price of $5.50 per share, (iii) stock options to purchase an aggregate of 274,950 shares of our common stock, granted under the our 2001 Equity Plan, with exercise prices ranging from $2.08 to $4.50 per share, and (iv) stock options to purchase an aggregate of 65,000 shares of common stock, granted prior to our 2001 Equity Plan, with an exercise price of $4.50 per share.

During the year ended December 31, 2005, our net cash used in financing activities was approximately $98,000 for issuance costs related to the October 2004 private offering.

Changes in Cash Positions

We experienced net increases in cash and cash equivalents of approximately $18,923,000 in 2006 primarily from financing activities described above as compared to a decrease of $8,361,000 in 2005 due to the consumption during 2005 of the cash received from our 2004 capital raising activities primarily to support our operating activities.

Financial Condition and Liquidity at December 31, 2006

Our 2005 and 2006 net losses, when combined with losses incurred through December 31, 2004, resulted in an accumulated deficit of approximately $44,890,000. As of December 31, 2006, stockholders' equity was approximately $28,189,000, an increase of approximately $12,917,000 over December 31, 2005. The increase is primarily due to the issuance of our common stock for the private placement and the warrant and stock option exercises described above. As of December 31, 2006, unused proceeds of approximately $9,998,000 from the Abengoa Securities Purchase Agreement are recorded as deferred research and development obligation in the accompanying consolidated financial statements and will be amortized to income over the three and one half year contractual period, as the expenses associated with the R&D program described above are incurred. The costs incurred in connection with the Abengoa Securities Purchase Agreement are included in other assets at December 31, 2006 and will be amortized in relation to the revenue recognized under the deferred research and development obligation.

We had a total of approximately $31,073,000 in cash and cash equivalents as of December 31, 2006 and working capital was $36,660,000.

The following table summarizes our long-term contractual obligations as of December 31, 2006:

(In thousands)	Payments Due By Period					
Contractual Obligations	**Total**	**2007**	**2008**	**2009**	**2010**	**Thereafter**
Operating leases	$ 806	$ 385	$ 81	$ 75	$ 66	$ 199
Manufacturing agreement	449	337	112	--	--	--
Additional expansion costs	935	364	139	139	139	154
Note payable to shareholder	2,379	--	--	2,379	--	--
Total contractual obligations	$ 4,559	$ 1,086	$ 332	$ 2,593	$ 205	$ 353

Based upon the current status of our research and development and operating needs, we believe that our existing cash and cash equivalents will be adequate to satisfy our needs for at least the next 12 months and beyond. However, our actual capital requirements will depend on many factors, including those factors potentially impacting our financial condition as discussed in “Risk Factors That May Affect Future Results”.

Our Commercial Land Purchase and Sale Agreement obligates us to commence development of the land that we acquired within two (2) years of the closing (in May 2007); however, it is not the Company’s intention to use its own funds to develop this property, therefore the Company is considering such options as a joint venture or other arrangement to accomplish the development of the Site. The Company is evaluating the advantages and disadvantages of Site development relative to their impact on Dyadic’s future office and R&D needs and cash resources, and is also considering other alternatives to optimize the asset value of the Site at this time.

We have employment agreements with several officers and key employees of the Company, the material terms of which are described in Note 10 to our consolidated financial statements included in this report.

Funding of Future Operations

We believe that our operating losses will continue in 2007. In addition, our cash needs to fund our future operating loses will be substantial. We believe that we will have sufficient capital to fund our operations and meet our obligations through year end 2007 and beyond. Dyadic has established a number of flexible partnerships in the areas of manufacturing and research and development, enabling us to adjust spending in those areas as necessary, to achieve the objectives of our business plan, and manage both our resources and cash utilization rate. However, it is possible that we may seek additional financing. We may raise additional funds through public or private financings, collaborative relationships, licensing or selling of certain technologies or other arrangements. Additional funding, if sought, may not be available at all, or may not be available on terms favorable to us. Further, any additional equity financing may be dilutive to stockholders, and debt financing, if available, may involve restrictive covenants. Our failure to raise capital when needed may harm our business, operating results and financial condition.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions and select accounting policies that affect the amounts reported in our consolidated financial statements and the accompanying notes. Actual results could significantly differ from those estimates. We have identified the following policies and related estimates as critical to our business operations and the understanding of our results of operations. A description of these critical accounting policies and a discussion of the significant estimates and judgments associated with these policies are set forth below. The impact of and any associated risks related to these policies on our business operations are also discussed throughout Management's Discussion and Analysis or Plan of Operation.

Foreign Operations

We have significant operations and sales generated in foreign countries. Sales derived from foreign customers accounted for approximately 90% and 91% of our total revenues in 2006 and 2005, respectively. Our Asian subsidiary is located in Hong Kong, and we have two other subsidiaries, one located in Poland and one located in The Netherlands. Estimates relating to our inventory valuation, receivable allowances, possible impairments to goodwill (which relates to our Asian subsidiary), and long-lived assets could be significantly impacted by international events.

Share-based Compensation

Effective January 1, 2006, we adopted the provisions of Statement of Financial Accounting Standards ("SFAS") SFAS No. 123(R), *Share-Based Payment* ("SFAS 123(R)"), which revises SFAS No. 123, *Accounting for Stock-Based Compensation* and supersedes Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees.* SFAS 123(R) requires that companies recognize non-cash compensation expense associated with stock option grants and other equity instruments to employees in the financial statements. That expense is recognized in the consolidated statement of operations over the period during which an employee is required to provide service in exchange for the reward. Non-Cash share-based compensation expense is recorded in research and development expense, sales and marketing, or general and administrative expense depending on the employee's job function. SFAS 123(R) applies to all grants after the effective date and to the unvested portion of stock options outstanding as of the effective date. The pro forma disclosures previously permitted under SFAS 123 are no longer an alternative to financial statement recognition. We are using the modified-prospective method and the Black-Scholes valuation model for valuing the share-based payments. We will continue to account for transactions in which services are received in exchange for equity instruments based on the fair value of such services received from non-employees, in accordance with SFAS 123 and EITF Issue No. 96-18, *Accounting for Equity Instruments that Are Issued to Other than Employees for Acquiring, or in Conjunction with Selling, Goods or Services.*

We have issued warrants and options to both employees and to non-employees for services and in connection with obtaining debt in the past several years. We have recognized significant expense relating to the issuance of these equity instruments. In 2004, approximately $897,000 was recorded related to the modification of warrants issued in connection with debt, which is being amortized through the debt maturity date of January 1, 2009. Of this amount, approximately $325,000 and $371,000 was recognized as interest expense in the accompanying consolidated statement of operations for the year ended December 31, 2006 and 2005, respectively. Amortization of stock compensation expense of approximately $788,000 and $77,000 was also recognized in 2006 and 2005, respectively, related to stock options issued to consultants, the original cost of which is being amortized over the respective service periods.

As of December 31, 2006, there was approximately $2,013,000 of total unrecognized non-cash share-based compensation expense related to nonvested stock options granted under our 2001 Equity Incentive Plan and our 2006 Stock Option Plan. This expense is expected to be recognized over a weighted-average period of 2.9 years.

Long-Lived Assets

We review our long-lived assets, including fixed assets that are held and used for our operations, for impairments whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable, as required by Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144). If such an event or change in circumstances is present, we will estimate the undiscounted future cash flows, less the future outflows necessary to obtain these inflows, expected to result from the use of the asset and its eventual disposition. If the sum of the undiscounted future cash flows is less than the carrying amount of the related assets, we will recognize an impairment loss to the extent the carrying value exceeds the fair value. Our judgments related to the expected useful lives of long-lived assets and our ability to realize undiscounted cash flows in excess of the carrying amounts of the assets are affected by factors such as the ongoing maintenance and improvements of the assets, changes in domestic and foreign economic conditions and changes in operating performance. While we have not to date been required to recognize an impairment on long-lived assets, as we make future assessments of the ongoing expected cash flows and carrying amounts of our long-lived assets, these factors could cause us to realize material impairment charges.

Evaluation of Potential Goodwill Impairment

In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142), we were required to perform an annual impairment review of the goodwill which is associated with our Asian subsidiary. This test involved the use of estimates to determine the estimated fair value of our Asian subsidiary and the comparison of that estimated fair value to the carrying value of the reporting unit. There are significant assumptions used in this impairment test, such as estimated cash flows, discount rates of return and terminal values. Several factors can change these assumptions, such as economic conditions or instability in foreign governments, among other things. Our estimates of the fair value indicated that it exceeded the carrying value of the reporting unit. Accordingly, no goodwill impairment charge was recorded. If the estimate of the fair value of the reporting unit is less than the carrying value at any future measurement dates, we may be required to record a goodwill impairment charge.

Income Taxes

We have recorded deferred tax assets relating to net operating loss carry forwards for United States federal tax purposes, inventories, depreciation and amortization, and accounts receivable allowance, among other items. We record a valuation allowance equal to 100% of the carrying value of our net deferred tax assets to reduce our deferred tax assets to the amount that is more likely than not to be realized. While we have considered future taxable income and ongoing tax planning strategies in assessing the need for the valuation allowance, in the event we were to determine that we would be able to realize our deferred tax assets in the future in excess of their net recorded amounts, a resulting reduction of the valuation allowance would increase our income in the period such determination was made. As of December 31, 2006, we had $15,384,049 in gross deferred tax assets, which were fully offset by a valuation allowance.

We have net operating loss carryforwards of approximately $26.2 million for United States federal income tax purposes that will begin to expire in 2021. The amounts of and benefits from net operating losses carried forward may be impaired or limited in certain circumstances. Events which may cause limitations in the amount of net operating losses that we may utilize in any one year include, but are not limited to, a cumulative ownership change of more than 50% over a three-year period.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. Our accounting for doubtful accounts contains uncertainty because management must use judgment to assess the collectibility of these accounts. When preparing these estimates, management considers a number of factors, including the aging of a customer's account, past transactions with customers, creditworthiness of specific customers, historical trends and other information. We review our accounts receivable reserve policy periodically, based on current risks, trends and changes in industry conditions. The allowance for doubtful accounts was approximately $240,000 at December 31, 2006. Although we believe this allowance is sufficient, if the financial condition of our customers were to unexpectedly deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required that could materially impact our consolidated financial statements. Concentrations of credit risk can impact this risk considerably. In 2006, there was one customer that accounted for 10% of net sales, while in 2005 there were two customers that accounted for 10% each of net sales. There were two customers at December 31, 2006, whose trade receivable balances equaled or exceeded 5% of total receivables, representing approximately 17% and 6%, respectively, of total accounts receivable. The loss of business from one or a combination of our significant customers could adversely affect our

operations. Because we perform our analysis and establish reserves on a customer-by-customer basis, we do not record a general reserve. However, if we were to apply a general reserve of 1% to our unreserved accounts receivable balance, it would increase our allowance for doubtful accounts as of December 31, 2006 and our bad debt expense for the year then ended by approximately $28,000.

Inventory Valuation

Inventory, representing approximately 13% of our consolidated assets at December 31, 2006, primarily consists of finished goods including industrial enzymes used in the industrial, chemical and agricultural markets and is stated at the lower of cost or market using the average cost method. Finished goods consist of raw materials and manufacturing costs, substantially all of which are incurred pursuant to agreements with independent manufacturers. As part of the valuation process, excess, slow-moving and damaged inventories are reduced to their estimated net realizable value. Our accounting for excess, slow-moving and damaged inventory contains uncertainty because management must use judgment to estimate when the inventory will be sold and the quantities and prices at which the inventory will be sold in the normal course of business. We review our inventory reserve policy periodically, based on current risks, trends and changes in industry conditions. We also maintain a provision for estimated inventory shrinkage and conduct periodic physical inventories to calculate actual shrinkage and inventory on hand. When preparing these estimates, management considers historical results, inventory levels and current operating trends. We have established valuation reserves associated with excess, slow-moving and damaged inventory and estimated shrinkage reserves of approximately $649,000 at December 31, 2006. These estimates can be affected by a number of factors, including general economic conditions and other factors affecting demand for our inventory. In the event our estimates differ from actual results, the allowance for excess, slow-moving and damaged inventories may be adjusted and could materially impact our consolidated financial statements.

Revenue Recognition

Revenue is recognized when earned. Dyadic recognizes revenues in accordance with Staff Accounting Bulletin (SAB) No 104, *Revenue Recognition in Financial Statements* (SAB 104). SAB 104 sets forth four basic criteria that must be met before SEC registrants can recognize revenue. These criteria are: persuasive evidence of an arrangement must exist; delivery had to have taken place or services had to have been rendered; the seller's price to the buyer should be fixed or determinable; and collectibility of the receivable should be reasonably assured. Sales not meeting any of the aforementioned criteria are deferred. Dyadic recognizes revenue when title passes to the customer, based upon the specified freight terms for the respective sale. Sales are comprised of gross revenues less provisions for expected customer returns, if any. Reserves for estimated returns and inventory credits are established by the Company, if necessary, concurrently with the recognition of revenue. The amounts of reserves are established based upon consideration of a variety of factors, including estimates based on historical returns.

Revenues under the R&D agreement with Abengoa are recognized in accordance with SAB 104 and Emerging Issues Task Force (“EITF”) Issue No. 99-19, *Reporting Gross Revenue as a Principal vs. Net as an Agent*. According to the criteria established by EITF Issue No. 99-19, Dyadic is the primary obligor of the agreement because it is responsible for the selection, negotiation, contracting and payment of the third party suppliers. In addition, any liabilities resulting from the agreement are the responsibility of Dyadic. Research and development revenues are recognized, on a gross basis, as activities are performed under the terms of the related agreement. As of December 31, 2006, we had approximately $9,998,000 in deferred research and development obligation which was related to the R&D agreement.

ITEM 7. FINANCIAL STATEMENTS.

The audited consolidated financial statements and related footnotes of Dyadic International, Inc. can be found beginning with the Index to Consolidated Financial Statements following Part III of this Annual Report on page F-1.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES.

None.

ITEM 8A. CONTROLS AND PROCEDURES.

(a) As required by Rule 13a-15 under the Securities Exchange Act of 1934, as of the end of the period covered by this Annual Report, the Company carried out an evaluation under the supervision and with the participation of the Company’s management, including the Company’s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company’s disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures were effective as of December 31, 2006.

(b) There were no changes in the Company's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 and 15d-15 that occurred during the fiscal quarter ended December 31, 2006 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 8B. OTHER INFORMATION.

None.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS, CONTROL PERSONS AND CORPORATE GOVERNANCE; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT.

The following table sets forth the name, age and position of each of our executive officers, directors and key employees as of March 28, 2007.

Name	Age	Position	Director Class	Term Expiring
Executive Officers:				
Mark A. Emalfarb	51	Chairman of the Board, President and Chief Executive Officer	II	2007
Glenn E. Nedwin, Ph.D	51	Chief Scientific Officer and Executive Vice President, President, BioPharma Business and Director	II	2007
Wayne Moor	55	Chief Financial Officer and Vice President	--	--
Kent M. Sproat	60	Executive Vice President, Manufacturing and Special Projects	--	--
Alexander (Sasha) Bondar	35	Vice President, Strategy & Corporate Development	--	--
Independent Directors:				
Richard J. Berman	64	Director	I	2008
Robert B. Shapiro	68	Director	I	2008
Stephen J. Warner	67	Director	II	2009
Harry Z. Rosengart	57	Director	II	2009
Key Employees:				
Ratnesh (Ray) Chandra	59	Senior Vice President, Marketing-Biotechnology Systems	--	--
Daniel Michalopoulos, Ph.D.	54	Vice President, Marketing, Enzymes	--	--
Charles W. Kling IV	50	Vice President, Sales, Enzymes	--	--

Mark A. Emalfarb has been on our Board of Directors and been our Chairman, President and Chief Executive Officer since October 2004 and has been the President, Chief Executive Officer and Chairman of the Board of Directors of our wholly-owned subsidiary Dyadic International (USA), Inc., a Florida corporation ("Dyadic-Florida"), since its inception. Since founding Dyadic-Florida in 1979, Mr. Emalfarb has successfully led and managed the evolution of Dyadic-Florida—from its origins as a pioneer and leader in providing ingredients used in stone-washing of blue jeans—to the discovery, development, manufacturing and commercialization of specialty enzymes used in various industrial applications and the development of the Dyadic Platform Technology and our other proprietary technologies. Mr. Emalfarb is an inventor of over 25 U.S. and foreign biotechnology patents and patent applications resulting from discoveries related to Dyadic-Florida's C1 organism, and has been the architect behind its formation of several strategic research and development, manufacturing and marketing relationships with U.S. and international partners. Mr. Emalfarb earned a B.A. degree from the University of Iowa.

Glenn E. Nedwin, Ph.D. has been on our Board of Directors and our Chief Scientific Officer and Executive Vice President and President of our BioPharma Business since March 2006. Before joining us, Dr. Nedwin co-founded and served as President of Novozymes, Inc. since 1991. At Novozymes, Inc., a Davis, California-based research & development subsidiary of Novozymes A/S (CSE:NZYMb.CO), Denmark, a global leader in enzymes and microorganisms with over $1 billion in worldwide revenues, Dr. Nedwin was responsible for all scientific, financial and administrative activities, and was a member of Novozymes A/S global R&D management team and its biosolutions strategy group, and was involved in technology/product licensing. From 1989 to 1991, Dr. Nedwin served as Vice President of Corporate Development, Xoma Corporation (NASDAQ:XOMA), a biotechnology company based in Berkeley, California. Earlier, he was Vice President, Business Development and co-founder of Ideon Corporation, Redwood City, California, and Senior Research Scientist and co-founder

of Molecular Therapeutic, Inc. (now Bayer Pharmaceuticals Corporation), West Haven, Connecticut. Dr. Nedwin received his Bachelor of Science degree in Biochemistry from the State University of New York at Buffalo and his Ph.D. in Biochemistry from the University of California, Riverside. Dr. Nedwin did his postdoctoral fellowship in molecular biology at Genentech, Inc. Dr. Nedwin also holds an M.S. in the Management of Technology from the Massachusetts Institute of Technology and is currently a Co-Editor of the Industrial Biotechnology Journal.

Wayne Moor has been our Chief Financial Officer and Vice President since January 2005. During the past five years Mr. Moor has served as a Chief Financial Officer of several public companies, and has over 25 years experience in real estate and hotel operations, asset management, debt restructurings, recapitalizations and developing strategic turnaround plans. From October 2002 through December 2004, Mr. Moor served as the Senior Vice President, Treasurer and Chief Financial Officer of Boca Resorts, Inc, a hospitality company. From October 2001 to October 2002, Mr. Moor was Senior Vice President and Chief Financial Officer for ANC, the parent company of Alamo and National rental car companies. In November 2001, following the terrorist attacks of September 11, 2001, ANC and its U.S. operating subsidiaries voluntarily filed petitions for reorganization under Chapter 11 of the U.S. Bankruptcy Code in Wilmington, Delaware. From September 2000 to October 2001, Mr. Moor was Senior Vice President and Chief Financial Officer for Gerald Stevens, Inc., a floral products marketer and retailer. In April 2001, Gerald Stevens, Inc. and certain operating subsidiaries voluntarily filed petitions for reorganization under Chapter 11 of the U.S. Bankruptcy Code in Miami, Florida. From June 1997 to January 2000, Mr. Moor was Executive Vice President and Chief Financial Officer for US Diagnostic, Inc., an operator of outpatient medical diagnostic imaging and related facilities. Prior to that, Mr. Moor held the position of Chief Financial Officer or Executive Vice President for a number of privately and publicly held financial institutions and real estate operating companies. He began his career in public accounting.

Kent M. Sproat has been our Executive Vice President, Manufacturing and Special Projects responsible for all manufacturing functions of our enzymes business activities since January 2007. Prior to that he served as our Executive Vice President, Enzyme Business from April 2005 through December 2006. Mr. Sproat served as our Vice President, Manufacturing from 1997 through March 2005. Mr. Sproat joined Dyadic-Florida in 1997 from Genencor International, where since 1996 he served as its Elkhart Site Manager. From 1990 to 1996, Mr. Sproat was Vice President, Manufacturing, of Solvay Enzymes, Inc. From 1989 to 1990, he was Director of International Manufacturing of the Enzyme Division of Miles, Inc. Between 1981 and 1990, he served as Plant Manager of Miles' Elkhart, Indiana and Clifton, New Jersey-based enzyme plants. Between 1973 and 1981, Mr. Sproat was a Production Superintendent at Miles' Citric Acid Division; Start Up Manager of Miles' citric acid facility in Brazil; and Production Supervisor and Project Engineer. Mr. Sproat is the recipient of a patent for his design in the purification process of amylases. Mr. Sproat is a chemical engineer with a B.S. degree from Purdue University.

Alexander (Sasha) Bondar has been our Vice President, Strategy & Corporate Development, with primary responsibility for corporate development, organization planning, merger & acquisition opportunities, fund-raising activities and investor and public relations, and secondarily, when requested, for assisting in business development for the Company's BioPharma and Enzyme businesses, since April 2005. Mr. Bondar served as our Executive Director, Business Development from May 2003 through March 2005. Mr. Bondar joined Dyadic-Florida in May 2003 from The Aurora Funds, a venture capital firm based in Research Triangle Park, North Carolina, where he was focused on investing in early stage life sciences companies. Prior to that, from 1996 to 2001, Mr. Bondar served in a variety of management roles at Incyte Genomics, now Incyte Corporation, in Palo Alto, California, and from 1999 to 2001 as Associate Director, Corporate Business Development. From 1997 to 1999, he served as Manager, Pharmacogenomics Business Development, and was a major contributor to the successful launch of Incyte's pharmacogenomics program. From 1996 to 1997, he served as Technical Advisor to the intellectual property group at Incyte, contributing to the creation of the largest portfolio of gene patents in the world. Mr. Bondar holds a B.S. degree in Biotechnology Management from Menlo College and an M.B.A. in Corporate Finance and Health Sector Management from Duke University's Fuqua School of Business.

Richard J. Berman has been on our Board of Directors since in January 2005, and acts as our so-called "Lead Director." In that capacity, he is responsible for meeting regularly with our chairman of the board and chief executive officer to review monthly financials, agenda and minutes of committee meetings and pertinent Board issues, presiding, if requested by the board, as chairman of any of the committees of the board and presiding at any meetings of the independent and non-employee directors. In the last five years, Mr. Berman has served as a professional director and/or officer of about a dozen public and private companies. He is currently CEO of Nexmed, a small public biotech company; Chairman of National Investment Managers, a public company in pension administration and investment management; Chairman of Candidate Resources, a private company delivering HR services over the web, and Chairman of Fortress Technology Systems (homeland security). Mr. Berman is a director of eight public companies: Dyadic International, Inc., Broadcaster, Inc., Internet Commerce Corporation, MediaBay, Inc., NexMed, Inc., National Investment Managers, Advaxis, Inc., and NeoStem, Inc. From 1998 - 2000, he was employed by Internet Commerce Corporation as Chairman and Chief Executive Officer. Previously, Mr. Berman worked at Goldman Sachs; was Senior Vice President of Bankers Trust Company, where he started the M&A and Leveraged Buyout Departments; created the largest battery company in the world by merging Prestolite, General Battery and Exide to form Exide (NYSE); helped create what is now Soho (NYC) by developing five buildings; and advised on over $4 billion of M&A transactions. He is a past Director of the Stern School of Business of NYU where he obtained his B.S. and M.B.A. He also has US and foreign law degrees from Boston College and The Hague Academy of International Law, respectively.

Robert B. Shapiro has been on our Board of Directors since March 2005. During the past six years Mr. Shapiro has served as a member of the Board of Directors of the New York Stock Exchange (on which he still serves), Citigroup, Inc. and Rockwell International, as Chairman of Pharmacia Corporation's Board of Directors and, prior to its merger with Phamacia & Upjohn, as Chairman and Chief Executive Officer of Monsanto Company (1995 through 2001). Prior to becoming the Chairman and Chief Executive Officer of Monsanto, Mr. Shapiro served in various executive capacities with Monsanto from 1985, and with G.D. Searle & Company, a pharmaceutical and healthcare company, first as its general counsel (1979 through 1982), and then as President of its newly formed NutraSweet Group (1982 to 1985). Mr. Shapiro is a 1959 graduate of Harvard College and a 1962 graduate of Columbia University School of Law.

Stephen J. Warner has been on our Board of Directors since October 2004, and a director of Dyadic International (USA), Inc., our wholly-owned subsidiary ("Dyadic-Florida"), since August 15, 2004. Mr. Warner serves as chairman of Maxim TEP, Inc. a private energy company based in Houston, Texas, and Search Energy Solutions, Inc., a private company offering energy savings services for large air conditioning systems based in Palm Beach Gardens, Florida. He also serves as a director of UCT Coatings Inc., a private, metal finishing technology company in Stuart, Florida, and AOI Medical, Inc., a private medical device company in Orlando, Florida. Mr. Warner has over 25 years of venture capital experience. In 1981, Mr. Warner founded Merrill Lynch Venture Capital Inc., a wholly-owned subsidiary of Merrill Lynch & Co. Inc. in New York and served as its President and Chief Executive Officer from 1981 to 1990. Under his leadership, Merrill Lynch Venture Capital managed over $250 million and made over 50 venture capital investments. In 1999, Mr. Warner co-founded, and became Chairman and CEO, of Crossbow Ventures Inc., a private equity fund that invests in early and expansion stage technology companies primarily located in Florida and the Southeast, with over 20 venture capital investments in Florida. Mr. Warner earned a B.S. degree from the Massachusetts Institute of Technology and an MBA from the Wharton School of Business, University of Pennsylvania.

Harry Z. Rosengart has been on our Board of Directors since April 2005. During the past ten years, Mr. Rosengart has served (and currently serves) as the President and Chief Executive Officer of HK & Associates, an investment and consulting firm which provides advice to small and medium-sized life sciences companies. Mr. Rosengart is a founder of several privately held companies, including: LigoChem, Inc., a DNA\RNA and macromolecule bioseparations company founded in 1995, of which he is a former President and Chief Executive Officer and a current member of its Board of Directors; SunPharm Corporation, a polyamine based anti-cancer drug development-stage company founded in 1991, of which he is a former Chief Operating Officer, Chief Financial Officer and member of its Board of Directors; and Syncom Pharmaceuticals, Inc, a contract sales force organization founded in 1991, of which he has had a variety of interim positions and served on its Board of Directors. Between 1981 and 1990, Mr. Rosengart spent almost 10 years as a banker and investment banker with the Chase Manhattan Bank, NA focused on the pharmaceutical and chemical industries. Prior to joining Chase Manhattan Bank, Mr. Rosengart spent over 10 years with several pharmaceutical and multinational chemical companies in various managerial positions. Mr. Rosengart holds a B.S. in Chemical Engineering and an MBA from Rutgers University.

Ratnesh (Ray) Chandra has been our Senior Vice President, Marketing-Biotechnology Systems, responsible for business development for the Company's BioPharma business activities, since April 2005. Mr. Chandra served as our Vice President, Marketing - BioPharma from 2000 through March 2005. Mr. Chandra joined Dyadic-Florida from Genencor International in 2000. He had served at Genencor as the Director, New Business Development since 1993. From 1987 to 1993, he was with Merck & Co. holding the positions of Director, Business/Market Intelligence and Director, Business Systems in their Human Health Marketing Division. From 1976 to 1987, he was with Schering-Plough Corp. in the positions of Director Economic Analysis, Manager Capital Planning and Senior Operations Analyst. Mr. Chandra has an M.B.A. from New York University and an M.S. in engineering from Columbia University.

Daniel Michalopoulos, Ph.D. has been our Vice President, Marketing, Enzymes since January 2007. Prior to that he served as our Vice President, Pulp & Paper from February 2005 through December 2006 and is focused on growing our pulp and paper effort. Prior to joining us, he served as Senior Program Manager for Hercules' Pulp and Paper Division from 1998 to 2005 where he managed a staff of 40 people with an annual budget of $8 million. Prior to that, he served as Research Director at BetzDearborn Pulp and Paper Division and held other research and management positions at Betz PaperChem. Dr. Michalopoulos conducted his post-doctoral work at Rice University, received his Ph.D. in Chemistry from Colorado State University and his B.S. in Chemistry from Lowell Technological Institute.

Charles W. Kling IV has been our Vice President, Sales, Enzymes since January 2007. Prior to that he served as our Vice President of Sales and Marketing - Enzymes from July 2005 through December 2006. Prior to joining us, Mr. Kling served as Group Manager of Hercules, Inc.'s Pulp & Paper division, with full P&L responsibility and management of staff of over 60 people, from 1998 to 2005. Prior to Hercules, from 1990 to 1998, Mr. Kling served as Global Director, Technical Marketing for BetzDearborn Inc.'s Pulp & Paper division. From 1986 to 1990, he was Division Manager, S.D. Warren division of Scott Paper. Prior to that, he served as Production Manager for Buckeye Cellulose, a division of Proctor and Gamble, Inc. Mr. Kling received his B.S. degree in Civil Engineering from University of Alabama.

Section 16(a) Beneficial Ownership Reporting Compliance

To our knowledge, based solely on a review of the copies of such reports furnished to us and representations that no other reports were required, we believe that all Section 16 filing requirements applicable to our officers, directors and 10 percent beneficial owners were complied with during the year ended December 31, 2006, other than a late filing of a Form 3 in April 2006 by our Chief Scientific Officer, Glenn E. Nedwin to report his initial appointment as an executive officer and director in March 2006 and the grant to him of equity-based awards in connection therewith.

Codes of Ethics

Our Board of Directors has adopted a Code of Business Conduct and Ethics that applies to all of our directors, officers and employees, including our principal executive officer, principal financial officer, principal accounting officer or controller and persons performing similar functions. The Code of Business Conduct and Ethics is available at our website at www.dyadic.com.

We intend to satisfy the disclosure requirements under Item 5.05 of Form 8-K regarding an amendment to, or a waiver from, a provision of our Code of Business Conduct and Ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions by posting such information on our website at www.dyadic.com.

Procedures for Stockholders Submitting Director Candidate Recommendations

There have been no material changes to the procedures by which stockholders may recommend nominees to our Board of Directors as described in our definitive Proxy Statement dated April 28, 2006 relating to the 2006 annual stockholders' meeting.

Audit Committee

We have a separately-designated standing audit committee established by and amongst our Board of Directors in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934 for the purpose of overseeing our accounting and financial reporting processes and audits of our consolidated financial statements. Currently, directors Stephen J. Warner, Richard J. Berman and Harry Z. Rosengart are the members of the audit committee. Mr. Berman serves as the chairman of the audit committee.

Audit Committee Financial Expert

The Board of Directors has determined that Mr. Berman is an "audit committee financial expert" as defined in Item 401(d)(5) of Regulation S-B of the Securities Act of 1933. The Board of Directors also has determined that Mr. Berman is independent, as defined by Rule 10A-3 of the Securities Exchange Act of 1934 and the corporate governance listing standards of the American Stock Exchange.

ITEM 10. EXECUTIVE COMPENSATION.

SUMMARY COMPENSATION TABLE

The following table sets forth the total compensation earned, accrued or paid to our Chief Executive Officer and each of our two most highly compensated executive officers who were serving in such capacities as of December 31, 2006, collectively referred to as the "named executive officers."

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All other Compensation ($)	Total ($)
Mark A. Emalfarb Chairman, President and Chief Executive Officer	2006	300,000	75,000(1)	--	--	--	--	23,765(2)	398,765
Wayne Moor Vice President and Chief Financial Officer	2006	231,750	35,000	--	16,711(3)	--	--	--	283,461
Glenn E. Nedwin, Ph. D. Chief Scientific Officer, Executive Vice President, President,BioPharma Business and Director	2006	234,231	95,000	50,000(5)	349,269(4)	--	--	--	728,500

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(1) Mr. Emalfarb's bonus for 2006 has been accrued, and the payment of which has been deferred until such time as the compensation committee and our other independent directors deem it advisable to make such payment. Does not include the payment of cash bonuses previously awarded to Mr. Emalfarb in the amount of $75,000 each, for services rendered in calendar years 2004 and 2005, which had been accrued as an expense by us for those years.

(2) The amount shown for Mr. Emalfarb represents our payment of $9,800 for a life insurance premium for the benefit of Mr. Emalfarb and our payment of $13,965 to Mr. Emalfarb for an automobile allowance.

(3) A stock option grant for 30,000 options was made to Mr. Moor on April 4, 2006 at an exercise price of $4.60 per share and vests four equal annual installments beginning on April 4, 2007. The amount shown was calculated utilizing the provisions of Statement of Financial Accounting Standards No. 123R, "Share-Based Payments" ("SFAS 123R"). See Note 9 of our consolidated financial statements included in our Annual Report on Form 10-KSB for the year ended December 31, 2006 regarding the assumptions underlying the valuation of these option grants under SFAS 123R.

(4) Represents the following two stock options granted to Dr. Nedwin on March 16, 2006 under the then 2001 Equity Compensation Plan in connection with his initial appointment as an executive officer pursuant to the terms of his employment agreement: (i) an option to purchase 445,022 shares of our common stock at an exercise price of $2.96 per share, the fair market value on our common stock on the date of grant (the "time-vested option") and (ii) an option to purchase 667,533 shares of our common stock at an exercise price of $5.92 per share, two times the fair market value of our common stock on the date of grant (the "performance-vested option"). Each stock option agreement is an incentive stock option to the extent permitted by the terms of the 2001 Equity Compensation Plan, and a non-qualified stock option as to the balance of the shares that may be purchased thereunder. The time-vested option becomes exercisable, conditioned upon Dr. Nedwin's continued service as an employee of ours, as to 25% of the underlying shares on each of the next four anniversaries of March 16, 2006, and expires on March 16, 2011, but provides for the complete acceleration of vesting of that option upon a termination of Dr. Nedwin's employment either by us without "cause" or by Dr. Nedwin for "good reason." The performance-vested option becomes exercisable incrementally, conditioned upon Dr. Nedwin's continued service as an employee of ours, based upon the our achievement during the initial period of his employment of various specified performance benchmarks (e.g. the launching of new products, the enhancement of existing products, our entry into corporate and strategic alliances), and expires on March 16, 2011. The amount shown was calculated utilizing the provisions of SFAS 123R. See Note 9 of our consolidated financial statements included in our Annual Report on Form 10-KSB for the year ended December 31, 2006 regarding the assumptions underlying the valuation of these option grants under SFAS 123R.

(5) Represents 11,990 shares of common stock granted to Dr. Nedwin under the then 2001 Equity Compensation Plan in connection with his initial appointment as an executive officer pursuant to the terms of his employment agreement. The shares were fully vested upon grant and valued at $50,000 based on the fair market value of our common stock on the date of grant in accordance with SFAS 123R.

Each of the named executive officers did not receive any other compensation during 2006 except for perquisites and other personal benefits of which the total value did not exceed $10,000.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

The following table sets forth certain information regarding outstanding equity awards held by the named executive officers at December 31, 2006.

Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Awards Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options	Option Exercise Price ($)	Option Expiration Date
Mark A. Emalfarb	--	--	--	--	--
Wayne Moor	277,889	--	--	$ 3.68	01/30/2010
	--	30,000(1)	--	$ 4.60	04/03/2016
Glenn E. Nedwin, Ph.D.	--	445,022(2)	--	$ 2.96	03/15/2011
	33,377(3)	--	634,156(3)	$ 5.92	03/15/2011

(1) The option award granted to Mr. Moor in 2006 vests in four equal annual installments beginning on April 4, 2007.

(2) The option award granted to Dr. Nedwin in 2006 vests in four equal annual installments beginning on March 16, 2007. See note 4 to the above "Summary Compensation Table" for additional information regarding this option award.

(3) During 2006, Dr. Nedwin was granted 667,533 performance options, of which, 33,377 were earned in 2006. The balance of the options may be earned by Dr. Nedwin through December 31, 2008 based upon the achievement of certain performance benchmarks. See note 4 to the above "Summary Compensation Table" for additional information regarding this option award.

Employment Agreements and Potential Payments Upon Termination

In 2001, we entered into an employment agreement with named executive officer Mark A. Emalfarb. The agreement commenced on April 1, 2001, and terminated on March 30, 2004, but renewed for an additional two years because neither party gave written notice 60 days prior to March 30, 2003. In March 2006, the agreement was amended (the "First Amendment") to extend the term of Mr. Emalfarb's employment by one year, from March 30, 2006 to March 30, 2007, and to add an automatic renewal provision for succeeding one year terms unless either party gives the other a notice of non-renewal not less than 90 days prior to the expiration of the then term. The agreement automatically renewed on April 1, 2007, as neither party provided the other party a notice of non-renewal at least 90 days prior to March 30, 2007. The First Amendment makes no other changes to Mr. Emalfarb's employment agreement. The agreement provides for an annual base salary of $300,000 and the payment of an annual bonus (based on goals and objectives to be agreed upon by our Board of Directors and Mr. Emalfarb) for each fiscal year or portion of a fiscal year, including but not limited to research and other business milestones, sales, profitability or cash flow goals. We have agreed to cause the compensation committee to grant Mr. Emalfarb options to the same extent as the compensation committee grants to our other senior executives on the same terms and conditions.

The agreement also provides for the participation in all benefit plans, practices, policies and programs provided by us such as (including, without limitation, reimbursement of business related expenses, vacation, medical, prescription, dental, disability, retirement, salary continuance, employee life insurance, group life insurance, and accidental death and travel accident insurance plans and programs) generally available to our other senior executives, and for other employee benefits, including an annual automobile allowance for approximately $14,000.

If, during the employment period, we terminate Mr. Emalfarb's employment, other than for cause or disability or by reason of Mr. Emalfarb's death or by reason of our failure to renew the employment agreement, or if Mr. Emalfarb terminates employment for good reason, we shall provide Mr. Emalfarb with annual base salary and all benefits received by Mr. Emalfarb as of the date of termination for a period of one year from the date of termination.

In January 2005, we entered into employment an agreement with named executive officer Wayne Moor to become our Chief Financial Officer and a Vice President. The initial term of Mr. Moor's employment is 2 years and 11 months (ending December 31, 2007), with automatic one-year renewals unless either party furnishes the other a notice of non-renewal not less than 90 days prior to the expiration of the then term. Mr. Moor's annual base compensation is 225,000, and he is eligible to earn a bonus each year of up to 40% of his annual base compensation based upon a bonus plan adopted and maintained by the compensation committee for such year.

The employment agreement is terminable on account of Mr. Moor's death or disability, or by us without cause or "for cause." The phrase "for cause" is defined to include a material breach of the employment agreement, acts of disloyalty to us including but not limited to acts of dishonesty or diversion of corporate opportunities, the unauthorized disclosure of our confidential information, or acts determined in good faith by the compensation committee to be detrimental to our interests, provided that Mr. Moor must be afforded an opportunity to have a face-to-face meeting with the compensation committee before any determination is made by it that Mr. Moor was guilty of "for cause" conduct. If Mr. Moor's employment is terminated by us other than "for cause," upon the condition that he furnish us with a full general release, he is entitled to receive a severance benefit of monthly installments in the amount of 1/12th of his then annual base compensation for the lesser of six months or until he has obtained other full or part-time employment as an employee or consultant. Under the employment agreement, we are also obligated to indemnify Mr. Moor to the fullest extent permitted by applicable law. Further, we have agreed to advance expenses he may spend as a result of any proceeding against him as to which he could be indemnified.

In March 2006, we entered into an agreement with Dr. Glenn E. Nedwin to become (i) our Chief Scientific Officer, (ii) an Executive Vice President of us and (iii) the President of the BioPharma Business of our wholly-owned subsidiary, Dyadic International (USA), Inc., a Florida corporation. The initial term of Dr. Nedwin's employment ends December 31, 2008, with automatic one-year renewals unless either party furnishes the other a notice of non-renewal not less than 120 days prior to the expiration of the then term. Dr. Nedwin's annual base salary is $300,000, and he is eligible to earn a bonus each year of up to 25% of his then annual base salary based upon a bonus plan adopted and maintained by the compensation committee for such year.

The employment agreement is terminable on account of Dr. Nedwin's death or disability, by Dr. Nedwin for "good reason", (as defined in the employment agreement), or by us without cause or "for cause" (as defined in the employment agreement). If Dr. Nedwin's employment is terminated by us other than "for cause," upon the condition that he furnish us with a full general release, he is entitled to receive a severance benefit of monthly installments in the amount of 1/12th of his then annual base salary for the eighteen (18) month period following that termination (the severance period"), provided that the amount of his severance benefits are reduced on a dollar-for-dollar basis by the amount of any remuneration he may earn during the severance period for the performance of services as an employee, or independent contractor or agent.

Under the employment agreement, we are also obligated to indemnify Dr. Nedwin to the fullest extent permitted by applicable law. Further, we have agreed to advance expenses Dr. Nedwin may spend as a result of any proceeding against him as to which he could be indemnified.

DIRECTOR COMPENSATION

The following table sets forth the cash fees and option awards earned, paid or awarded to each of our directors during the year ended December 31, 2006. For a description of the directors' fees and awards, see the narrative description immediately following this table.

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards ($)(1)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation ($)	Total ($)
Richard J. Berman	33,600	--	14,381	--	--	--	47,981
Robert B. Shapiro	24,000	--	10,786	--	--	--	34,786
Stephan J. Warner	24,000	--	14,381	--	--	--	38,381
Harry Z. Rosengart	24,000	--	9,588	--	--	--	33,588

(1) Amounts shown were calculated utilizing the provisions of SFAS 123R. On February 10, 2006, non-employee directors Messrs. Berman, Rosengart, Shapiro and Warner received stock option grants for 25,000, 16,667, 18,750 and 25,000 shares, respectively, at an exercise price of $2.36 per share and a SFAS 123R fair value of $2.36 per share. The value shown is what is also included in our consolidated financial statements per SFAS 123R. See Note 9 of our consolidated financial statements included in our Annual Report on Form 10-KSB for the year ended December 31, 2006 regarding the assumptions underlying the valuation of these option grants under SFAS 123R.

In January 2005, our board of directors adopted a director compensation policy. Directors who are also employees or officers of us or any of our subsidiaries do not receive any separate compensation as a director. Non-employee directors receive a $2,000 per month cash retainer, and options to purchase shares of our common stock under the Dyadic International, Inc. Amended and Restated 2001 Equity Compensation Plan. The chairman of the audit committee receives an additional $800 per month cash retainer. All non-employee directors also are reimbursed for their reasonable travel costs related to attendance at board and/or committee meetings. Upon joining our board, a non-employee director receives options to purchase 30,000 shares of our common stock at an exercise price equal to the fair market value of the stock on the date of grant. Upon joining our board, the lead director receives options to purchase 50,000 shares our common stock at an exercise price equal to the fair market value of the stock on the date of grant. In all cases, 25% of these options vest upon grant, while the remaining portion vest in equal installments over a four-year period subject to the director's continued service. The options generally expire five years from the date of grant or earlier in the event service as a director ceases. At the beginning of each year, non-employee directors will receive additional options to purchase 25,000 shares of our common stock, or a pro rata portion based on the number of months that the director served on the board during the preceding year, subject to the same vesting provisions and other conditions as described above.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

Security Ownership of Certain Beneficial Owners and Management

The table below sets forth information regarding the beneficial ownership of our common stock as of March 28, 2007, by the following individuals or groups:

- each person or entity who is known by us to own beneficially more than 5% of our common stock;
- each of our directors;
- each of our named executive officers for the year ended December 31, 2006 (as identified in the "Summary Compensation Table" set forth above in Item 10. Executive Compensation); and
- all of our directors and executive officers as a group.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission ("SEC") and generally includes voting or investment power with respect to securities. Shares of our common stock that are subject to our options and warrants that are presently exercisable or exercisable within 60 days of March 28, 2007 are deemed to be outstanding and beneficially owned by the person holding any of such convertible securities for the purpose of computing the percentage of ownership of that person, but are not treated as outstanding for the purpose of computing the percentage of any other person.

Unless indicated otherwise below, the address of our directors and executive officers is c/o Dyadic International, Inc., 140 Intracoastal Pointe Drive, Suite 404, Jupiter, Florida 33477. Except as indicated below, the persons named in the table have sole voting and investment power with respect to all shares of common stock beneficially owned by them. As of March 28, 2007, we had outstanding 29,939,375 of our common stock.

Name and Address of Beneficial Owner	Number of Shares	Percentage Ownership
Mark A. Emalfarb (1)(8)(9)	7,098,559	22.7%
The Francisco Trust U/A/D February 28, 1996 (2).	4,769,578	15.9%
The Pinnacle Fund, L.P. Barry M. Kitt (3)	2,497,023	8.3%
Abengoa Bioenergy R&D, Inc. (4)	2,136,752	7.1%
Stephen J. Warner (5)(8)	289,588	1.0%
Robert B. Shapiro (6)(8)	44,454	*
Richard J. Berman (6)(8)	67,188	*
Harry Z. Rosengart (6)(8)	43,542	*
Glenn E. Nedwin, Ph.D. (7)(8)(9)	156,623	*
Wayne Moor (6)(9)	285,389	*
All directors and executive officers as a group (7 persons)	12,754,921	40.0%

* Denotes less than 1%

(1) Includes 5,822,125 shares held by Mark A. Emalfarb beneficially through the Mark A. Emalfarb Trust U/A/D October 1, 1987, of which Mr. Emalfarb is the sole beneficiary and serves as sole trustee. Also includes 1,276,434 shares issuable upon the exercise of warrants presently exercisable.

(2) The trustee of the Francisco Trust U/A/D February 28, 1996 is Robert S. Levin, Esq. and the beneficiaries thereof are the spouse and descendants of Mark A. Emalfarb. The address of the Francisco Trust U/A/D February 28, 1996 is c/o Robert S. Levin, Esq., 180 N. LaSalle, Suite 3200, Chicago, Illinois 60601.

(3) Information is based on Amendment No. 2 to Schedule 13G dated February 14, 2007 filed with the SEC by The Pinnacle Fund, L.P. (“Pinnacle”) and Barry M. Kitt. Mr. Kitt may be deemed the beneficial owner of the shares by virtue of being the sole member of Pinnacle Fund Management, LLC, which is the general partner of Pinnacle Advisers, L.P., which is the general partner of Pinnacle. Mr. Kitt disclaims beneficial ownership of these shares. Include 68,700 shares issuable upon the exercise of a warrant presently exercisable. The address of Pinnacle and Mr. Kitt is 4965 Preston Park Blvd., Suite 240, Plano, Texas 75093.

(4) Abengoa Bioenergy R&D, Inc. has agreed to not dispose of these shares in whole or in part until November 8, 2007. Mr. Javier Salgado, President and Chief Executive Officer of Abengoa Bioenergy R&D, Inc., has voting and investment power over the shares owned by Abengoa Bioenergy R&D, Inc. The address of Abengoa Bioenergy R&D, Inc., a Missouri corporation, is 1400 Elbridge Payne, Suite 212, Chesterfield, Missouri 63017.

(5) Includes 47,188 shares issuable upon the exercise of presently exercisable options held by Mr. Warner.

(6) Represents shares issuable upon the exercise of options presently exercisable.

(7) Includes 144,633 shares issuable upon the exercise of options presently exercisable.

(8) The named person is a director.

(9) The named person is a named executive officer.

Securities Authorized For Issuance Under Equity Compensation Plans

The following table provides information regarding the status of our existing equity compensation plans at December 31, 2006.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance
Equity compensation plans approved by security holders (1)	2,961,911	$ 4.12	4,197,940
Equity compensation plans not approved by security holders	--	--	--
Total	2,961,911	$ 4.12	4,197,940

(1) Consists of Dyadic International, Inc. Amended and Restated 2001 Equity Compensation Plan and the 2006 Stock Option Plan, both of which plans were adopted by the Company's Board of Directors in April 2006 and approved by stockholders at the 2006 annual stockholders' meeting in June 2006.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

Certain Relationships and Related Transactions

Our President and Chief Executive Officer, Mark A. Emalfarb, is the trustee and beneficiary of the Mark A. Emalfarb Trust, which is our largest stockholder. The Mark A. Emalfarb Trust and our second largest stockholder, The Francisco Trust, whose sole beneficiaries are the spouse and descendants of Mr. Emalfarb, have made loans to Dyadic-Florida, which we assumed in connection with the Merger described under "Description of Business - Merger" in this report.

As of December 31, 2005, the aggregate amount of our indebtedness to the Mark A. Emalfarb Trust and The Francisco Trust was approximately $4.0 million, which was owed to them pursuant to the terms of three separate debt instruments:

- $836,824 pursuant to a promissory note made payable to the Mark A. Emalfarb Trust dated May 30, 2001, bearing interest at the rate of 6% per annum and originally convertible into shares of Dyadic common stock for the lesser of $4.50 or the conversion price of the Series A convertible preferred stock of Dyadic-Florida then outstanding, which we refer to as the Emalfarb Convertible Note. In connection with the Merger, the Emalfarb Convertible Note was amended to fix the conversion price at $3.33 per share;

- $741,048 pursuant to a promissory note made payable to the Francisco Trust dated May 30, 2001, bearing interest at the rate of 6% per annum and originally convertible into shares convertible into shares of Dyadic common stock for the lesser of $4.50 or the conversion price of the Series A convertible preferred stock of Dyadic-Florida then outstanding, which we refer to as the Francisco Convertible Note. In connection with the Merger, the Francisco Convertible Note was amended to fix the conversion price at $3.33 per share; and

- $2,424,941 pursuant to a revolving note made payable to the Mark A. Emalfarb Trust dated May 29, 2003 and bearing interest at the rate of 8% per annum, secured by all of our assets, which we refer to as the Bridge Loan Note. In connection with the Bridge Loan Note, warrants, which we refer to as the Bridge Loan Warrants, were issued to purchase 1,500,000 shares of Dyadic-Florida common stock for the lesser of $4.50 or the conversion price of the Series A convertible preferred stock of Dyadic-Florida then outstanding, which we refer to as the Bridge Loan Warrants. In connection with Merger, the Bridge Loan Warrants were amended to fix their exercise price at $3.33 per share.

All accrued and unpaid interest due under the Emalfarb Convertible Note, the Francisco Convertible Note and the Bridge Loan Note on the date of consummation of the Merger were added to the principal amount due under those notes. Interest under the notes accruing after October 29, 2004, is payable on a quarterly basis until the principal sum is paid in full.

On May 1, 2006, the Mark A. Emalfarb Trust received 251,298 shares of common stock upon the conversion in full of the Emalfarb Convertible Note which had combined principal and accrued interest of $836,824 as of that date. On May 1, 2006, the Francisco Trust received 222,537 shares of common stock upon the conversion in full of the Francisco Convertible Note which had combined principal and accrued interest of $741,048 as of that date.

On April 30, 2006, the then maturity date of the Bridge Loan was extended from January 1, 2007 to January 1, 2008. On March 21, 2007, the maturity date of the Bridge Loan was further extended from January 1, 2008 to January 1, 2009. As of December 31, 2006, we were indebted to the Mark A. Emalfarb Trust for approximately $2.4 million under the Bridge Loan.

Director Independence

In accordance with the American Stock Exchange corporate governance listing standards, it is our policy that the Board of Directors consists of a majority of independent directors. Our Board of Directors reviews the relationships that each director has with us and other parties. Only those directors who do not have any of the categorical relationships that preclude them from being independent within the independence requirements of the American Stock Exchange corporate governance listing standards and who the Board of Directors affirmatively determines have no relationships that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director, are considered to be independent directors. The Board of Directors has reviewed a number of factors to evaluate the independence of each of its members. These factors include its members' current and historic relationships with us and our subsidiaries; their relationships with management and other directors; the relationships their current and former employers have with us and our subsidiaries; and the relationships between us and other companies of which our board members are directors or executive officers. After evaluating these factors, the Board of Directors has determined that four of its six members are “independent” within the independence requirements of the American Stock Exchange corporate governance listing standards, all applicable rules and regulations of the SEC, and for purposes of Rule 162(m) of the Internal Revenue Code of 1986, as amended. These four directors are: Richard J. Berman, Robert B. Shapiro, Stephen J. Warner and Harry Z. Rosengart.

ITEM 13. EXHIBITS

A) Index to Exhibits

Exhibits	Description of Documents
2.1	Agreement of Merger and Plan of Reorganization dated as of September 28, 2004 by and among Dyadic International (USA), Inc. (f/k/a Dyadic International, Inc.), Dyadic International, Inc. (f/k/a CCP Worldwide, Inc.) and CCP Acquisition Corp. (1)
2.2	Split-Off Agreement dated September 28, 2004, by and among Dyadic International (USA), Inc. (f/k/a Dyadic International, Inc.), Dyadic International, Inc. (f/k/a CCP Worldwide, Inc.) and Custom Craft Packaging, Inc. (2)
3.1	Amended and Restated Certificate of Incorporation of Dyadic International, Inc. dated November 1, 2004 (2)
3.2	Amended and Restated Bylaws of Dyadic International, Inc. dated November 1, 2004 (2)
4.1	Form of Common Stock Certificate (2)
4.2	Form of $5.50 Common Stock Purchase Warrant (2)
4.3	Form of Bridge Loan Warrants (2)
4.4	Form of Stock Option representing aggregate right to purchase 65,000 shares of Common Stock (2)

4.5	Securities Purchase Agreement dated as of October 26, 2006 by and among Dyadic International, Inc. and Abengoa Bioenergy R&D, Inc. (16)
4.6	Securities Purchase Agreement dated as November 17, 2006 by and among Dyadic International, Inc. and the Investors signatories thereto (15)
4.7	Form of Investor Warrant (15)
4.8	Form of Placement Agent Warrant (16)
10.1.1	Cooperation and License Agreement dated August 12, 2003 between Dyadic International (USA), Inc. (f/k/a Dyadic International, Inc.) and TNO Nutrition and Food Research Institute (2)
10.1.2	Termination and License Agreement dated December 19, 2005, effective November 23, 2005 between Dyadic International, Inc., Dyadic International (USA), Inc., Dyadic Netherland, B.V., and TNO Quality of Life (formerly known as TNO Nutrition and Food Research Institute) (7)
10.2	Development Agreement dated July 30, 2004 between Dyadic International (USA), Inc. (f/k/a Dyadic International, Inc.) and Bio-Technical Resources Division of Arkion Life Sciences LLC (2)
10.3	Commercial Land Purchase and Sale Agreement dated July 31, 2004 between Dyadic International (USA), Inc. (f/k/a Dyadic International, Inc.) and F&C Holdings, LLC (2)
10.4	Investors' Rights Agreement dated March 24, 2004 among the Mark A. Emalfarb Trust, the Francisco Trust, Dyadic International (USA), Inc. (f/k/a Dyadic International, Inc.) and other shareholders, as amended and assumed by Registrant (2)
10.5.1	Employment Agreement dated April 1, 2001 between Mark A. Emalfarb and Dyadic International (USA), Inc. (f/k/a Dyadic International, Inc.), as assumed by Registrant (2)
10.5.2	First Amendment to Employment Agreement dated March 16, 2006 between Mark A. Emalfarb and Dyadic International, Inc. (9)
10.6.1	Employment Agreement dated March 30, 2005 between Ratnesh (Ray) Chandra and Dyadic International, Inc. (4)
10.6.2	Employment Agreement dated January 31, 2005 between Wayne Moor and Dyadic International, Inc. (6)
10.6.3	Employment Agreement dated March 30, 2005 between Alexander (Sasha) Bondar and Dyadic International, Inc. (4)
10.6.4	Employment Agreement dated March 30, 2005 between Kent Sproat and Dyadic International, Inc. (4)
10.6.5	Employment Agreement dated March 16, 2006 between Glenn Nedwin and Dyadic International, Inc. (9)
10.7.1	Confidential Information, Inventions Assignment and Non-Compete Agreement dated May 21, 2001 between Mark Emalfarb and Dyadic International (USA), Inc. (f/k/a Dyadic International, Inc.), as assumed by Registrant (2)
10.7.2	Confidential Information, Inventions Assignment and Non-Compete Agreement dated May 21, 2001 between Ray Chandra and Dyadic International (USA), Inc. (f/k/a Dyadic International, Inc.), as assumed by Registrant (2)
10.7.3	Confidential Information, Inventions Assignment and Non-Compete Agreement dated May 21, 2001 between Kent Sproat and Dyadic International (USA), Inc. (f/k/a Dyadic International, Inc.), as assumed by Registrant (2)

10.7.4	Confidential Information, Inventions Assignment and Non-Compete Agreement dated September 4, 2001 between Richard Burlingame, Ph.D. and Dyadic International (USA), Inc. (f/k/a Dyadic International, Inc.), as assumed by Registrant (2)
10.7.5	Confidential Information, Inventions Assignment and Non-Compete Agreement dated May 21, 2001 between Alexander (Sasha) Bondar and Dyadic International (USA), Inc. (f/k/a Dyadic International, Inc.), as assumed by Registrant (2)
10.8.1	Indemnification Agreement dated August 19, 2001 between Mark A. Emalfarb and Dyadic International (USA), Inc. (f/k/a Dyadic International, Inc.), as assumed by Registrant (2)
10.8.2	Indemnification Agreement dated August 19, 2001 between Stephen J. Warner and Dyadic International (USA), Inc. (f/k/a Dyadic International, Inc.), as assumed by Registrant (2)
10.8.3	Indemnification Agreement dated January 11, 2005 between Dyadic International, Inc. and Richard Berman (3)
10.8.4	Indemnification Agreement dated March 29, 2005 between Dyadic International, Inc. and Robert Shapiro (4)
10.8.5	Indemnification Agreement dated April 26, 2005 between Dyadic International, Inc. and Harry Rosengart (8)
10.9.1	Dyadic International, Inc. Amended and Restated 2001 Equity Compensation Plan (12)
10.9.2	Standard form of Option Agreement for Dyadic International, Inc. Amended and Restated 2001 Equity Compensation Plan (14)
10.9.3	Performance-Vested Stock Option Agreement for Dyadic International, Inc. Amended and Restated 2001 Equity Compensation Plan granted to Glenn Nedwin (9)
10.10.1	Dyadic International, Inc. 2006 Stock Option Plan (12)
10.10.2	Form of Option Agreement for Dyadic International, Inc. 2006 Stock Option Plan (14)
10.10.3	Form of Non-Employee Director Option Agreement for Dyadic International, Inc. 2006 Stock Option Plan (14)
10.11	Subordinated Promissory Note dated May 30, 2001 made by Dyadic International (USA), Inc. (f/k/a Dyadic International, Inc.), as amended, payable to the order of the Mark A. Emalfarb Trust in the original principal amount of $750,766, as assumed by Registrant (2)
10.12	Subordinated Promissory Note dated May 30, 2001 made by Dyadic International (USA), Inc. (f/k/a Dyadic International, Inc.), as amended, payable to the order of the Francisco Trust in the original principal amount of $664,838, as assumed by Registrant (2)
10.13.1	Revolving Note dated May 29, 2003 made by Dyadic International (USA), Inc. (f/k/a Dyadic International, Inc.), as amended, payable to the order of The Mark A. Emalfarb Trust in the original principal amount of $3,000,000, as assumed by Registrant (2)
10.13.2	Third Amendment dated April 30, 2006 to Revolving Note dated as of May 29, 2003 by and between Dyadic International, Inc. and The Mark A. Emalfarb Trust (11)
10.14	Security Agreement dated May 29, 2003, between the Mark A. Emalfarb Trust and Dyadic International (USA), Inc. (f/k/a Dyadic International, Inc.), as amended (2)
10.15	Inducement and Amending Agreement dated August 19, 2004 among the Mark A. Emalfarb Trust, the Francisco Trust and Dyadic International (USA), Inc. (f/k/a Dyadic International, Inc.) (2)

10.16	Contract Manufacturing Agreement dated October 27, 1999 between Polfa Tarchomin, SA and Dyadic International (USA), Inc. (f/k/a Dyadic International, Inc.), as amended by Amendments dated May 8, 2000 and February 10, 2004 and letters dated February 11, 2004 (2)
10.17	Indemnification and Escrow Agreement dated September 28, 2004 among Vitel Ventures, Mark Tompkins, Registrant and Dyadic International (USA), Inc. (f/k/a Dyadic International, Inc.) (2)
10.18	Form of Subscription Agreement from investors in private placement offering completed in early November 2004 (2)
10.19	Satisfaction and Purchase Agreement dated April 28, 2006 with an effective date of January 1, 2006 between Dyadic International, Inc. Agreement dated October 21, 1998 among Geneva Investment Holdings Limited, Puridet (Asia) Limited, Robert Albert Smeaton and Raymond Tsang (13)
10.20	Indemnification Agreement dated as of September 28, 2004 among Dyadic International (USA), Inc. (f/k/a Dyadic International, Inc.), Dyadic International, Inc. (f/k/a CCP Worldwide, Inc.), Tom Shute, Roy Provencher and David R. Allison (5)
10.21.1	Securities Purchase Agreement dated as of October 26, 2006 by and among Dyadic International, Inc. and Abengoa Bioenergy R&D, Inc. (16)
10.21.2	R&D Agreement dated as of October 26, 2006 by and among Dyadic International (USA), Inc. and Abengoa Bioenergy R&D, Inc. (17)+
10.22	Securities Purchase Agreement dated as November 17, 2006 by and among Dyadic International, Inc. and the Investors signatories thereto (15)
10.23	Dyadic International, Inc. Statement of Director Compensation Policy (3)
14.1	Code of Ethics (10)
21	Subsidiaries of the Registrant (17)
23	Consent of Ernst & Young LLP relating to Dyadic International, Inc.'s Registration Statements on Form S-8 (Registration No. 333-122339 and Registration No. 333-136676) and Registration Statements on Form S-3 (Registration No. 333-121738 and Registration No. 333-139542) (17)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (17)
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (17)
32.1	Certification of Chief Executive Officer required by 18 U.S.C. Section 1350 (as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002) (17)
32.2	Certification of Chief Financial Officer required by 18 U.S.C. Section 1350 (as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002) (17)

(1) Incorporated by reference from the Company's Form 8-K, filed September 30, 2004 with the Securities and Exchange Commission.

(2) Incorporated by reference from the Company's Form 8-K, filed November 4, 2004, as amended with the Securities and Exchange Commission.

(3) Incorporated by reference from the Company's Form 8-K, filed January 14, 2005 with the Securities and Exchange Commission.

(4) Incorporated by reference from the Company's Form 8-K, filed April 1, 2005 with the Securities and Exchange Commission.

(5) Incorporated by reference from the Company's Form 10-QSB Quarterly Report for the quarterly period ended September 30, 2004, filed November 15, 2004 with the Securities and Exchange Commission.

(6) Incorporated by reference from the Company's Form 8-K, filed February 1, 2005 with the Securities and Exchange Commission.

(7) Incorporated by reference from the Company's Form 8-K, filed December 21, 2005 with the Securities and Exchange Commission.

(8) Incorporated by reference from the Company's Form 8-K, filed April 28, 2005 with the Securities and Exchange Commission.

(9) Incorporated by reference from the Company's Form 8-K, filed March 21, 2006 with the Securities and Exchange Commission.

(10) Incorporated by reference from the Company's Form 10-KSB for the year ended December 31, 2004, filed April 15, 2005 with the Securities and Exchange Commission.

(11) Incorporated by reference from the Company's Form 8-K, filed May 3, 2006 with the Securities and Exchange Commission.

(12) Incorporated by reference from the Company's definitive Proxy Statement, filed April 28, 2006 with the Securities and Exchange Commission, relating to the 2006 annual stockholders' meeting.

(13) Incorporated by reference from the Company's Form 10-QSB for the quarterly period ended March 31, 2006, filed May 15, 2006 with the Securities and Exchange Commission.

(14) Incorporated by reference from the Company's Report on Form 8-K filed June 15, 2006 with the Securities and Exchange Commission.

(15) Incorporated by referenced from the Company's Form 8-K, filed November 21, 2006 with the Securities and Exchange Commission.

(16) Incorporated by reference from the Company's Registration Statement on Form S-3 (Registration No. 333-139542).

(17) Filed herewith.

+ Confidential treatment has been requested for portions of this document.

Each management contract or compensation plan or arrangement required to be filed as an exhibit to this report pursuant to Item 13 is listed in exhibits 10.5.1, 10.5.2, 10.6.1, 10.6.2, 10.6.3, 10.6.4, 10.6.5, 10.9.1, 10.9.2, 10.9.3, 10.10.1, 10.10.2, 10.10.3 and 10.23.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Audit and Non-Audit Fees

Audit Fees

For the year ended December 31, 2006, Ernst & Young LLP billed us $491,157 in the aggregate for professional services rendered for the audit of our consolidated statements, reviews of the financial statements included in our Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, June 30 and September 30, 2006 and the review of our registration statement on Form S-3 filed with the SEC in connection with the private placements completed in the fourth quarter of 2006 and review of our Form S-8 filed in connection with our 2006 stock option plan.

For the year ended December 31, 2005, Ernst & Young LLP billed us $396,679 in the aggregate for professional services rendered for the audit of our consolidated statements, reviews of the financial statements included in our Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, June 30 and September 30, 2005 and the review of our registration statement on Form S-3 (formerly a registration statement on Form SB-2 filed with the SEC in connection with the Merger completed in October 2004).

Audit-Related Fees

For the years ended December 31, 2006 and 2005, Ernst & Young LLP did not bill us for audit-related fees, as no other services were by performed by them during such years.

Tax Fees

For the years ended December 31, 2006 and 2005, Ernst & Young LLP did not bill us for tax fees, as no tax services were performed by them during such years.

All Other Fees

For the years ended December 31, 2006 and 2005, Ernst & Young LLP billed us $1,500 each year for other services. The audit committee has determined that the provision of services by the auditors reported hereunder had no impact on either of their independence.

Audit Committee's Pre-Approval Policies and Procedures

Consistent with SEC policies regarding auditor independence, the audit committee is responsible for appointing, setting compensation and overseeing the work of the independent registered public accounting firm. In recognition of this responsibility, the audit committee has established a policy to pre-approve all audit and permissible non-audit services provided by the independent registered public accounting firm.

Prior to engagement of the independent registered public accounting firm for the next year's audit, management will submit to the audit committee for approval the services expected to be rendered during that year for each of the four categories of services. Prior to engagement, the audit committee pre-approves these services by category of service. The fees are budgeted, and the audit committee requires the independent registered public accounting firm and management to report actual fees versus the budget periodically throughout the year by category of service. During the year, circumstances may arise when it may become necessary to engage the independent registered public accounting firm for additional services not contemplated in the original pre-approval. In those instances, the audit committee requires specific pre-approval before engaging the independent registered public accounting firm.

The audit committee may delegate pre-approval authority to one or more of its members. The member to whom such authority is delegated must report, for informational purposes only, any pre-approval decisions to the audit committee at its next scheduled meeting.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dyadic International, Inc.
(Registrant)

Date: April 2, 2007

By: /s/ Mark A. Emalfarb
Mark A. Emalfarb
Chief Executive Officer

POWER OF ATTORNEY

Each person whose signature appears below hereby constitutes and appoints Mark A. Emalfarb and Wayne Moor and each of them, his attorneys-in-fact, each with the power of substitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this report on Form 10-KSB, and to file the same, with all exhibits thereto and all documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them full power and authority to do and perform each and every act and all intents and purposes as he might or could do in person, hereby ratifying and confirming all that such attorneys-in-fact and agents or any of them or his or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.
In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Date: April 2, 2007

By: /s/ Mark A. Emalfarb
Mark A. Emalfarb
Principal Executive Officer, Chairman of the Board of Directors and President

By: /s/ Glenn E. Nedwin
Glenn E. Nedwin
Principal Scientific Officer, Executive Vice President and Director

By: /s/ Wayne Moor
Wayne Moor
Principal Financial and Accounting Officer

By: /s/ Stephen J. Warner
Stephen J. Warner
Director

By: /s/ Richard Berman
Richard Berman
Director

By: /s/ Robert Shapiro
Robert Shapiro
Director

By: /s/ Harry Rosengart
Harry Rosengart
Director

Dyadic International, Inc.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Dyadic International, Inc.

We have audited the accompanying consolidated balance sheet of Dyadic International, Inc. and subsidiaries (the Company) as of December 31, 2006, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the two years in the period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Dyadic International, Inc. and subsidiaries at December 31, 2006, and the consolidated results of their operations and their cash flows for each of the two years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, Dyadic International, Inc. changed its method of accounting for share-based payments in accordance with Statement of Financial Accounting Standards No. 123(R) (revised 2004) on January 1, 2006.

/s/ Ernst &Young LLP
Certified Public Accountants

West Palm Beach, Florida
March 28, 2007

Dyadic International, Inc.

Consolidated Balance Sheet

December 31, 2006

Assets	
Current assets:	
Cash and cash equivalents	$ 31,072,824
Accounts receivable, net of allowance for uncollectible accounts of $240,490	2,788,588
Inventory	6,039,080
Prepaid expenses and other current assets	1,170,528
Total current assets	41,071,020
Fixed assets, net	1,813,468
Intangible assets, net	96,047
Goodwill	1,808,458
Other assets	348,387
Total assets	$ 45,137,380
Liabilities and stockholders' equity	
Current liabilities:	
Accounts payable	$ 2,238,585
Accrued expenses	1,905,382
Accrued interest payable to stockholders	48,897
Short term notes payable	191,125
Income taxes payable	26,730
Total current liabilities	4,410,719
Long-term liabilities:	
Note payable to stockholder	2,378,832
Other liabilities	160,808
Deferred research and development obligation	9,997,863
Total long-term liabilities	12,537,603
Total liabilities	16,948,222
Stockholders' equity:	
Preferred stock, $.0001 par value:	
Authorized shares - 5,000,000; none issued and outstanding	--
Common stock, $.001 par value,	
Authorized shares - 100,000,000; issued and outstanding - 29,792,992	29,793
Additional paid-in capital	73,261,774
Notes receivable from exercise of stock options	(212,500)
Accumulated deficit	(44,889,909)
Total stockholders' equity	28,189,158
Total liabilities and stockholders' equity	$ 45,137,380

See accompanying notes.

Dyadic International, Inc.

Consolidated Statements of Operations

	Year Ended December 31	
	2006	**2005**
Net sales	$ 15,383,754	$ 15,882,969
Cost of goods sold (includes non-cash share-based compensation of approximately $32,000 for 2006)	11,345,144	12,856,607
Gross profit	4,038,610	3,026,362
Operating Expenses:		
Research and development (includes non-cash share-based compensation of approximately $89,000 and $19,000 for 2006 and 2005, respectively)	4,236,448	4,655,486
Sales and marketing (includes non-cash share-based compensation of approximately $75,000 for 2006)	3,417,013	2,808,937
General and administrative (includes non-cash share-based compensation of approximately $592,000 and $58,000 for 2006 and 2005, respectively)	7,149,005	5,564,619
Foreign currency exchange gains, net	(28,704)	(16,785)
Total operating expenses	14,773,762	13,012,257
Loss from operations	(10,735,152)	(9,985,895)
Other income (expense):		
Interest expense	(594,163)	(710,537)
Investment income	504,894	249,280
Minority interest	(13,355)	(4,725)
Other income, net	18,696	1,535
Total other expense	(83,928)	(464,447)
Loss before income taxes	(10,819,080)	(10,450,342)
Provision for income taxes	63,112	64,228
Net loss	$ (10,882,192)	$ (10,514,570)
Net loss per common share:		
Basic	$ (0.45)	$ (0.48)
Diluted	$ (0.45)	$ (0.48)
Weighted average shares and equivalent shares used in calculating net loss per share:		
Basic	24,419,097	22,132,158
Diluted	24,419,097	22,132,158

See accompanying notes.

Dyadic International, Inc.
Consolidated Statements of Changes in Stockholders' Equity

	Common Stock		Additional Paid-in Capital	Note Receivable From Exercise Of Stock Options	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance at December 31, 2004	21,930,805	$ 21,931	$ 48,402,732	$ (462,500)	$ (23,493,147)	$ 24,469,016
Amortization of deferred compensation on nonemployee stock options	-	-	76,673	-	-	76,673
Issuance of common stock for consulting services	27,523	27	91,524	-	-	91,551
Issuance of common stock for termination agreement	161,560	162	287,415	-	-	287,577
Issuance of common stock for land purchase	300,300	300	861,561	-	-	861,861
Net loss	-	-	-	-	(10,514,570)	(10,514,570)
Balance at December 31, 2005	22,420,188	$ 22,420	$ 49,719,905	$ (462,500)	$ (34,007,717)	$ 15,272,108
Issuance of common stock to officer per employment Agreement	11,990	12	49,988	-	-	50,000
Issuance of common stock for minority interest purchase	212,501	212	1,327,919	-	-	1,328,131
Issuance of common stock for exercise of stock options	339,950	340	1,348,062	-	-	1,348,402
Issuance of common stock for exercise of warrants	1,205,124	1,205	5,551,829	-	-	5,553,034
Amortization of deferred compensation on nonemployee stock options	-	-	787,728	-	-	787,728
Issuance of common stock for consulting services	205,652	206	1,063,254	-	-	1,063,460
Issuance of common stock for share purchase agreement	2,136,752	2,137	-	-	-	2,137
Issuance of common stock and warrants in a private placement, net of expenses of $954,682	2,787,000	2,787	12,085,691	-	-	12,088,478
Reduction of notes receivable from exercise of stock option due to note foreclosure	-	-	(250,000)	250,000	-	-
Issuance of common stock for note conversion	473,835	474	1,577,398	-	-	1,577,872
Net loss	-	-	-	-	(10,882,192)	(10,882,192)
Balance at December 31, 2006	29,792,992	$ 29,793	$ 73,261,774	$ (212,500)	$ (44,889,909)	$ 28,189,158

See accompanying notes.

Dyadic International, Inc.

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2006	**2005**
Operating activities		
Net loss	$ (10,882,192)	$ (10,514,570)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization of fixed assets	250,181	534,594
Amortization of intangible and other assets	52,128	68,136
Amortization of costs related to modification of notes payable to stockholder	325,027	371,136
Minority interest	13,355	4,725
Provision for (recovery of) doubtful accounts	(401,131)	140,922
Stock issued to officer	50,000	--
Stock issued for consulting services	1,063,460	91,551
Compensation expense on stock option grants	787,728	76,673
Changes in operating assets and liabilities:		
Accounts receivable	481,711	67,993
Inventory	(625,523)	1,228,475
Prepaid expenses and other current assets	(365,900)	21,521
Other assets	(216,108)	47,334
Accounts payable	(356,745)	(363,635)
Accrued expenses	689,486	67,921
Accrued interest payable to stockholders	(20,470)	34,925
Deferred research and development obligation	9,997,863	(75,000)
Short term notes payable	(76,465)	267,590
Income taxes payable	(27,376)	41,297
Other liabilities	51,480	70,872
Net cash provided by (used in) operating activities	790,509	(7,817,540)
Investing activities		
Purchases of fixed assets, net	(519,471)	(410,840)
Restricted cash release (deposit)	34,887	(34,658)
Purchase of minority interest	(375,000)	--
Net cash used in investing activities	(859,584)	(445,498)
Financing activities		
Proceeds from sale of common stock, net of issuance costs	12,088,478	--
Payment of issuance costs related to private placement	--	(97,764)
Proceeds from stock warrant exercises	5,553,034	--
Proceeds from stock option exercises	1,348,402	--
Proceeds of stock issuance for share purchase agreement	2,137	--
Net cash (used in) provided by financing activities	18,992,051	(97,764)
Net increase (decrease) in cash and cash equivalents	18,922,976	(8,360,802)
Cash and cash equivalents at beginning of year	12,149,848	20,510,650
Cash and cash equivalents at end of year	$ 31,072,824	$ 12,184,506
Less restricted cash	--	(34,658)
Unrestricted cash and cash equivalents	$ 31,072,824	$ 12,149,848

Supplemental cash flow information:		
Cash paid for interest	$ 269,135	$ 298,214
Cash paid for income taxes	$ 196,996	$ 30,710
Noncash activities:		
Fair value of common stock issued for minority interest purchase	$ 1,328,131	$ --
Common stock issued for conversion of convertible notes payable to stockholders at an exercise price of $3.33	$ 1,577,872	$ --
Fair value of common stock issued for land purchase	$ --	$ 861,861
Common stock issued for settlement of liability and termination of agreement	$ --	$ 287,577

See accompanying notes.

Dyadic International, Inc.

Notes to Consolidated Financial Statements

December 31, 2006

1. Organization and Operations

General

Dyadic International, Inc., based in Jupiter, Florida, with operations in the United States, Hong Kong and mainland China, Poland and The Netherlands, is a global biotechnology company that uses its patented and proprietary technologies (the "Dyadic Platform Technology") to conduct research and development activities for the discovery, development, and manufacture of products and enabling solutions to the bioenergy, industrial enzyme and pharmaceutical industries. These enabling solutions primarily include:

- Novel, cost efficient production strains, enzyme mixes and related processes and manufacturing technologies currently in the research and development stage for producing abundant low cost fermentable sugars from agricultural residues and energy crops which may be used in the manufacturing of cellulosic ethanol, butanol, chemicals, chemical intermediates, polymers and other biomolecules of commercial interest, obviating the need for petroleum as a feedstock;

- Enzymes and other biological products for a variety of industrial and commercial applications. We currently sell more than 55 liquid and dry enzyme products to more then 200 industrial customers in approximately 50 countries and we generated net sales of approximately $15.3 million in 2006; and

- Low-cost production hosts for therapeutic protein production for the biopharmaceutical industry.

As more and more industries come to appreciate the financial, process efficiency, environmental and other advantages of applying biological solutions such as enzymes to their manufacturing processes in lieu of chemicals and other legacy technologies, the Company expects a variety of new market opportunities to emerge for which its anticipates it will be able to apply the Dyadic Platform Technology.

The Company expects to incur losses over the next several years as it continues to develop its technologies and establish the commercial laboratories and other required infrastructure to exploit these technologies. However, there can be no assurance that the Company's efforts with regard to these matters will be successful.

Organizational History

In April 2001, the Company formed Dyadic International Sp. z o.o., a Polish corporation, for the purpose of managing and coordinating the Company's contract manufacturing of industrial enzymes in Poland, and to assist in the marketing and distribution of those products.

In January 2004, the Company formed Dyadic Nederland B.V. ("Dyadic NL"), a Dutch corporation, for the development, use and marketing of HTS Systems utilizing fungal organisms.

In May 2005, the Company issued 300,300 shares of common stock pursuant to a real estate purchase contract with F&C Holdings, LLC dated July 31, 2004 (the "Commercial Land Purchase And Sale Agreement"), in exchange for an undeveloped 1.13 acre parcel of land (the "Site"). The Company formed Dyadic Real Estate Holdings, Inc., a Florida corporation and wholly owned subsidiary in May 2005, to which it has assigned the Commercial Land Purchase and Sale Agreement and the Site.

On April 28, 2006, the Company purchased the remaining 17.5% of shares held by the then two minority shareholders of its Asian subsidiary, giving the Company 100% ownership of that subsidiary. The former minority shareholders received $375,000 in cash and 212,501 shares of unregistered Dyadic common stock in consideration for, among other things, the cancellation of the subordinated notes under which the Company owed the minority shareholders $171,986 of principal and $69,868 of accrued interest; relief of the Company's minority interest liability of approximately $117,000; and a release of the Company for a potential $405,000 contingent obligation to the managing director incident to the Company's purchase of its initial majority interest in the Asian Subsidiary in 1998.

Merger

Prior to October 2004, the Company was a public reporting company known as CCP Worldwide, Inc. In October 2004, the Company entered into an Agreement of Merger and Plan of Reorganization (the “Merger Agreement”) with Dyadic International (USA), Inc., a privately-held Florida corporation (formerly called Dyadic International, Inc.)("Dyadic-Florida") and a wholly-owned subsidiary of the Company formed by it for the purpose of being merged with and into Dyadic-Florida, CCP Worldwide, Inc. (the “Merger”). As a result of the Merger, CCP Acquisition Corp. was merged with and into Dyadic-Florida, all of the stockholders of Dyadic-Florida received, in exchange for all of the outstanding shares of Dyadic-Florida, shares of the Company on a one-for-one basis, making Dyadic-Florida a wholly-owned subsidiary of the Company, the Company changed its name to Dyadic International, Inc., and Dyadic-Florida changed its name to its existing name. For financial accounting purposes the Merger is treated as an acquisition by Dyadic-Florida of CCP Worldwide, Inc.

As part of, and immediately prior to the Merger, the Company disposed of its then only operating subsidiary as part of a Split-Off Agreement between Company, that then only operating subsidiary, and a former member of the Board of Directors of the Company. As a result of the Merger Agreement and the Split-Off Agreement, the only business operations of Dyadic International, Inc., formerly CCP Worldwide, Inc., are the operations of the Dyadic-Florida and its subsidiaries, and the Company’s real estate holding subsidiary, Dyadic Real Estate Holdings, Inc.

Capital Raising Activities

In July 2004, the Company completed a private offering of its common and preferred equity securities, and raised gross proceeds of $4,700,000. The equity securities were offered as an Investment Unit, with each unit consisting of two shares of common stock and one share of Series B Preferred Stock, at a price of $10 per unit. The Company used $1,500,000 of the proceeds from this offering to redeem all outstanding shares of Series A Preferred. After giving effect to the automatic conversion of the Series B Preferred Stock, a total of 1,422,099 shares of common stock were issued in connection with the offering. As the Company completed an additional private offering of its common shares pursuant to the Private Offering Memorandum described below, the Company granted the purchasers of these Investment Units warrants to acquire a total of 711,050 shares of the Company's common stock at $5.50 per share.

In November 2004, in accordance with Subscription Agreements and a Private Offering Memorandum (the October Offering) dated October 2004, the Company sold 7,629,204 Investment Units, realizing gross proceeds of $25,405,249. An Investment Unit consists of one share of the Company's common stock and one five-year callable warrant to purchase one share of the Company's common stock at $5.50 per share for every two Investment Units purchased. Accordingly, 3,814,602 warrants to purchase the Company's common stock were issued to purchasers in the October Offering. Concurrently, the Company issued 247,730 warrants to purchase the Company's common stock at $5.50 per share and 495,460 warrants to purchase the Company's common stock at $3.33 per share, both to placement agents in the October Offering.

The Company incurred $2,727,573 of costs related to the October Offering and the Merger, including the subsequent registration with the Securities and Exchange Commission (“SEC”) of the Company's shares issued in the Merger and the October Offering. These costs are included as a reduction of additional paid-in capital.

On October 26, 2006, the Company entered into a securities purchase agreement (the “Abengoa Securities Purchase Agreement”) with Abengoa Bioenergy R&D, Inc. (“Abengoa”), a subsidiary of Abengoa S.A.. Also on October 26, 2006, Dyadic-Florida entered into a non-exclusive research and development agreement with Abengoa pertaining to the conduct of a research and development (“R&D”) program to be completed over a period of up to three and one-half years, under which Dyadic-Florida will seek to apply its proprietary technologies to the development of cost-effective enzyme mixtures and related processing and manufacturing technologies for commercial application in Abengoa’s bioethanol (cellulosic ethanol) production process (the “R&D Agreement”).

Under the terms of the Abengoa Securities Purchase Agreement, Abengoa paid the Company $10,000,000, for which it was issued 2,136,752 shares of the Company’s common stock at $4.68 per share (the closing share price on October 25, 2006, as reported on the American Stock Exchange). The Company completed this transaction on November 8, 2006. Under certain circumstances, as described below, Dyadic may have to issue additional securities to Abengoa. As of December 31, 2006, unused proceeds of approximately $9,998,000 are recorded as deferred research and development obligation in the accompanying consolidated financial statements and will be recognized as revenue as the expenses associated with the R&D program described above are incurred. If Abengoa sells all or a portion of its Dyadic shares of common stock after a one-year required holding period, the then remaining deferred research and development obligation balance will be reduced by Abengoa’s profit from the sale of those common stock shares and will be recorded as other income. The costs incurred in connection with the Abengoa Securities Purchase Agreement are included in other assets at December 31, 2006 and will be amortized in relation to the revenue recognized under the deferred research and development obligation.

If within six months following the date of closing the Company has not entered into a specified type of transaction involving the sale of its securities totaling at least $20,000,000 in gross proceeds, then Abengoa is entitled to receive three-year warrants to purchase 427,351 shares at an exercise price of $5.85. If the sale of securities totaling at least $20,000,000 is at a price lower than $4.68 per share, Abengoa is entitled to have additional shares issued to them so that their investment is at the same price. If the sale of securities includes warrants, Abengoa's pro rata warrant coverage and other warrant terms are to be the same as those in the securities transaction rather than the warrant terms discussed above.

Further, under the Abengoa Securities Purchase Agreement, the Company has agreed to use the $10,000,000 to fund its performance of certain foundational and applications research in the cellulosic ethanol field and to spend not less than $10,000,000 (the "R&D Spending Obligation") over the course of the "R&D Spend Measurement Period" (the period commencing on the Agreement Date and ending three years following Steering Committee approval of the initial Statement of Work for calendar year 2007). If the Company breaches its R&D Spending Obligation, in addition to certain royalty-free, non-exclusive licensing rights which would be granted to Abengoa, the Company is obligated, at Abengoa's election, to either (x) issue Additional Shares or (y) remit to Abengoa a cash sum, in either instance having a dollar value equal to the amount by which $10,000,000 exceeds the dollar value of the Applicable R&D Spend (the amount so expended by Dyadic to perform such research described above), and if shares are used, they are valued at the greater of (x) $4.68 per share or (y) the closing selling price of the shares on the AMEX on the last trading day in the R&D Spend Measurement Period. The Company has agreed to guarantee Dyadic-Florida's punctual payment and performance of its obligations to Abengoa under the R&D Agreement.

The shares issued to Abengoa at closing were not registered under the Securities Act of 1933 (the "Securities Act"). Pursuant to the Abengoa Securities Purchase Agreement, the Company filed a registration statement with the SEC covering the resale of the shares issued at closing, as well as additional shares, if any, issuable after closing. The Company filed the registration statement with the SEC on December 21, 2006 and the SEC declared the registration statement effective on January 17, 2007. The Company is required to keep the registration statement effective until the earlier of the date on which the shares have been sold or can be sold publicly under Rule 144(k) of the Securities Act. The Company may suspend the use of the registration statement for a 20-day trading period for as many as two times in any 12-month period. In the event the registration statement ceases to be effective during the registration period due to certain events, the Company has agreed to pay to Abengoa cash, as liquidated damages, equal to 1% of (x) the number of shares held by Abengoa at time of such event and (y) the purchase price paid by Abengoa for such shares then held, provided that the total amount of all of these payments is not permitted to exceed 10% of the aggregate purchase price paid by Abengoa. Abengoa shall not be entitled to liquidated damages if an event causes the registration statement to cease being effective before the first anniversary of the closing date.

Under the Abengoa Securities Purchase Agreement, Abengoa has agreed for a period of one year following the closing date to maintain exclusive beneficial ownership of, as well as an exclusive pecuniary interest in, all of the shares and other securities, if any, issuable to it pursuant to the Abengoa Securities Purchase Agreement. Furthermore, Abengoa has agreed for a period of two years following the closing date to refrain from directly or indirectly increasing its beneficial ownership, or pecuniary interest, in more than 15% of the Company's shares.

On November 17, 2006, the Company entered into a securities purchase agreement (the "Securities Purchase Agreement") with certain investors to purchase in a private placement 2,787,000 shares of its common stock at a price of $4.68 per share and warrants to purchase up to 557,400 shares of its common stock at an exercise price of $6.33 per share for gross proceeds of $13,043,160. The Company completed this private placement on December 1, 2006. Cowen and Company, LLC acted as the exclusive placement agent for the private placement for which Dyadic issued to it warrants to purchase up to 83,610 shares of its common stock at $5.24 per share and warrants to purchase up to 16,722 shares of its common stock at $6.33 per share.

The warrants issued to the investors become exercisable on May 31, 2007, expire three years thereafter, contain price adjustment and economic anti-dilution features, as well as anti-dilution protection from stock splits and similar events, contain limited cashless exercise procedures and are callable by the Company under certain circumstances. The warrants issued to the placement agent are substantially identical to the warrants issued to the investors, except that (i) the warrant for 83,610 shares has an exercise price of $5.24 per share rather than $6.33 per share and (ii) they have a five-year term rather than a three-year term and (iii) they provide for unqualified cashless exercise procedures rather than limited cashless exercise procedures.

The Company will use the resulting net proceeds of approximately $12,100,000 to continue development of the Dyadic Platform Technology for applications in the markets targeted by its businesses, with the goal of strengthening its product pipeline and accelerating the commercial launch of new products in pulp and paper, animal feed and other areas, and expanding R&D infrastructure as well as sales and marketing efforts.

Historical Results of Operations

The Company has incurred losses from operations during the last several years, which have resulted in an accumulated deficit of approximately $44,890,000 as of December 31, 2006. The Company attributes these operating results to discretionary research and development expenditures to improve the Dyadic Platform Technology which may have utility across broad and as of yet, untapped markets. Operating losses have also been the result of the expansion of the Company's operations and administrative support staff as a public company engaged in enzyme biotech research, and its increased sales and marketing spending to expose new products to the marketplace. In order to advance its science and to develop new products, the Company has continued to incur discretionary research and development expenditures during 2006. The Company believes these discretionary research and development expenditures will continue in 2007 and beyond.

The Company believes that there will be sufficient capital to fund its operations and meet its obligations for the next twelve months and beyond. The Company has established a number of flexible contractual relationships in the areas of manufacturing and research and development, enabling it to adjust spending in those areas as necessary, to achieve the objectives of its business plan, and manage both its resources and cash utilization rate. The Company has historically funded losses from operations with proceeds from external borrowings, borrowings from its stockholders, collaborations with third parties, exercises and conversions of equity instruments, and sales of preferred and common equity securities. Additional funds may be needed and raised through public or private debt and/or equity financings or a combination of the foregoing, or licensing or selling of certain technologies or other arrangements. Additional funding, if sought, may not be available at all, or may not be available on terms acceptable to the Company. Further, any additional equity financing may be dilutive to stockholders, and debt financing, if available, may involve restrictive covenants. Failure to raise capital when needed may harm the Company's operations, financial condition and cash flows.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

Cash and Cash Equivalents

The Company considers as cash equivalents all interest-bearing deposits or investments with original maturities of three months or less when purchased.

Accounts Receivable

Accounts receivable are recorded at their net realizable value on the date revenue is recognized. The Company provides allowances for doubtful accounts for estimated losses resulting from the inability of its customers to repay their obligation. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to repay, additional allowances may be required. The Company provides for potential uncollectible accounts receivable based on specific customer identification and historical collection experience adjusted for existing market conditions. If market conditions decline, actual collection experience may not meet expectations and may result in decreased cash flows and increased bad debt expense.

The policy for determining past due status is based on the contractual payment terms of each customer, which are generally net 30, 60 or 90 days. Once collection efforts by the Company and its collection agency are exhausted, the determination for charging off uncollectible receivables is made.

Inventory

Inventory consists of raw materials and finished goods, including industrial enzymes used in the industrial, chemical and agricultural markets, and is stated at the lower of cost or market using the average cost method. The value of finished goods is comprised of raw materials and manufacturing costs, substantially all of which are incurred pursuant to agreements with independent manufacturers. Provisions have been made to reduce excess or obsolete inventory to net realizable value.

At December 31, 2006, inventories consisted of the following:

Finished goods	$	4,711,316
Raw materials	$	1,327,764
	$	6,039,080

Fixed Assets

Fixed assets are recorded at cost and depreciated and amortized using the straight-line method over their estimated useful lives, which range from three to ten years. Leasehold improvements are amortized over the lesser of their useful lives or the lease terms. Upon sale or retirement, the cost and related accumulated depreciation and amortization are eliminated from their respective accounts, and the resulting gain or loss is included in results of operations. Repairs and maintenance charges, which do not increase the useful lives of the assets, are charged to operations as incurred.

Intangible Assets

Intangible assets include patent and technology acquisition costs which are being amortized using the straight-line method over the twelve-year terms of the patents. No additional costs related to the patents and technology were incurred and capitalized in 2006 or 2005. The original value of intangible assets of $541,358 is presented net of accumulated amortization of $445,311 as of December 31, 2006, and amortization expense was $52,128 for each of the years ended December 31, 2006 and 2005. Amortization expense will be approximately $52,000 in 2007 and approximately $44,000 in 2008, when these intangible assets will become fully amortized.

Goodwill

To apply the provisions of Statement of Financial Accounting Standards (SFAS) No.142, *Goodwill and Other Intangible Assets* (SFAS 142), the Company is required to identify its reporting units. Based on an analysis of economic characteristics and how the Company operates its business, the Company has designated its geographic locations as its reporting units: the United States (which includes the Company's subsidiary in Poland), The Netherlands, Hong Kong and mainland China. All goodwill is associated with the Hong Kong reporting unit.

On April 28, 2006, the Company and its then 82.5% majority owned Asian Subsidiary entered into a satisfaction and purchase agreement with the Asian Subsidiary's then two minority shareholders, its managing director and one of its other key employees, effective as of January 1, 2006. The minority shareholders received $375,000 in cash and 212,501 shares of unregistered common stock of the Company in consideration for: (i) the transfer to the Company of all of the Asian Subsidiary's shares (representing 17.5% of its outstanding shares) held by the minority shareholders, bringing the Company's ownership in the Asian Subsidiary to 100% and relieving the Company's minority interest liability of approximately $117,000; (ii) a release of the Company for, among other things, a potential $405,000 contingent obligation to the managing director incident to the Company's purchase of its initial majority interest in the Asian Subsidiary in 1998; and (iii) the cancellation of all indebtedness of the Asian Subsidiary owed to the minority shareholders in the amount of approximately $172,000 of principal and $70,000 of accrued interest, as of the effective date. The Company's shares were valued at approximately $1,328,000 based on the fair market value of the Company's common stock on April 28, 2006, the measurement date for accounting purposes. The Company recorded approximately $1,341,000 of goodwill related to the transaction, bringing the net goodwill balance at December 31, 2006 to approximately $1,808,000, which is reflected in the accompanying consolidated balance sheet. Effective May 1, 2006, the Company is recording 100% of the Asian Subsidiary's operating results in the accompanying consolidated statements of operations.

In accordance with the provisions of SFAS 142, the Company performed an impairment review of its goodwill. This test involved the use of estimates to determine the fair value of the Company's Asian reporting unit and the comparison of fair value to the carrying value of the reporting unit. The impairment review resulted in no goodwill impairment charge.

Long-Lived Assets

The Company reviews its long-lived assets, including fixed assets that are held and used in its operations, for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable, as required by SFAS 144. If such an event or change in circumstances is present, the Company will estimate the undiscounted future cash flows, less the future outflows necessary to obtain those inflows, expected to result from the use of the asset and its eventual disposition. If the sum of the undiscounted future cash flows is less than the carrying amount of the related assets, the Company will recognize an impairment loss to the extent the carrying value exceeds the fair value. The Company records impairment losses resulting from abandonment in loss from operations. Assets to be disposed of are reclassified as assets held for sale at the lower of their carrying amount or fair value less costs to sell. Write-downs to fair value less costs to sell are reported above the loss from operations line as general and administrative expenses.

The Company does not believe that the there were any events or changes in circumstances that indicate that the carrying amounts of its long-lived assets may not be recoverable as of December 31, 2006.

Advertising Costs

Advertising costs are expensed as incurred. During the years ended December 31, 2006 and 2005, advertising costs incurred by the Company totaled approximately $18,000 and $13,000, respectively, and are included in sales and marketing expenses in the accompanying consolidated statements of operations.

Research and Development

Research and development costs related to both present and future products are charged to operations when incurred. Revenue received for research and development is recognized as the Company meets its obligations under the related agreement.

Research and development costs incurred by type of project during the years ended December 31, 2006 and 2005 were as follows:

	2006	2005
Internal development	$ 1,326,303	$ 1,949,712
Collaborations	2,910,145	2,705,774
	$ 4,236,448	$ 4,655,486

Research and development costs based upon type of cost incurred during the years ended December 31, 2006 and 2005 were as follows:

	2006	2005
Personnel related	$ 807,071	$ 1,074,383
Laboratory and supplies	132,033	204,901
Outside services	2,910,145	2,705,774
Equipment and depreciation	29,300	431,516
Facilities, overhead and other	357,899	238,913
	$ 4,236,448	$ 4,655,486

The Company recognized $12,500 and $150,000 in research and development revenue for the years ended December 31, 2006 and 2005, respectively, which is included in net sales in the accompanying consolidated statement of operations. For the Company's recognition of revenues under the R&D Agreement with Abengoa, see "*Revenue Recognition*" below.

Income Taxes

The Company accounts for income taxes using the liability method. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. A deferred tax valuation allowance is established if, in management's opinion, it is more likely than not that all or a portion of the Company's deferred tax assets will not be realized.

Net Loss Per Share

Basic and diluted net loss per share have been computed using the weighted-average number of shares of common stock outstanding during the periods presented.

The following potentially dilutive securities were not included in the calculation of diluted net loss per share as they were anti-dilutive for the respective periods presented:

	Year Ended December 31	
	2006	2005
Instruments to purchase common stock:		
Stock options outstanding pursuant to the Amended and Restated 2001 Equity Compensation Plan (see Note 9)	2,956,911	1,597,639
Stock options outstanding pursuant to the 2006 Stock Option Plan (see Note 9)	5,000	--
Other stock options	--	65,000
Warrants outstanding (see Note 8)	6,405,384	6,952,776
Common stock issuable pursuant to conversion features related to subordinated convertible notes payable	--	473,835
Total shares of common stock considered anti-dilutive	9,367,295	9,089,250

There are contingently issuable shares under an agreement to conduct research and development activities on behalf of the Company pursuant to the arrangement described in Note 8 Share-Based Compensation - Issuances of Common Stock,of which 87,125 and 292,777 are also excluded from the calculation of diluted net loss per share for the years ended December 31, 2006 and 2005, respectively. Such shares of common stock are unearned, nonvested, restricted shares that will be considered outstanding once earned under the agreement. As of December 31, 2006 and 2005, 213,175 and 7,523 shares were earned and outstanding, respectively.

Revenue Recognition

The Company recognizes revenues in accordance with Staff Accounting Bulletin (SAB) No. 104, *Revenue Recognition in Financial Statements* (SAB 104). SAB 104 sets forth four basic criteria that must be met before SEC registrants can recognize revenue. These criteria are: persuasive evidence of an arrangement must exist; delivery had to have taken place or services had to have been rendered; the seller's price to the buyer should be fixed or determinable; and collectibility of the receivable should be reasonably assured. Sales not meeting any of the aforementioned criteria are deferred. The Company recognizes revenue when title passes to the customer, based upon the specified freight terms for the respective sale. Sales are comprised of gross revenues less provisions for expected customer returns, if any. Reserves for estimated returns and inventory credits are established by the Company, if necessary, concurrently with the recognition of revenue. The amounts of reserves are established based upon consideration of a variety of factors, including estimates based on historical returns.

Revenues under the R&D Agreement with Abengoa are recognized in accordance with SAB 104 and Emerging Issues Task Force (“EITF”) Issue No. 99-19, Reporting Gross Revenue as a Principal vs. Net as an Agent. According to the criteria established by EITF Issue No. 99-19, the Company is the primary obligor of the agreement because it is responsible for the selection, negotiation, contracting and payment of the third party suppliers. In addition, any liabilities resulting from the agreement are the responsibility of the Company. Research and development revenues are recognized, on a gross basis, as activities are performed under the terms of the related agreement. As of December 31, 2006, the Company had approximately $9,998,000 in deferred research and development obligation which was related to the Abengoa agreement. This amount will be recognized as revenue as the expenses associated with the R&D program contemplated by the R&D Agreement between Abengoa and the Company are incurred. If Abengoa sells all or a portion of its Dyadic shares of common stock after a one-year required holding period, the then remaining deferred research and development obligation balance will be reduced by Abengoa’s profit from the sale of those common stock shares and will be recorded as other income.

Amounts billed to customers in sales transactions related to shipping and handling, represent revenues earned for the goods provided and are included in net sales. Costs of shipping and handling are included in cost of products sold.

Foreign Currency Translation

The financial statements of the Company's foreign subsidiaries have been translated into United States dollars in accordance with SFAS No. 52, *Foreign Currency Translation.* Assets and liabilities of the Company's foreign subsidiaries are translated at period-end exchange rates, and revenues and expenses are translated at average rates prevailing during the period. Certain accounts receivable from customers are collected and certain accounts payable to vendors are payable in currencies other than the functional currencies of the Company and its subsidiaries. These amounts are adjusted to reflect period-end exchange rates. Net translation adjustments and realized exchange gains and losses are included as a component of foreign currency exchange gains, net, in the accompanying consolidated statements of operations.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications had no effect on net loss as previously reported or net loss per common share.

Share-based Compensation

In January 2006, the Company adopted SFAS 123(R), *Share-Based Payment* ("SFAS 123(R)"), which is a revision of SFAS 123, *Accounting for Share-based Compensation*. SFAS 123(R) supersedes Accounting Principles Board Opinion ("APB") No. 25, *Accounting for Stock Issued to Employees* (APB 25), and amends SFAS No. 95, *Statement of Cash Flows*. Generally, the approach in SFAS 123(R) is similar to the approach described in SFAS 123. However, SFAS 123(R) requires all share-based payments to employees and non-employee directors, including grants of employee stock options, to be recognized in the consolidated statements of operations based on their fair values. Pro forma disclosure, which has previously been used by the Company, is no longer an alternative.

The Company adopted the fair value recognition provisions of SFAS 123(R), using the modified prospective transition method. Under this transition method, compensation expense includes options vesting for share-based payments granted prior to, but not vested as of December 31, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123 and share-based payments granted after December 31, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). Because this transition method was selected, results of prior periods have not been restated. For the year ended December 31, 2006, the Company recorded approximately $788,000 of employee non-cash share-based compensation expense. As a result of adopting SFAS 123(R), the Company's net loss per share increased $(0.03) for the year ended December 31, 2006. The Company has a net operating loss carryforward as of December 31, 2006 and therefore, no excess tax benefits for tax deductions related to the stock options were recognized. As of December 31, 2006, unamortized non-cash share-based compensation expenses of approximately $2,000,000 remain to be recognized over a weighted average period of approximately three years.

Prior to January 1, 2006, the Company accounted for share-based employee compensation plans using the intrinsic value method of accounting in accordance with APB 25 and its related interpretations. Under the provisions of APB 25, no compensation expense was recognized when stock options were granted with exercise prices equal to or greater than market value on the date of grant.

On December 15, 2005, the Board of Directors of the Company approved the acceleration of vesting for the unvested portion of all outstanding stock options awarded to employee and non-employee directors of the Company from May 2001 to December 15, 2005 under the 2001 Equity Compensation Plan, as amended (the "2001 Equity Plan"). While the Company typically issues options that vest equally over four years, as a result of this vesting acceleration, stock options to purchase approximately 1,200,000 shares of the Company's common stock, of which approximately 600,000 were then held by the Company's executive officers and non-employee directors, became immediately exercisable. The exercise prices of the affected stock options ranged from $1.90 to $5.93 and the closing price of the Company's common stock on December 15, 2005, was $1.75.

The purpose of the accelerated vesting was to provide a non-cash benefit to the Company's employees and to eliminate future compensation expense the Company would otherwise recognize in its consolidated statements of operations with respect to these accelerated options upon the adoption of SFAS 123(R). The estimated future compensation expense associated with these accelerated options that would have been recognized in the Company's consolidated statements of operations upon implementation of SFAS 123(R) is approximately $1,300,000. All option grants made on and after January 1, 2006 are accounted for in accordance with SFAS 123(R).

Stock options and warrants issued to consultants and other non-employees as compensation for services provided to the Company are accounted for based on the fair value of the services provided or the estimated fair market value of the option or warrant, whichever is more reliably measurable in accordance with SFAS 123 and EITF 96-18, *Accounting for Equity Investments That are Issued to Other Than Employees for Acquiring or in Conjunction with Selling Goods or Services,* including related amendments and interpretations. The related expense is recognized over the period the services are provided.

The following table sets forth the pro forma disclosure of the Company's net loss and net loss per share for the prior year ended December 31, 2005 assuming the estimated fair value of the options were calculated pursuant to SFAS 123(R) and amortized to expense over the option-vesting period:

	Year Ended December 31, 2005
Net loss applicable to holders of common stock, as reported for basic and diluted calculations	$ (10,514,570)
Deduct: Total share-based employee compensation expense determined under fair value based method for all awards	(1,599,134)
Pro forma net loss applicable to holders of common stock, basic and diluted calculations	$ (12,113,704)
Basic and diluted net loss per common share, as reported	$ (0.48)
Basic and diluted pro forma net loss per common share	$ (0.55)

The fair value for these options (which are granted with an exercise price equal to fair market value on the grant date) was estimated using the Black-Scholes option valuation model with the following weighted average assumptions:

	Year Ended December 31, 2005
Average Risk-Free Interest Rate	4.00%
Dividend Yield	0%
Average Volatility Factor	50%
Average Option Life	5 Yrs

Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk include cash and cash equivalents and accounts receivable (see Note 3). The Company invests its excess cash in money market funds. The money market funds represent an interest in low risk U.S. Government obligations. The Company's investments are not insured or guaranteed by the U.S. Government, the Federal Deposit Insurance Corporation or any other government agency.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. Actual results could differ from those estimates.

Reporting Comprehensive Loss

Comprehensive loss is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances, except for those resulting from investments by owners and distributions to owners. The presentation of comprehensive loss required by SFAS No. 130, *Reporting Comprehensive Income*, is not required in the accompanying consolidated financial statements as the Company has no material components of accumulated other comprehensive loss.

Fair Value of Financial Instruments

The Company uses various methods and assumptions to estimate the fair value of each class of financial instrument. Due to their short-term nature and measurement, the carrying value of cash and cash equivalents, accounts receivable, accounts payable and notes payable approximate fair value. The Company's other financial instruments are not significant.

Recent Accounting Pronouncements

On February 15, 2007, the Financial Accounting Standards Board ("FASB") issued SFAS No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of FASB Statement No. 115*" ("SFAS 159"). This standard permits an entity to measure financial instruments and certain other items at estimated fair value. Most of the provisions of SFAS 159 are elective; however, the amendment to FASB No. 115, "*Accounting for Certain Investments in Debt and Equity Securities*," applies to all entities that own trading and available-for-sale securities. The fair value option created by SFAS 159 permits an entity to measure eligible items at fair value as of specified election dates. The fair value option (a) may generally be applied instrument by instrument, (b) is irrevocable unless a new election date occurs, and (c) must be applied to the entire instrument and not to only a portion of the instrument. SFAS 159 is effective as of the beginning of the first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of the previous fiscal year provided that the entity (i) makes that choice in the first 120 days of that year, (ii) has not yet issued financial statements for any interim period of such year, and (iii) elects to apply the provisions of FASB 157. The Company does not believe that the adoption of SFAS 159 will have an impact on its consolidated results of operations, financial condition or cash flows.

As discussed above and in Note 9*,* Stock Options, the Company adopted FASB No. 123(R) effective January 1, 2006 using the "modified prospective" method. The Company recognized non-cash share-based compensation expense for its share-based stock option awards of approximately $788,000 during the fiscal year ended December 31, 2006 which was calculated under the provisions of SFAS 123(R).

In May 2005, the FASB issued Statement No. 154, *Accounting Changes and Error Corrections-a replacement of APB Opinion No. 20 and FASB Statement No. 3* (SFAS 154). This Statement replaces APB Opinion No. 20, *Accounting Changes*, and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements*, and changes the requirements for the accounting for and reporting of a change in accounting principle and error corrections. This Statement applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Earlier application was permitted for accounting changes and corrections of errors made occurring in fiscal years beginning after September 1, 2005. The Company adopted this standard on January 1, 2006. The adoption of SFAS 154 did not have a significant impact on its consolidated results of operations, financial position or cash flows.

In September 2006, the FASB adopted Statement No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 provides enhanced guidance for using fair value to measure assets and liabilities. The standard also responds to investors' requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. The standard applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. The standard does not expand the use of fair value in any new circumstances. SFAS 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Early adoption is permitted. The Company does not believe that the adoption of SFAS 157 will have an impact on its consolidated results of operations, financial condition or cash flows.

In September 2006, the SEC issued SAB No. 108, "*Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*" ("SAB 108"), which is effective for fiscal years ending after November 15, 2006. SAB 108 provides guidance on the consideration of the effects of prior year immaterial misstatements in quantifying current year misstatements for the purpose of a materiality assessment on both the balance sheet and income statement. SAB 108 would require restatement of prior year financial statements for current year misstatements even if the revisions are immaterial to those prior years, if the correction would be material to the current year. SAB 108 allows for the cumulative effect of the initial application to be made to beginning retained earnings. The adoption of SAB 108 did not have an impact on its consolidated results of operations, financial condition or cash flows.

In June 2006, the FASB issued Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109*" (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company does not believe that the adoption of FIN 48 will have an impact on its consolidated results of operations, financial condition or cash flows.

3. Concentrations

The Company's credit risks consist primarily of uncollateralized accounts receivable from customers in the textile and other industries. The Company performs periodic credit evaluations of its customers' financial condition and provides allowances for doubtful accounts as required.

In 2006, there was one customer that accounted for approximately 10% of net sales while in 2005 there were two customers that accounted for approximately 10% each of net sales. There were two customers in 2006 whose trade receivable balances equaled or exceeded 5% of total receivables, representing approximately 17% and 6%, respectively, of total accounts receivable. The loss of business from one or a combination of the Company's significant customers could adversely affect its operations.

The Company conducts operations in Hong Kong, mainland China, Poland and The Netherlands through its foreign subsidiaries. The net assets (liabilities) of the Company as of December 31, 2006 that have foreign currency exchange exposure and the related foreign currencies are as follows: approximately $954,000 - Hong Kong Dollar, $961,000 - Chinese Yuan, $14,000 - Polish Zloty and $(31,000) - Euro, respectively.

The Company generates a large portion of its sales to customers that are located outside the United States. Sales to external customers attributed to foreign countries, defined as the location of the corporate office of those customers, totaled $13,770,152 and $14,459,260 for the years ended December 31, 2006 and 2005, respectively.

The Company does not own enzyme manufacturing facilities, but instead has employed two contract manufacturers who have produced all of its products. The key contract manufacturer is Polfa Tarchomin, SA, ("Polfa"), located in Warsaw, Poland, which has been producing commercial enzymes since 2001 under a 10-year contract, which is cancellable under certain circumstances, with several 10-year renewal options exercisable at the Company's discretion. The second contract manufacturer, Martek BioSciences, is used only on a limited basis. The majority of the Company's production requirements are satisfied by the single manufacturing facility operated by Polfa, leaving the Company vulnerable to a failure of performance by this manufacturer.

4. Fixed Assets

At December 31, 2006, fixed assets consisted of the following:

	Estimated Useful Life	Amount
Lab and manufacturing equipment	3-10	$ 2,135,268
Furniture and fixtures	3-7	376,402
Leasehold improvements	5	202,178
Land	Indefinite	1,003,458
Vehicles	4-5	123,239
		3,840,545
Less accumulated depreciation and amortization		(2,027,077)
Total net fixed assets		$ 1,813,468

Depreciation and amortization expense of fixed assets for the years ended December 31, 2006 and 2005 is approximately $250,000 and $535,000, respectively, of which approximately $129,000 and $85,000 is included in cost of goods sold and approximately $121,000 and $450,000 is included in general and administrative costs, respectively, in the accompanying consolidated statements of operations.

5. Accrued Expenses

At December 31, 2006, accrued expenses consisted of the following:

Accrued wages and benefits	$ 767,495
Accrued expenses relating to vendors and others	595,309
Research and development	437,188
Accrued taxes payable	105,390
	$ 1,905,382

6. Short Term Notes Payable

At December 31, 2006, the Company had approximately $191,125 of short term notes payable, related to bank cash advances from customer Letters of Credit ("LOC's"). The LOC's were settled in January and February of 2007. The Company incurred charges of approximately $2,500 related to these advances and incurred interest expense at a rate of 7.25% per annum.

7. Long-Term Liabilities

Long Term Note Payable

Long term note payable to stockholder consisted of the following at December 31, 2006:

Loan payable with a rate of 8% as of December 31, 2006 to Mark A. Emalfarb Trust (Bridge Loan), secured by all assets of the Company, in the original principal amount of $3,000,000, principal and accrued interest due January 1, 2009. Accrued interest of $239,941 included in principal balance. Net of unamortized beneficial conversion feature of $46,109.	$ 2,378,832

Bridge Loan

On May 29, 2003, the Company obtained a $3.0 million revolving note from a group of stockholders, including the Chief Executive Officer, who contributed $2,185,000, and a group of other Dyadic-Florida stockholders who contributed $815,000, bearing interest at 8% per annum, with all unpaid principal and interest originally due on January 2, 2004, and extended to January 1, 2005 on February 13, 2004. Approximately $903,000 of the proceeds from the October 2004 Offering were used to pay off the $815,000 of principal and approximately $88,000 of accrued interest for the portion of the bridge loan contributed by the group of other Dyadic-Florida stockholders. The loan is collateralized by a security interest in all of the Company's assets.

The Mark A. Emalfarb Trust and other Dyadic-Florida stockholders, collectively, were also granted warrants to purchase up to 1.5 million shares of the Company's common stock at the lesser of $4.50 per share or the Series A Preferred conversion price, expiring ten years from the date of grant (the Bridge Loan Warrant). In November 2004, the exercise price of the Bridge Loan Warrant was reduced to $3.33 and the maturity date was extended to January 1, 2007 in connection with the Merger (see Note 1). As a result, approximately $343,000, representing the incremental fair value of the modified warrant as compared to the fair value of the original warrant immediately before the modification, was being amortized to interest expense through the new maturity date.

On April 30, 2006, the then maturity date of the Bridge Loan was extended from January 1, 2007 to January 1, 2008. The then remaining unamortized portion of $76,848 of the beneficial conversion feature related to the modified Bridge Loan Warrants is being amortized through the new maturity date. Approximately $69,000 and $115,000 was amortized to interest expense during the years ended December 31, 2006 and 2005, respectively. Interest expense on the Bridge Loan excluding the amortization of the beneficial conversion feature, was approximately $194,000 for each of the years ended December 31, 2006 and 2005. On March 21, 2007, the maturity date of the Bridge Loan was extended from January 1, 2008 to January 1, 2009.

Convertible Notes Payable

On May 1, 2006, the Mark A. Emalfarb Trust received 251,298 shares of common stock upon the conversion in full of its convertible note which had combined principal and accrued interest of $836,824 as of that date. On May 1, 2006, the Francisco Trust received 222,537 shares of common stock upon the conversion in full of its convertible note which had combined principal and accrued interest of $741,048 as of that date. As a result of the conversions, a total of approximately $1.6 million of notes payable to stockholders, bearing interest at 6% per annum was relieved. The balances of the related beneficial conversion features were fully expensed in April 2006 resulting in an adjustment of approximately $171,000 to interest expense.

During each of the years ended December 31, 2006 and 2005, approximately $256,000 was amortized to interest expense related to the beneficial conversion features. Interest expense related to the convertible notes excluding the amortization of the beneficial conversion feature, was approximately $31,000 and $95,000 for the years ended December 31, 2006 and 2005, respectively.

The Mark A. Emalfarb Trust and Francisco Trust are major stockholders of the Company and are trusts whose beneficiaries are the Company's President, Chief Executive Officer and Chairman, and the wife and children of Mark A. Emalfarb, respectively.

Notes Payable - Minority Shareholders

On April 28, 2006, the Company purchased the remaining 17.5% of shares held by the then two minority shareholders of its Asian subsidiary, giving the Company 100% ownership of that subsidiary (see Note 8, Share-Based Compensation, Issuances of Common Stock). The minority shareholders received $375,000 in cash and 212,501 shares of unregistered Dyadic common stock in consideration for, among other things, the cancellation of the subordinated notes under which the Company owed the minority shareholders approximately $172,000 of principal and $70,000 of accrued interest; relief of the Company's minority interest liability of approximately $117,000; and a release of the Company for a potential $405,000 contingent obligation to the managing director incident to the Company's purchase of its initial majority interest in the Asian Subsidiary in 1998.

Interest expense on the subordinated notes payable to the minority stockholders of the Asian subsidiary was approximately $3,400 and $10,300 for the years ended December 31, 2006 and 2005, respectively.

8. Share-Based Compensation

Issuances of Common Stock

On March 22, 2006, the Company issued 11,990 shares of common stock under the Dyadic International, Inc. 2001 Equity Compensation Plan (the "Equity Plan"), to Glenn E. Nedwin, Ph.D., the Company's Chief Scientific Officer, Executive Vice President, President of the BioPharma Business and a director, as a signing bonus per his employment agreement. The shares were valued at $50,000 based on the fair market value of the Company's common stock on the date of grant.

On April 28, 2006, the Company and its then 82.5% majority owned Asian Subsidiary entered into a satisfaction and purchase agreement with the Asian Subsidiary's then two minority shareholders, its managing director and one of its other key employees, effective as of January 1, 2006. The minority shareholders received $375,000 in cash and 212,501 shares of unregistered common stock of the Company. The Company's shares were valued at approximately $1,328,000 based on the fair market value of the Company's common stock on April 28, 2006, the measurement date for accounting purposes. As of May 1, 2006, the Company is recording 100% of the Asian Subsidiary's operating results in the accompanying condensed consolidated statements of operations.

On May 1, 2006, the Company's two largest stockholders, the Mark A. Emalfarb Trust and the Francisco Trust U/A/D February 28, 1996 (the "Francisco Trust"), increased their stock ownership in the Company by 251,298 and 222,537 shares of common stock, respectively, as a result of converting in full their convertible promissory notes due January 1, 2007, at an exercise price of $3.33 per share. A total of approximately $1.6 million of notes and interest payable to stockholders, bearing interest at 6% per annum was converted. The balances of the related beneficial conversion features were fully expensed in April 2006 resulting in an adjustment of approximately $171,000 to interest expense.

The Francisco Trust has as its beneficiaries the wife and children of Mark A. Emalfarb, the Chief Executive Officer, President and Chairman of the Company.

On October 26, 2006, the Company entered into the Abengoa Securities Purchase Agreement with Abengoa, a subsidiary of Abengoa S.A.. Also on October 26, 2006, Dyadic-Florida entered into a non-exclusive research and development agreement with Abengoa pertaining to the conduct of a research and development ("R&D") program to be completed over a period of up to three and one-half years, under which Dyadic-Florida will seek to apply its proprietary technologies to the development of cost-effective enzyme mixtures and related processing and manufacturing technologies for commercial application in Abengoa's bioethanol (cellulosic ethanol) production process (the "R&D Agreement").

Under the terms of the Abengoa Securities Purchase Agreement, Abengoa paid the Company $10,000,000, for which it was issued 2,136,752 shares of the Company's common stock at $4.68 per share (the closing share price on October 25, 2006, as reported on the American Stock Exchange). The Company completed this transaction on November 8, 2006. Under certain circumstances, as described below, Dyadic may have to issue additional securities to Abengoa. As of December 31, 2006, unused proceeds of approximately $9,998,000 are recorded as deferred research and development obligation in the accompanying consolidated financial statements and will be recognized as revenue as the expenses associated with the R&D program described above are incurred. The costs incurred in connection with the Abengoa Securities Purchase Agreement are included in other assets at December 31, 2006 and will be amortized in relation to the revenue recognized under the deferred research and development obligation.

If within six months following the date of closing the Company has not entered into a specified type of transaction involving the sale of its securities totaling at least $20,000,000 in gross proceeds, then Abengoa is entitled to receive three-year warrants to purchase 427,351 shares at an exercise price of $5.85. If the sale of securities totaling at least $20,000,000 is at a price lower than $4.68 per share, Abengoa is entitled to have additional shares issued to them so that their investment is at the same price. If the sale of securities includes warrants, Abengoa's pro rata warrant coverage and other warrant terms are to be the same as those in the securities transaction rather than the warrant terms discussed above. For additional disclosure regarding this transaction, see Note 1, Organization and Operations **-** *Capital Raising Activities.*

On November 17, 2006, the Company entered into the Securities Purchase Agreement with certain investors to purchase in a private placement 2,787,000 shares of its common stock at a price of $4.68 per share and warrants to purchase up to 557,400 shares of its common stock at an exercise price of $6.33 per share for gross proceeds of $13,043,160. The private placement was completed on December 1, 2006. Cowen and Company, LLC acted as the exclusive placement agent for the private placement for which they received warrants to purchase up to 83,610 shares of the Company's common stock at $5.24 per share and warrants to purchase up to 16,722 shares of common stock at $6.33 per share. The Company incurred $954,682 of costs related to the private placement. These costs are included as a reduction of additional paid-in capital.

During the year ended December 31, 2006, the Company received an aggregate of approximately $6,901,000 in proceeds from the exercises of the following instruments: (i) warrants to purchase an aggregate of 495,460 shares of its common stock at an exercise price of $3.33 per share, (ii) warrants to purchase an aggregate of 709,664 shares of its common stock at an exercise price of $5.50 per share, (iii) stock options to purchase an aggregate of 274,950 shares of its common stock, granted under the 2001 Equity Plan, with exercise prices ranging from $2.08 to $4.50 per share, and (iv) stock options to purchase an aggregate of 65,000 shares of common stock, granted prior to the 2001 Equity Plan, with an exercise price of $4.50 per share.

During the years ended December 31, 2006 and 2005, the Company issued 205,652 and 7,523 shares of common stock, respectively, pursuant to a Development Agreement with a third party for services rendered to the Company for research and development projects. The original term of the Development Agreement was a 26-month period ending September 30, 2006. In December 2004, the term was extended to December 31, 2006 and in December 2006 the term was extended to April 30, 2007. The Company originally placed 300,300 shares of common stock in escrow which is being issued to the third party as earned during the contractual period, at which time they are deemed to be outstanding. Per the Development Agreement, the price used to calculate the number of shares issued was set at $3.33 per share. The stated value of the services rendered is then divided by the share price of $3.33 to determine the number of shares earned. The Company has recognized non-cash R&D expense of approximately $1,063,000 and $25,000 for the years ended December 31, 2006 and 2005, respectively, based on the fair market value of the Company's common stock on the measurement dates. The number of shares held in escrow as of December 31, 2006 is 87,125 and an aggregate of 213,175 shares have been earned to date.

On March 1, 2007 (the "Effective Date"), the Development Agreement was extended for one year (through February 29, 2008), with an option to extend an additional twelve months. The total cost of the one year extension is $1,650,600, which will be billed to the Company on a monthly basis, based upon the actual amount of time incurred by the third party. Each monthly amount is payable 86% in cash (the "Cash Amount") and 14% in unregistered shares of the Company's common stock (the "Equity Amount"). The shares are payable in two installments; the first installment to be delivered on the 35th day following the six month anniversary of the Effective Date and the second installment to be delivered on the 35th day following the twelve month anniversary of the Effective Date. The number of shares will be equal to the Equity Amount divided by the closing price of the Company's stock on the Effective Date ($5.91). The Company may terminate the Agreement upon 60 days prior written notice.

Warrants

At December 31, 2006 and 2005, 6,405,384 and 6,952,776 shares of common stock have been reserved for issuance under outstanding warrants, respectively. All of the warrants are fully vested and have expiration dates ranging from October 29, 2009 to May 29, 2013. Information concerning the Company's warrant activity is as follows:

	2006		2005	
	Warrants	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price
Outstanding, at the beginning of year	6,952,776	$ 4.88	1,500,000	$ 3.33
Exercised	(1,205,124)	4.61	--	--
Granted	657,732	6.19	5,452,776	5.30
Outstanding, at the end of year	6,405,384	$ 5.06	6,952,776	$ 4.88

In December 2006, the Company issued warrants to purchase up to 557,400 shares of its common stock at an exercise price of $6.33 per share related to investors in a private placement (see "*Issuances of Common Stock"* above). Cowen and Company, LLC acted as the exclusive placement agent for the private placement for which the Company issued to it warrants to purchase up to 83,610 shares of the Company's common stock at $5.24 per share and warrants to purchase up to 16,722 shares of the Company's common stock at $6.33 per share.

The warrants issued to the investors become exercisable on May 31, 2007, expire three years thereafter, contain price adjustment and economic anti-dilution features, as well as anti-dilution protection from stock splits and similar events, contain limited cashless exercise procedures and are callable by us under certain circumstances. The warrants issued to the placement agent are substantially identical to the warrants issued to the investors, except that (i) the warrant for 83,610 shares has an exercise price of $5.24 per share rather than $6.33 per share and (ii) they have a five-year term rather than a three-year term and (iii) they provide for unqualified cashless exercise procedures rather than limited cashless exercise procedures.

9. Stock Options

In January 2006, the Company adopted SFAS 123(R), *Share-Based Payment* ("SFAS 123(R)"), which is a revision of SFAS 123, *Accounting for Share-based Compensation*. SFAS 123(R) supersedes Accounting Principles Board Opinion ("APB") No. 25, *Accounting for Stock Issued to Employees* (APB 25), and amends SFAS No. 95, *Statement of Cash Flows*. Generally, the approach in SFAS 123(R) is similar to the approach described in SFAS 123. However, SFAS 123(R) requires all share-based payments to employees and non-employee directors, including grants of employee stock options, to be recognized in the consolidated statements of operations based on their fair values. Pro forma disclosure, which has previously been used by the Company, is no longer an alternative.

The Company adopted the fair value recognition provisions of SFAS 123(R), using the modified prospective transition method. Under this transition method, compensation expense includes options vesting for share-based payments granted prior to, but not vested as of December 31, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123 and share-based payments granted after December 31, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). Because this transition method was selected, results of prior periods have not been restated.

Prior to January 1, 2006, the Company accounted for share-based employee compensation plans using the intrinsic value method of accounting in accordance with APB 25 and its related interpretations. Under the provisions of APB 25, no compensation expense was recognized when stock options were granted with exercise prices equal to or greater than market value on the date of grant.

On December 15, 2005, the Board of Directors of the Company approved the acceleration of vesting for the unvested portion of all outstanding stock options awarded to employee and non-employee directors of the Company from May 2001 to December 15, 2005 under the 2001 Equity Compensation Plan, as amended (the "2001 Equity Plan"). While the Company typically issues options that vest equally over four years, as a result of this vesting acceleration, stock options to purchase approximately 1,200,000 shares of the Company's common stock, of which approximately 600,000 were then held by the Company's executive officers and non-employee directors, became immediately exercisable. The exercise prices of the affected stock options ranged from $1.90 to $5.93 and the closing price of the Company's common stock on December 15, 2005, was $1.75.

The purpose of the accelerated vesting was to provide a non-cash benefit to the Company's employees and to eliminate future compensation expense the Company would otherwise recognize in its consolidated statements of operations with respect to these accelerated options upon the adoption of SFAS 123(R). The estimated future compensation expense associated with these accelerated options that would have been recognized in the Company's consolidated statements of operations upon implementation of SFAS 123(R) is approximately $1,300,000. All option grants made on and after January 1, 2006 are accounted for in accordance with SFAS 123(R).

The Company's Amended and Restated 2001 Equity Plan and 2006 Option Plan (see below) are each considered to be compensatory plans under SFAS 123(R).

Description of Equity Plans

Amended and Restated 2001 Equity Compensation Plan

Effective May 2001, the Company's Board of Directors adopted the Dyadic International, Inc. 2001 Equity Compensation Plan (the "2001 Equity Plan") under which 1,302,989 shares of common stock were reserved for issuance. In September 2004, by written consent, the Company's Board of Directors and stockholders approved an increase in the authorized number of shares of common stock under the 2001 Equity Plan from 1,302,989 to 5,152,447. All employees, as well as members of the Company's Board of Directors and Key Advisors, (as defined in the 2001 Equity Incentive Plan), are eligible to participate under the 2001 Equity Plan. Under the 2001 Equity Plan, the Company may issue incentive stock options and nonqualified stock options to purchase shares of common stock, or the Company may issue shares of common stock. Such shares, if issued, may be subject to restrictions, as disclosed in the 2001 Equity Plan. In addition to stock options and stock grants, the 2001 Equity Plan allows for the issuance of Performance Units to an employee or Key Advisor. Each Performance Unit represents the right to receive an amount, in cash or in the Company's common stock, as determined by a committee of the Company's Board of Directors, based on the value of the Performance Unit, if established performance goals are met.

The 2001 Equity Plan was amended and restated effective as of January 1, 2005 by the Company's Board of Directors on April 1, 2006 and approved by the Company's stockholders at the 2006 Annual Meeting of Stockholders in June 2006 to (a) reduce the number of shares of common stock available for issuance under the plan to 4,478,475 shares from 5,152,447 shares (b) to conform certain provisions of the plan to the requirements of Section 409A of the Internal Revenue Code of 1986, as amended, and (c) to increase the maximum limitation of shares that may be subject to awards granted under the plan to any one individual for any fiscal year during the term of the plan to 1,200,000 shares from 100,000 shares. As of December 31, 2006, there were 2,956,911 stock options outstanding and 1,502,940 available for grant under the plan. The terms of the options outstanding under the plan range between five and ten years.

2006 Stock Option Plan

The Dyadic International, Inc. 2006 Stock Option Plan (the "2006 Option Plan") was adopted by the Company's Board of Directors in April 2006 and approved by stockholders at the 2006 Annual Meeting of Stockholders in June 2006. The purpose of the 2006 Option Plan is to retain and attract key management, employees, nonemployee directors and consultants by providing those persons with a proprietary interest in the Company. The compensation committee will administer the 2006 Option Plan and may grant stock options, which may be incentive stock options or nonqualified stock options that do not comply with Section 422 of the Internal Revenue Code. Under the 2006 Option Plan, 2,700,000 shares of common stock have been reserved for issuance. As of December 31, 2006, there were 5,000 stock options outstanding and 2,695,000 available for grant under the plan. The term of the options outstanding under the plan is ten years.
The Amended and Restated 2001 Equity Plan and the 2006 Option Plan are sometimes collectively referred to as the "Equity Compensation Plans". All options granted under the Equity Compensation Plans are service-based and typically vest over a four year period except for 667,533 options which are performance-based and vest based upon the achievement of certain benchmarks. As of December 31, 2006, there were 33,377 performance-based options that were exercisable and 1,259,593 service-based options that were exercisable.

The Company recognized non-cash share-based compensation expense for its share-based awards of approximately $788,000 and $77,000 for the years ended December 31, 2006 and 2005, respectively. These charges had no impact on the Company's reported cash flows. Total non-cash share-based compensation expense was allocated among the following expense categories:

	Year Ended December 31	
	2006	2005
General and administrative	$ 592,000	$ 58,000
Research and development	89,000	19,000
Cost of goods sold	32,000	--
Selling and marketing	75,000	--
	$ 788,000	$ 77,000

Under the modified prospective method of transition under SFAS 123(R), the Company is not required to restate its prior period financial statements to reflect expensing of share-based compensation under the new standard. Therefore, the results for the year ended December 31, 2006 are not comparable to the prior year.

The Company has determined its non-cash share-based compensation expense under SFAS 123(R) for the year ended December 31, 2006 as follows:

Valuation of Stock Options

Share-based compensation related to stock options is determined using the single option approach under the Black-Scholes valuation model. The fair value of options determined under SFAS 123(R) is amortized to expense over the vesting periods of the underlying options, generally four years.

The fair value of stock option awards for the year ended December 31, 2006 was estimated on the date of grant using the assumptions in the following table. The expected volatility in this model is based on the historical volatility of the Company's stock. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time awards are granted, based on maturities which approximate the expected life of the options. The expected life of the options granted is estimated using the historical exercise behavior of employees. The expected dividend rate takes into account the absence of any historical payments and the Board of Director's intention to retain all earnings, if any, for future operations and expansion.

	Year Ended December 31, 2006
Average Risk-Free Interest Rate	4.71%
Dividend Yield	0%
Average Volatility Factor	73%
Average Option Life	5 Yrs

Forfeiture Rate for Options

The Company is required to estimate forfeitures at the time of grant and revise those estimates in subsequent periods on a cumulative basis in the period the estimated forfeiture rate changes for all share-based awards. The Company considered its historical experience of option forfeitures as the basis to arrive at its estimated average option forfeiture rate of 5% per year for the year ended December 31, 2006 for all stock option awards.

Equity Compensation Plans Awards Activity

Information with respect to the Company's Equity Compensation Plans and grants of 65,000 options to nonemployees prior to the Company's adoption of either of the Equity Compensation Plans is as follows:

	Shares	Weighted Average Exercise Price Per Share	Aggregate Intrinsic Value
Outstanding at December 31, 2005	1,662,639	$ 3.61	$ --
Granted	1,711,722	4.61	--
Exercised	(339,950)	4.02	--
Expired	(12,500)	4.50	--
Cancelled	(60,000)	4.54	--
Outstanding at December 31, 2006	2,961,911	$ 4.12	$ 5,895,441
Exercisable at December 31, 2006	1,292,970	$ 3.65	$ 3,189,243

The weighted average grant date fair value of options granted during the year ended December 31, 2006 was $2.72 per share. The total intrinsic value of options exercised during the year ended December 31, 2006 was $820,348, or $2.41 per share.

Cash received from option exercises during the year ended December 31, 2006 was $1,348,402. The Company has a net operating loss carryforward as of December 31, 2006 and therefore, no excess tax benefits for tax deductions related to the stock options were recognized.

A further detail of the options outstanding as of December 31, 2006 is set forth as follows:

Range of Exercise Prices	Options Outstanding	Weighted-Average Remaining Life in Years	Weighted-Average Exercise Price Per Share	Options Exercisable	Weighted-Average Exercise Price Per Share
$1.83 - $2.90	394,467	3.69	$ 2.46	266,154	$ 2.47
2.96 - 3.80	1,180,411	3.45	3.23	706,439	3.39
4.39 - 4.66	604,500	6.83	4.57	182,000	4.51
5.92 - 7.13	782,533	4.15	5.95	138,377	6.14
	2,961,911	4.36	$ 4.12	1,292,970	$ 3.65

Unrecognized Share-Based Compensation Expense

As of December 31, 2006, there was approximately $2,013,000 of total unrecognized compensation expense related to nonvested share-based compensation arrangements granted under the Equity Incentive Plans. This expense is expected to be recognized over a weighted-average period of 2.9 years as follows:

Fiscal Year 2007	$ 683,000
Fiscal Year 2008	662,000
Fiscal Year 2009	591,000
Fiscal Year 2010	77,000
	$ 2,013,000

10. Commitments and Contingencies

Employment Agreements

In 2001, the Company entered into an employment agreement with Mark A. Emalfarb, the Company's President and Chief Executive Officer. The agreement commenced on April 1, 2001, and terminated on March 30, 2004, but renewed for an additional two years because neither party gave written notice 60 days prior to March 30, 2003. In March 2006, the agreement was amended (the “First Amendment”) to extend the term of Mr. Emalfarb’s employment by one year, from March 30, 2006 to March 30, 2007, and to add an automatic renewal provision for succeeding one year terms unless either party gives the other a notice of non-renewal not less than 90 days prior to the expiration of the then term. The agreement automatically renewed on April 1, 2007, as neither party provided the other party a notice of non-renewal at least 90 days prior to March 30, 2007. The First Amendment makes no other changes to Mr. Emalfarb’s employment agreement. The agreement provides for an annual base salary of $300,000 and the payment of an annual bonus (based on goals and objectives to be agreed upon by the Board and Mr. Emalfarb) for each fiscal year or portion of a fiscal year, including but not limited to research and other business milestones, sales, profitability or cash flow goals. The Company agrees to cause the compensation committee to grant Mr. Emalfarb options to the same extent as the committee grants to other senior executives of the Company and on the same terms and conditions.
The agreement also provides for the participation in all benefit plans, practices, policies and programs provided by the Company such as (including, without limitation, reimbursement of business related expenses, vacation, medical, prescription, dental, disability, retirement, salary continuance, employee life insurance, group life insurance, and accidental death and travel accident insurance plans and programs) generally available to other senior executives of the Company, and for other employee benefits.

If, during the employment period, the Company terminates Mr. Emalfarb's employment, other than for cause or disability or by reason of Mr. Emalfarb's death or by reason of the failure of the Company to renew the employment agreement, or if Mr. Emalfarb terminates employment for good reason, the Company shall provide Mr. Emalfarb with annual base salary and all benefits received by Mr. Emalfarb as of the date of termination for a period of one year from the date of termination.

In March 2005, the Company entered into employment agreements with one of its executive officers and one of its key employees, and in connection therewith, promoted them to new offices: Mr. Kent M. Sproat, formerly Vice President, Manufacturing, was promoted to Executive Vice President, Enzyme Business and Mr. Ratnesh (Ray) Chandra, formerly Vice President, Marketing - BioPharma, was promoted to Senior Vice President, Marketing - Biotechnology Systems. Mr. Sproat was also promoted to the office of Executive Vice President of the Company’s operating subsidiary, Dyadic International (USA), Inc., a Florida corporation (“Dyadic-Florida”). Currently, Mr. Sproat serves as Executive Vice President, Manufacturing and Special Projects. The annual base compensation of Mr. Sproat and Mr. Chandra is $195,700 and $175,350, respectively. Mr. Sproat’s and Mr. Chandra’s employment agreements include provisions that might entitle them to extended severance benefits following the occurrence of a “Change of Control,” as defined, of either the Company or its BioPharma Business, in the case of Mr. Chandra, and following the occurrence of a “Change of Control” of either the Company or its Enzymes Business, in the case of Mr. Sproat. Under both agreements, upon a termination of the executive’s employment by the Company or its successor-in-interest other than “for Cause,” or a termination of his employment by the executive which is a “Constructive Termination of Employment Without Cause,” as defined, within 12 months following the occurrence of a Change of Control, he will become entitled to a severance benefit of monthly installments in the amount of 1/12th of his then annual base compensation for 18 months.

In addition, the Company entered into four other employment agreements with officers and key employees during 2005. The initial term of employment under all six employment agreements ends on December 31, 2007, with automatic one-year renewals unless either party furnishes the other a notice of non-renewal not less than 90 days prior to the expiration of the then term. Each of them is eligible to earn a bonus each year of up to 40% of his annual base compensation based upon a bonus plan to be adopted and maintained by the compensation committee of the Board of Directors of the Company (the "Compensation Committee") for such year.

Each employment agreement is terminable on account of the executive's death or disability, or by the Company without cause or "for Cause. If the executive's employment is terminated by the Company other than "for Cause," upon the condition that he furnish the Company with a full general release, he is entitled to receive a severance benefit of monthly installments in the amount of 1/12th of his then annual base compensation for a period of 6 months for a combined potential severance benefit of up to approximately $553,000.

In March 2006, the Company entered into an agreement with Dr. Glenn E. Nedwin to become (i) the Company's Chief Scientific Officer, (ii) an Executive Vice President of the Company and (iii) the President of the BioPharma business of the Company's wholly-owned subsidiary, Dyadic International (USA), Inc., a Florida. The initial term of Dr. Nedwin's employment ends December 31, 2008, with automatic one-year renewals unless either party furnishes the other a notice of non-renewal not less than 120 days prior to the expiration of the then term. Dr. Nedwin's annual base salary is $300,000, and he is eligible to earn a bonus each year of up to 25% of his then annual base salary based upon a bonus plan adopted and maintained by the Compensation Committee of the Board of Directors of the Company for such year. Dr. Nedwin has been elected to the Board as a Class III director effective on the Effective Date, for a term which expires at the 2007 annual stockholders meeting.

The employment agreement is terminable on account of Dr. Nedwin's death or disability, by Dr. Nedwin for "Good Reason" , as defined, or by the Company without cause or "for Cause", as defined. If Dr. Nedwin's employment is terminated by the Company other than "for Cause," upon the condition that he furnish the Company with a full general release, he is entitled to receive a severance benefit of monthly installments in the amount of 1/12th of his then annual base salary for the eighteen (18) month period following that termination, provided that the amount of his severance benefits are reduced on a dollar-for-dollar basis by the amount of any remuneration he may earn during the severance period for the performance of services as an employee, or independent contractor or agent.

Employee Benefit Plan

The Company has a 401(k) defined contribution plan in which all employees are eligible to participate. Participants may elect to defer up to 80% of compensation up to a maximum amount determined annually pursuant to Internal Revenue Service regulations. The Company elected not to provide for matching employer contributions for the years ended December 31, 2006 and 2005.

Manufacturing Agreements

The Company entered into an agreement, which is cancellable under certain circumstances (the Manufacturing Agreement) in October 1999, under which a foreign manufacturer conducts contract production of certain products for the Company at its facilities. The Company provides the foreign manufacturer with all technical and technology information, instructions and procedures available to the Company and necessary for the production, packing and testing of the product.

The Company made a request of its product manufacturer to expand production capacity in order to produce higher volumes of existing and new products. The Company concluded an agreement in December 2004 with the manufacturer to provide an additional 50 cubic meters of fermentation capacity and associated recovery capacity with the majority of the capital necessary for this expansion to be provided by the manufacturer ("Additional Expansion Costs"). This expansion has been completed and became fully operational in October 2006. Dyadic made direct payment for certain removable equipment for this expansion of approximately $133,000. Should the Company require additional capacity in the future, and the current contract manufacturer cannot obtain the funding necessary to provide the needed capital to honor its obligation to the Company under the Manufacturing Agreement, this will negatively affect the Company's ability to meet its production requirements and therefore impact its financial position, results of operations and cash flows. In such an event, the Company would have to locate additional capacity with another contract manufacturing facility.

The Manufacturing Agreement requires the payment of monthly charges based on capacity usage, ultrafiltration costs, disposal costs, raw material costs and reimbursement of plant modification costs. In July 2001, the Company agreed to pay a total of approximately $1.6 million in plant modification costs in monthly installments of $28,088, plus LIBOR (3.6% at December 31, 2006), and in 2006, agreed to pay an additional $1.0 million in expansion costs in monthly installments of $11,546 plus LIBOR, both over seven-year periods. The Company agreed to make a prepayment of $225,000 of the $1.0 million in January 2007. All payments are denominated in Euros. Remaining minimum payments under the Manufacturing Agreement and the Additional Expansion Costs, including interest at the December 31, 2006 LIBOR rate, are as follows:

Year ending December 31,	Manufacturing Agreement	Additional Expansion Costs
2007	$ 337,051	$ 363,552
2008	112,402	138,551
2009	--	138,551
2010	--	138,551
2011	--	138,552
2012	--	17,465
	$ 449,403	$ 935,222

The Manufacturing Agreement is being accounted for as service agreement and the Additional Expansion Costs is being treated as an operating lease. Accordingly, annual payments are reflected as a component of cost of goods sold in the annual period in which each payment is due.

Agreement to Conduct Research and Development Activities on Behalf of the Company

The Company has entered into several agreements with independent third parties to conduct research and development activities on behalf of the Company. Except as described below, none of these agreements are for minimum periods in excess of one year, and are generally cancelable by the Company with advance written notice.

On July 30, 2004, the Company entered into a Development Agreement with a third party to assist the Company in various research and development projects over the 26-month period ending September 30, 2006. In December 2004, the termination date was extended to December 31, 2006 and in December 2006 the term was extended to April 30, 2007. Under the Development Agreement, the Company is required to utilize, and the third party has committed to provide, research and development assistance valued at approximately $1.25 million. The consideration for these services includes 300,300 shares of the Company's common stock, valued at $1.0 million, and cash, $250,000 of which was paid upon execution of the Development Agreement. Pursuant to the Development Agreement, the 300,300 shares of common stock were placed in escrow and are being issued to the third party as earned during the contractual period, at which time they are considered outstanding. The Development Agreement imposes cash penalties upon the third party in the event of nonperformance under the Development Agreement, beyond the forfeiture of any shares of common stock placed in escrow. The Company has issued an aggregate of 213,175 shares of common stock pursuant to the agreement and the $250,000 cash prepayment has been utilized in full. The number of shares held in escrow as of December 31, 2006 is 87,125.

On March 1, 2007 (the “Effective Date”), the Development Agreement was extended for one year (through February 29, 2008), with an option to extend an additional twelve months. The total cost of the one year extension is $1,650,600, which will be billed to the Company on a monthly basis, based upon the actual amount of time incurred by the third party. Each monthly amount is payable 86% in cash (the “Cash Amount”) and 14% in unregistered shares of the Company’s common stock (the “Equity Amount”). The shares are payable in two installments; the first installment to be delivered on the 35th day following the six month anniversary of the Effective Date and the second installment to be delivered on the 35th day following the twelve month anniversary of the Effective Date. The number of shares will be equal to the Equity Amount divided by the closing price of the Company’s stock on the Effective Date ($5.91). The Company may terminate the Agreement upon 60 days prior written notice.

Litigation, Claims and Assessments

In the opinion of management, there are no known pending or threatened legal proceedings that would have a material effect on the Company's financial position, results of operations or cash flows.

Leases

The Company’s corporate headquarters are located in Jupiter, Florida, in approximately 8,500 square feet of space occupied under a lease with a monthly rental rate of approximately $15,550 that expires on December 31, 2007. The lease has an escalation clause and an option to extend the lease for two years. The Company leases a 3,500 square foot lab facility in Jupiter, Florida, with a monthly rental rate of $1,500 that expires on June 30, 2007. The Company also leases a 3,150 square foot lab facility and a storage building in Greensboro, North Carolina, with a monthly rental rate of $2,035 which expires on December 31, 2007.

The Asian subsidiary leases its office premises and staff accommodations under nine operating lease arrangements for terms ranging from two to ten years.

The Company's Asian subsidiary leases a facility in Hong Kong from a former minority stockholder of the subsidiary. Rent expense under this arrangement was approximately $27,700 and $25,000 for the years ended December 31, 2006 and 2005, respectively.

Dyadic Nederland B.V. leases office and lab space with a monthly rental rate of approximately $4,000, which expires on December 31, 2007 and can be renewed for a one year period through December 31, 2008.
Future minimum lease commitments due for facilities and equipment leases under noncancellable operating leases at December 31, 2006 are as follows:

	Operating Leases
2007	$ 384,644
2008	80,945
2009	75,280
2010	66,102
2011 and thereafter	198,710
Total minimum lease payments	$ 805,681

Rent expense under all operating leases for the years ended December 31, 2006 and 2005 totaled approximately $307,000 and $316,000, respectively, of which approximately $81,000 and $81,000 is included in cost of goods sold and approximately $226,000 and $235,000 is included in general and administrative costs, respectively, in the accompanying consolidated statements of operations.

Protection of Proprietary Technologies

The Company's success is dependent in part on its ability to obtain patents and maintain adequate protection of other intellectual property for the Company's technologies and products in the United States and other countries. If the
Company does not adequately protect its intellectual property, competitors may be able to practice its technologies and erode its competitive advantage. The laws of some foreign countries do not protect proprietary rights to the same extent as the laws of the United States, and many companies have encountered significant problems in protecting their proprietary rights in these foreign countries. These problems can be caused by, for example, a lack of rules and methods for defending intellectual property rights.

The Company holds four issued United States patents and two allowed and twenty-eight issued international patents, including claims that cover the C1 Production Technology (a host organism that performs protein expression and related services for laboratory research, clinical trials and commercial production) and 5 PCT Publications. The Company has fifty-two United States and international patent applications filed. The patent positions of biopharmaceutical and biotechnology companies, including the Company's patent position are generally uncertain and involve complex legal and factual questions. The Company will be able to protect its proprietary rights from unauthorized use by third parties only to the extent that its proprietary technologies are covered by valid and enforceable patents or are effectively maintained as trade secrets. The Company intends to apply for patents covering both its technologies and products as it deems appropriate. However, existing and future patent applications may be challenged and may not result in issued patents. The Company's existing patents and any future patents it obtains may not be sufficiently broad to prevent others from practicing the Company's technologies or from developing competing products. Furthermore, others may independently develop similar or alternative technologies or design around the Company's patented technologies. In addition, others may challenge or invalidate the Company's patents, or its patents may fail to provide the Company with any competitive advantages.

The Company relies upon trade secret protection for its confidential and proprietary information. The Company has taken security measures to protect its proprietary information. These measures may not provide adequate protection for the Company's trade secrets or other proprietary information. The Company seeks to protect its proprietary information by entering into confidentiality agreements with employees, collaborators and consultants. Nevertheless, employees, collaborators or consultants may still disclose the Company's proprietary information, and the Company may not be able to meaningfully protect its trade secrets. In addition, others may independently develop substantially equivalent proprietary information or techniques or otherwise gain access to the Company's trade secrets.

The inability of the Company to adequately protect its proprietary technologies could have a material adverse impact on the Company's business, operating results and financial condition.

Litigation, Other Proceedings or Third Party Claims of Intellectual Property Infringement

The Company's commercial success is dependent in part on neither infringing patents and proprietary rights of third parties, nor breaching any licenses that the Company has entered into with regard to its technologies and products. Others have filed, and in the future are likely to file, patent applications covering genes or gene fragments that the Company may wish to utilize with the Dyadic Platform Technology or products or systems that are similar to products or systems developed with the use of it. If these patent applications result in issued patents and the Company wishes to use the claimed technology, the Company would need to obtain a license from the third party.

Third parties may assert that the Company is employing their proprietary technology without authorization. In addition, third parties may obtain patents in the future and claim that the Company's technologies infringe these patents. The Company could incur substantial costs and diversion of management and technical personnel in defending itself against any of these claims or enforcing its patents or other intellectual property rights against others. Furthermore, parties making claims against the Company may be able to obtain injunctive or other equitable relief which could effectively block the Company's ability to further develop, commercialize and sell products, and could result in the award of substantial damages against the Company. If a claim of infringement against the Company is successful, the Company may be required to pay damages and obtain one or more licenses from third parties. The Company may not be able to obtain these licenses at a reasonable cost, if at all. In that event, the Company could encounter delays in product commercialization while it attempts to develop alternative methods or products. Defense of any lawsuit or failure to obtain any of these licenses could prevent the Company from commercializing available products.

Further, the taxonomic classification of the Company’s C1 organism was determined using classical morphological methods. More modern taxonomic classification methods indicate that C1 will be reclassified as a different genus and species. With the genomic sequence and the partial annotation of the C1 genome to date, the Company is in the process of determining with higher certainty the most likely genus and species of C1. Some of the possible species that C1 could be reclassified as could be the subject of patent rights owned by others. The Company believes, based on its evaluation of the relevant field of science and its discussions with its consulting professionals that any such patent rights would be invalid, and were litigation over the issue to ensue, the Company believes that it should prevail. If the Company did not prevail, to settle any such litigation or pre-litigation claims, it could be required to enter into a cross-licensing arrangement, pay royalties or be forced to stop commercialization of some of its activities.

The Company does not fully monitor the public disclosures of other companies operating in its industry regarding their technological development efforts. If the Company did evaluate the public disclosures of these companies in connection with their technological development efforts and determined that they violated the Company's intellectual property or other rights, the Company would anticipate taking appropriate action, which could include litigation. However, any action the Company takes could result in substantial costs and diversion of management and technical personnel. Furthermore, the outcome of any action taken by the Company to protect its rights may not be resolved in the Company's favor or may not be resolved for a lengthy period of time.

Real Estate Purchase Contract

In May 2005, the Company purchased an undeveloped 1.13 acre parcel of land (the “Site”) pursuant to a real estate purchase contract with F&C Holdings, LLC (“Holdings”) dated July 31, 2004 (the “Commercial Land Purchase And Sale Agreement”) (see Note 9). The Company formed Dyadic Real Estate Holdings, Inc., a Florida corporation and wholly owned subsidiary in May 2005, to which it has assigned the Commercial Land Purchase and Sale Agreement and the Site.

The Site, which is in a planned community known as "Abacoa" is located in the Town of Jupiter, Florida (the “Town”). The Company has obtained final approval from the Town of Jupiter to construct approximately a 40,000 square foot commercial office biotech research and development building.

The Commercial Land Purchase and Sale Agreement obligates Dyadic to commence development of the Site within two (2) years following the closing date (ending July 31, 2007). During this two-year period, Dyadic is prohibited from re-transferring the Site to any other person other than (i) in connection with a sale of Dyadic, (ii) to an affiliate or (iii) with the approval of Dyadic's Board of Directors (a majority of its independent directors), to the Francisco Trust, the Mark A. Emalfarb Trust and/or any entity that is controlled, directly or indirectly, by Mark A. Emalfarb and/or his family members. It is not the Company’s intention to use its own funds to develop this Site, therefore the Company is considering such options as a joint venture or other arrangement to accomplish the development of the Site. There can be no assurance, however, that any joint venture or other arrangements will occur within the prescribed timeframe.

If after July 31, 2007, Dyadic has not commenced development of the Site, then at the election of Holdings, in exchange for a reconveyance Deed, it must pay to Dyadic a "Reconveyance Purchase Price" equal to the greater of the following: (i) $1.0 million or (ii) the "Market Value" of the shares of the Company's common stock, as defined, determined as of the date of the reconveyance notice from Holdings. The Reconveyance Purchase Price can be paid in all cash, or return of all the shares of the Company's common stock to the Company so long as the Market Value of the shares of the Company's common stock is greater than or equal to $1.0 million, or by combination of shares of the Company's common stock and cash, as determined in the sole and absolute discretion of Holdings. The Company is currently assessing its alternatives for the Site.

11. Segment Data Information

Operating segments are defined as components of an enterprise engaging in business activities about which separate financial information is available that is evaluated regularly by the chief operating decision maker or group in deciding how to allocate resources and in assessing performance. Utilizing these criteria, the Company has identified its reportable segments based on the geographical markets they serve, which is consistent with how the Company operates and reports internally.

The Company has three reportable segments: U.S. operations, Asian operations and Netherlands operations. The U.S. reportable segment includes a subsidiary in Poland that is considered auxiliary and integral to the U.S. operations. The accounting policies for the segments are the same as those described in the summary of significant accounting policies. The Company accounts for intersegment sales as if the sales were to third parties, that is, at current market prices. The U. S. operating segment is a developer, manufacturer and distributor of enzyme products, proteins, peptides and other bio-molecules derived from genes, and a collaborative licensor of enabling proprietary technology for the development and manufacturing of biological products and use in research and development. The Asian operating segment is engaged in the manufacturing and distribution of chemical and enzyme products to the textile and pulp and paper industries. The Netherlands operating segment is also a developer of enzyme products, proteins, peptides and other bio-molecules derived from genes and to date has invested solely in research and development activities. In 2006, one customer in the Asian operating segment accounted for approximately 10% of net sales. In 2005 one customer in the US operating segment and one customer in the Asian operating segment accounted for approximately 10% each of net sales.

The following table summarizes the Company's segment and geographical information:

	Year Ended December 31, 2006				
	U.S. Operating Segment	Asian Operating Segment	Netherlands Operating Segment	Eliminations	Totals
Net Sales:					
External customers	$ 9,330,948	$ 6,052,806	$ --	$ --	$ 15,383,754
Intersegment	1,057,910	393,274	--	(1,451,184)	--
Total net sales	10,388,858	6,446,080	--	(1,451,184)	15,383,754
(Loss) Income from operations	(10,125,912)	151,794	(734,120)	(26,914)	(10,735,152)
Investment income	562,707	2,037	55	(59,905)	504,894
Interest expense	(580,961)	(73,107)	--	59,905	(594,163)
Depreciation and amortization	142,626	103,558	3,997	--	250,181
Capital expenditures	391,192	66,033	62,246	--	519,471
Total assets at December 31, 2006	45,033,599	5,357,972	90,838	(5,345,029)	45,137,380

	Year Ended December 31, 2005				
	U.S. Operating Segment	Asian Operating Segment	Netherlands Operating Segment	Eliminations	Totals
Net Sales:					
External customers	$ 9,697,517	$ 6,185,452	$ --	$ --	$ 15,882,969
Intersegment	883,054	--	--	(883,054)	--
Total net sales	10,580,571	6,185,452	--	(883,054)	15,882,969
(Loss) Income from operations	(9,167,942)	141,866	(1,037,308)	77,489	(9,985,895)
Investment income	291,407	742	20	(42,889)	249,280
Interest expense (a)	(511,793)	(65,603)	(176,030)	42,889	(710,537)
Depreciation and amortization	154,177	61,917	386,636	--	602,730
Capital expenditures	216,187	167,101	27,552	--	410,840
Total assets at December 31, 2005	22,886,076	3,406,963	73,768	(2,613,743)	23,753,064

(a) Interest expense relating to the purchase by the U.S. operating segment of manufacturing equipment is allocated to the Netherlands operating segment.

12. Income Taxes

No provision for United States income taxes has been recognized for the year ended December 31, 2006 as the Company has incurred operating losses and has established a full valuation allowance. The Company's operations in Poland, Hong Kong and The Netherlands are subject to income taxes in these jurisdictions. The provisions for income taxes consist of the following as of December 31, 2006:

Current:	
U.S.	$ --
Foreign	63,112
Deferred:	
U.S.	--
Foreign	--
	$ 63,112

The United States and foreign components of loss from operations before income taxes are as follows for the year ended December 31, 2006:

United States	$ (10,174,577)
Hong Kong	89,562
Other foreign	(734,065)
	$ (10,819,080)

The primary difference between the Company's income tax benefit computed at the U.S. statutory rate of 34% and the effective tax rates for the years ended December 31, 2006 and 2005 is the change in the valuation allowance in the respective periods that results from the Company fully offsetting the deferred income tax benefit of its net operating losses.

The significant components of the Company's net deferred tax assets and liabilities consisted of the following at December 31, 2006:

Current tax assets and liabilities:	
Deferred research and development obligation	$ 3,762,196
Accrued expenses	244,937
Inventory reserves	218,664
Other items, net	10,825
Incentive stock options	88,573
Depreciation and amortization	219,227
	$ 4,544,422
Non-current tax assets and liabilities:	
Net operating loss and tax credit carryforwards	10,839,627
Total non-current	10,839,627
Valuation allowance	(15,384,049)
Net deferred tax assets	$ -

SFAS 109 requires a valuation allowance to reduce the deferred tax assets reported if, based on the weight of the evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. After consideration of all the evidence, both positive and negative, management has determined that a full valuation allowance of $15,384,049 against its net deferred taxes is necessary as of December 31, 2006. The change in valuation allowance for the years ended December 31, 2006 and 2005 is $4,044,688 and $4,279,185, respectively.

At December 31, 2006, the Company had approximately $25,956,409 of U.S. net operating loss carryforwards remaining, which will expire beginning in 2021. As a result of certain ownership changes, the Company may be subject to an annual limitation on the utilization of its U.S. net operating loss carryforwards pursuant to Section 382 of the Internal Revenue Code. A study to determine the effects of this change, if any, has not been undertaken.

A reconciliation of the Company's income taxes to amounts calculated at the federal statutory rate is as follows for the years ended December 31:

	2006	2005
Federal statutory taxes	(34.00)%	(34.00)%
State income taxes, net of federal tax benefit	(3.63)	(3.63)
Nondeductible items	2.06	.22
Change in valuation allowance	37.32	40.50
Research and development credits	(1.75)	(3.09)
	-- %	--%

R&D AGREEMENT

THIS R&D AGREEMENT (this "**Agreement**"), dated as of October 26, 2006 (the "**Agreement Date**"), by and among DYADIC INTERNATIONAL (USA), INC., a Florida corporation with headquarters located at 140 Intracoastal Pointe Drive, Suite 404, Jupiter, Florida 33477 (the "**Dyadic**"), and ABENGOA BIOENERGY R&D, INC., a Missouri corporation with headquarters located at 1400 Elbridge Payne Road, Suite 212, Chesterfield, Missouri ("**ABRD**"). Dyadic and ABRD are sometimes collectively referred to as the "**Parties**" and individually as a "**Party**." Certain capitalized terms used herein have the meanings assigned them in Article I hereof.

RECITALS:

A. ABRD has developed and continues to develop technologies (i) pertaining to the conversion of pre-treated biomass using a proprietary technology owned by ABRD into compositions containing fermentable sugars and co-products (each a "**Substrate**") and (ii) in the field of cellulosic ethanol production via enzymatic hydrolysis (collectively, "**ABRD Background Technology**"). Employing the ABRD Background Technology, ABRD has developed the Substrates with a commercial goal of improving their consistency independent of the identity of the biomass.

B. Dyadic has developed and continues to develop patented and other proprietary technologies pertaining to genes, gene expression, protein purification, protein characterization, enzymology, protein engineering, molecular evolution, high throughput screening, strain improvement, strain optimization and associated refinement, development, processing and manufacturing technologies (collectively, the "**Dyadic Core Technologies**").

C. Dyadic is engaged in various research and development activities based on these Dyadic Core Technologies in the field of ethanol production, including but not limited to the development of (i) enzyme compositions ("**Enzyme Mixtures**"), (ii) related Enzyme Mixture treatment processes for the conversion of various untreated and/or pre-treated Substrates into fermentable sugars (for each Enzyme Mixture, an applicable "**Processing Technology**"), and (iii) related Enzyme manufacturing processes for the production of those Enzyme Mixtures (for each Enzyme Mixture, an applicable "**Manufacturing Technology**"), as to each, for the production of ethanol (collectively, the "**CE R&D Activities**").

D. Dyadic intends to conduct a series of related and unrelated research and development programs of its own, and/or in collaboration with Third Parties (each a "**Collaboration Partner**") principally, various energy/fuel companies and/or vendors to the energy/fuel industry (each an "**R&D Program**"). In connection with each R&D Program, Dyadic will be performing Foundational R&D which may have application to all or most of the R&D Programs, and may also perform Applications R&D for the specific Collaboration Partner with whom or for whom Dyadic is conducting that R&D Program for or in collaboration with. Dyadic intends to conduct each of its R&D Programs in a manner in which all Foundational R&D will be applied by Dyadic, as it deems necessary or appropriate, to all or any of the R&D Programs, such that for purposes of Dyadic's dealings with its Collaboration Partners and other Third Parties, Dyadic shall be deemed to be conducting, in addition to a specific R&D Program in collaboration with or for that Collaboration Partner, a discrete master R&D program for the performance of Foundational R&D for the benefit of itself and, to the extents same is incorporated by Dyadic into products or services licensed, sold or distributed by Dyadic, for its licensees and customers (the "**Master R&D Program**").

E. ABRD desires to (i) support the development of Foundational R&D and improved Enzyme Mixtures, their related Processing Technologies and their related Manufacturing Technologies, (ii) license and scale-up the use of such Enzyme Mixtures and Manufacturing Technologies, and (iii) demonstrate the value of such Enzyme Mixtures, their related Processing Technologies and their related Manufacturing Technologies, when used in pilot-scale and commercial-scale biomass hydrolysis processes using ABRD Background Technology.

F. The Parties understand that the field of cellulosic ethanol is in its early stages, and that a very substantial volume of Foundational R&D will be required to be completed before meaningful Applications R&D can reasonably be expected to yield commercial-scale Enzyme Mixtures and related Processing Technologies and Manufacturing Technologies.

G. Concurrently with the execution and delivery of this Agreement, Dyadic's parent, Dyadic International, Inc., a Delaware corporation ("**Dyadic-Parent**") and ABRD are executing and delivering to each other that certain Securities Purchase Agreement (the "**SPA**"), pursuant to which ABRD is making a strategic investment in Dyadic-Parent to enable Dyadic, in concert with ABRD and other Collaboration Partners, to fund Dyadic's CE R&D Activities. Dyadic expressly acknowledges and agrees that pursuant to the provisions of Section 4.6 of the SPA, Dyadic-Parent has jointly and severally guaranteed each of Dyadic's obligations to ABRD created by the terms and provisions of this Agreement.

H. ABRD now desires to engage Dyadic to develop for ABRD one or more Enzyme Mixtures, their related Processing Technologies and their related Manufacturing Technologies, for Substrates approved by the Steering Committee that ABRD will, within a reasonable period of time following the Closing Date, deliver to Dyadic (each an "**Applicable Substrate**") for the purposes of having Dyadic develop and demonstrate a cost-effective Enzyme Mixture for each Applicable Substrate (as to each Applicable Substrate, its applicable "**Custom Enzyme Mixture**"), a cost-effective Processing Technology for the processing of each such Custom Enzyme Mixture (as to each Applicable Substrate, its related "**Custom Processing Technology**") and a cost-effective Manufacturing Technology for the production of each such Custom Enzyme Mixture (as to each Applicable Substrate, its related "**Custom Manufacturing Technology**") ready for scale-up to commercial application in ABRD Background Technology, within three (3) years following the Steering Committee's approval of the applicable Statements of Work in respect of those Applicable Substrates (the "**ABRD R&D Objective**"), and to perform such Foundational R&D as Dyadic determines to be necessary or appropriate to facilitate the achievement of the ABRD R&D Objective.

I. The Parties further wish to provide for Dyadic's grant of an option to ABRD to license the Custom Enzyme Mixture, Custom Processing Technology and the Custom Manufacturing Technology for each Applicable Substrate from Dyadic on a non-exclusive basis, with the express understanding that Dyadic shall have the right to sell each Custom Enzyme Mixture, any related Processing Technology Dyadic may develop for such Custom Enzyme Mixture and the Custom Manufacturing Technology, or to license any or all of same, to any other Dyadic Collaboration Partner, or to any other Third Party, subject to the terms of this Agreement.

AGREEMENT:

NOW, THEREFORE, IN CONSIDERATION of the mutual covenants contained in this Agreement, and the foregoing Recitals, which are incorporated herein and by this reference made a part hereof, and for other good and valuable consideration the receipt and adequacy of which are hereby mutually acknowledged by Dyadic and ABRD, they hereby agree as follows:

ARTICLE I

DEFINITIONS

"**AAA**" has the meaning set forth in Section 10.1 hereof.

"**ABRD Background Technology**" has the meaning set forth in Recital A hereof.

"**ABRD Facility**" means any ethanol manufacturing facility owned or operated by ABRD or any Affiliate of ABRD.

"**ABRD R&D Objective**" has the meaning assigned that term in Recital H hereof.

"**ABRD R&D Program**" has the meaning set forth in Section 2.2 hereof.

"**Action**" has the meaning set forth in Section 8.1 hereof.

"**Affiliate,**" with respect to a Person, means any other Person controlling, controlled by or under common control with, such first Person.

"**Annual R&D Spend Certificate**" has the meaning set forth in Section 2.1 hereof.

"**Applicable New Technology**" has the meaning set forth in Section 4.4 hereof.

"**Applicable Patent**" has the meaning set forth in Section 5.2(b) hereof.

"**Applicable R&D Spend**" has the meaning set forth in Section 2.1 hereof.

"**Applicable Royalty Rate**" has the meaning set forth in Section 5.2(b) hereof.

"**Applicable Substrate**" has the meaning assigned that term in Recital H hereof.

"**Applications R&D**" means CE R&D Activities in which technology, whether Dyadic Core Technology, Dyadic Improvements, Dyadic New Technology or Jointly Developed Technology, are used or applied on a specific Substrate or untreated biomass for any customer or Collaboration Partner of Dyadic. As an example, by way of illustration: (i) ABRD is a Collaboration Partner; (ii) Dyadic may purify and characterize such number of different enzymes as it determines to be worth characterizing, which activities shall constitute Foundational R&D; (iii) when Dyadic engages in testing these different enzymes on the Applicable Substrate, those CE R&D Activities will constitute Applications R&D.

"**Best Efforts**" means the efforts that a prudent Person desirous of achieving a result would use in similar circumstances to ensure that such result is achieved as expeditiously as practical; *provided, however*, that an obligation to use Best Efforts under this Agreement does not require the Company to dispose of or make any change to its business, expend any material funds or incur any other material burden (except to spend the Applicable R&D Spend, as contemplated by Section 2.1 hereof).

"**CE R&D Activities**" has the meaning assigned that term in Recital C hereof.

"**Closing Date**" has the meaning assigned that term in the SPA.

"**Collaboration Partner**" has the meaning assigned that term in Recital D hereof.

"**Commercial Rules**" has the meaning set forth in Section 10.1 hereof.

"**Complex Procedures**" has the meaning set forth in Section 10.1 hereof.

"**Confidential Information**" has the meaning set forth in Section 6.1 hereof.

"**Custom Enzyme Mixture**" has the meaning assigned that term in Recital H hereof.

"**Custom Manufacturing Technology**" has the meaning assigned that term in Recital H hereof.

"**Custom Processing Technology**" has the meaning assigned that term in Recital H hereof.

"**Demand**" has the meaning set forth in Section 10.1 hereof.

"**Disclosing Party**" has the meaning set forth in Section 6.1 hereof.

"**Dispute**" has the meaning set forth in Section 10.1 hereof.

"**Dyadic Core Technologies**" has the meaning assigned that term in Recital B hereof.

"**Dyadic-Parent**" has the meaning assigned that term in Recital G hereof.

"**Dyadic Improvements**" has the meaning set forth in Section 4.1 hereof.

"**Dyadic Technology**" has the meaning assigned that term in Section 4.1 hereof.

"**Enzyme Mixtures**" has the meaning assigned that term in Recital C hereof.

"**Foundational R&D**" means all technology developed by Dyadic in connection with its conduct of its CE R&D Activities, whether related to Dyadic Core Technology, Dyadic Improvements or New Technologies, excluding technology developed in connection with the conduct of Applications R&D. As an example by way of illustration: (i) ABRD is a Collaboration Partner; (ii) Dyadic may purify and characterize such number of different enzymes as it determines to be worth characterizing, which activities shall constitute Foundational R&D; (iii) when Dyadic engages in testing these different enzymes on the Applicable Substrate, those CE R&D Activities will constitute Applications R&D.

"**FTE's**" has the meaning set forth in Section 2.2 hereof.

"**Governmental Official**" has the meaning set forth in Section 12.3 hereof.

"**Indemnified Party**" has the meaning set forth in Section 4.5 and Section 8.1 hereof, as applicable.

"**Indemnifying Party**" has the meaning set forth in Section 4.5 and Section 8.1 hereof, as applicable.

"**Interchangeable Foundational R&D**" has the meaning set forth in Section 2.6(b) hereof.

"**Inspection**" has the meaning set forth in Section 12.5 hereof.

"**Jointly Developed Technology**" has the meaning set forth in Section 4.3 hereof.

"**License**" has the meaning set forth in Section 5.1 hereof.

"**Licensed ABRD Facility**" has the meaning set forth in Section 5.1 hereof.

"**Licensed Enzyme Mixture**" has the meaning set forth in Section 5.1(c) hereof.

"**License Fee**" has the meaning set forth in Section 5.2(a) hereof.

"**Licensed Manufacturing Technology**" has the meaning set forth in Section 5.1 hereof.

"**Licensed Processing Technology**" has the meaning assigned that term in Section 5.1 hereof.

"**Manufacturing Technology**" has the meaning assigned that term in Recital C hereof.

"**Master R&D Program**" has the meaning assigned that term in Recital D hereof.

"**New Technology(ies)**" means all Dyadic Technology which is derived from either the Master R&D Program or the ABRD R&D Program.

"**New Applications Technology**" means all technology which is developed by Dyadic (whether exclusively by Dyadic or whether jointly with ABRD) out of Applications R&D performed in connection with the ABRD R&D Program.

"**Option Period**" has the meaning set forth in Section 5.1(a).

"**Other R&D Program**" has the meaning set forth in Section 2.6(a) hereof.

"**Person**" means a natural person, a corporation, a partnership, a trust, a joint venture, any governmental authority or any other entity or organization.

"**Processing Technology**" has the meaning assigned that term in Recital C hereof.

"**Program Completion Date**" has the meaning set forth in Section 9.1.

"**Qualified Manufacturing Sublicense**" has the meaning set forth in Section 5.1(c) hereof.

"**R&D Plan**" has the meaning set forth in Section 2.2 hereof.

"**R&D Program**" has the meaning set forth in Recital D hereof.

"**R&D Spend Measurement Period**" has the meaning set forth in Section 2.1 hereof.

"**Receiving Party**" has the meaning set forth in Section 6.1 hereof.

"**Royalty**" has the meaning set forth in Section 5.2(b).

"**SPA**" has the meaning assigned that term in Recital G hereof.

"**Statement of Work**" has the meaning set forth in Section 2.2 hereof.

"**Steering Committee**" has the meaning set forth in Section 3.1 hereof.

"**Substrate**" has the meaning set forth in Recital A hereof.

"**Steering Committee**" has the meaning set forth in Section 3.1 hereof.

"**Technology Transfer Fees**" has the meaning set forth in Section 5.2(c) hereof.

"**Term**" has the meaning set forth in Section 9.1 hereof.

"**Third Party**" means any Person that is not a Party (or an Affiliate of a Party) to this Agreement, including without limitation other Collaboration Partners.

ARTICLE II

ABRD R&D PROGRAM

2.1 Commitment of Dyadic to Engage in CE R&D Activities. Dyadic covenants to ABRD that over the three (3) year period commencing with the date of the Steering Committee's approval of the first annual Statement of Work (the "**R&D Spend Measurement Period**") Dyadic will spend not less than $10,000,000 on the conduct of CE R&D Activities approved by the Steering Committee (the "**Applicable R&D Spend**"), whether related to Dyadic's performance of its obligations under this Agreement (both Foundational R&D and Applications R&D), or its performance of Foundational R&D (but not Applications R&D) for its own account or Foundational R&D for the benefit of itself and any other Third Parties (but not Applications R&D), including but not limited to, by way of illustration, and not in limitation: (i) the employment of scientific and non-scientific personnel to perform such activities; (ii) the engagement of consultants and other independent contractors to perform such activities for Dyadic's benefit in whole or in part; (iii) the in-licensing of relevant technologies; and (iv) the purchase or lease of necessary equipment, materials and supplies for use in connection therewith, provided that in calculating the amount of Dyadic's Applicable

R&D Spend, each full-time equivalent scientist employed by Dyadic in the conduct of CE R&D Activities, Dyadic shall be deemed to have incurred $**** of Applicable R&D Spend for each year during the R&D Spend Measurement Period in which such scientist is so employed, pro-rated for any partial year (treating any independent contractor as an employee for purposes of the foregoing proviso), further provided that any Applicable R&D Spend made by Dyadic on or after the Agreement Date, up to a maximum of $****, shall be treated as if it were expended during the R&D Spend Measurement Period. Within one hundred twenty (120) days following the close of each calendar year beginning or ending within the R&D Spend Measurement Period, Dyadic-Parent Chief Financial Officer shall furnish ABRD with a detailed written report (the "**Annual R&D Spend Certificate**") certifying the amount of the Applicable R&D Spend made by Dyadic in the year then ended and the cumulative amount of the Applicable R&D Spend made by Dyadic since the Closing Date, with a final Annual R&D Spend Certificate to be to be furnished by Dyadic to ABRD within one hundred twenty (120) days of the Program Completion Date; provided that representatives of ABRD, upon reasonable advance notice and at ABRD's expense, shall have the right to have an independent accounting firm review the books and records of Dyadic and Dyadic-Parent upon the condition that such independent accounting firm execute and deliver to Dyadic and Dyadic-Parent a confidentiality agreement in form and substance reasonably acceptable to Dyadic-Parent's legal counsel, to verify the accuracy of the calculations set forth in the CFO's Annual R&D Spend Certificate, further provided that if such examination shall disclose a more than 5% negative variance between the amount of the Applicable R&D Spend for the applicable year, Dyadic shall pay all of the expenses of such independent accounting firm.

2.2 Scope of ABRD R&D Program. Dyadic shall use its good faith Best Efforts to supply the necessary scientific staff, materials, laboratories, offices and other facilities to perform the CE R&D Activities described in the R&D Plan attached hereto as Exhibit A (the "**R&D Plan**") in furtherance of the ABRD R&D Objective (the "**ABRD R&D Program**"), including without limitation the performance of the CE R&D Activities contemplated by statements of work to be approved by the Steering Committee for CE R&D Activities to be engaged in for each calendar year falling within the Term (each a "**Statement of Work**") in accordance with the provisions of Article III hereof, which shall identify with reasonable specificity: (i) the tasks and stages of the ABRD R&D Program to be completed, (ii) the cost associated therewith denominated in number of full time equivalent scientific personnel ("**FTE's**") committed per year at the rate of $**** per FTE, and (iii) the applicable achievement milestones reasonably expected to be attained with each task, stage and phase. The Parties expressly agree that the R&D Plan necessarily comprises both Foundational R&D and Applications R&D.

2.3 Funding of ABRD R&D Program. Dyadic shall be solely responsible for all costs associated with funding its performance of the ABRD R&D Program.

2.4 Commencement of ABRD R&D Program. Dyadic shall commence performance of its CE R&D Activities in connection with the ABRD R&D Program immediately following the execution and delivery of this Agreement, and shall ramp-up those CE R&D Activities over the next twelve (12) calendar months, as it reasonably determines, in consultation with ABRD in accordance with the R&D Plan.

2.5 No Assurance of Commercial Success. Dyadic covenants to ABRD that during the Term of this Agreement Dyadic will use its good faith Best Efforts to achieve the ABRD R&D Objective. However, ABRD expressly acknowledges that due to the existing inchoate state of the Dyadic Technology in the cellulosic ethanol field and the inherent risks associated with the CE R&D Activities, Dyadic can not and does not assure ABRD that the ABRD R&D Program will culminate in the successful achievement of the ABRD R&D Objective, let alone any Custom Enzyme Mixture and related Custom Manufacturing Technology that ABRD will have any commercial interest in licensing. Accordingly, ABRD hereby expressly agrees except in the instance of a material breach by Dyadic of its obligations to ABRD hereunder, Dyadic shall have no liability of any kind whatsoever to ABRD by reason of the failure of the ABRD R&D Program to successfully achieve the ABRD R&D Objective or to produce any such Custom Enzyme Mixture and\or Custom Manufacturing Technology.

2.6 Dyadic Entry into R&D and Other Agreements with Third Parties and Use of Foundational R&D Not Performed in the ABRD R&D Program.

(a) ABRD expressly acknowledges that Dyadic is in no way whatsoever prohibited from entering into research and development agreements or other forms of collaboration or research and development agreements with Collaboration Partners and other Third Parties of any kind whatsoever, whether such agreements pertain to the Substrates derived from biomass of the kinds used by ABRD or not, or otherwise conducting any other R&D Programs (each an "**Other R&D Program**"), provided that in no event shall the terms of any such agreement with any other Person (i) impair Dyadic's ability to comply fully with the terms of this Agreement, including the Dyadic's obligation to grant to ABRD the commercial rights described in Article V hereof and (ii) require or contemplate Dyadic to breach any obligations of confidentiality to ABRD created by the provisions of Article VI hereof.

(b) Further, ABRD expressly acknowledges that Dyadic shall be free to use Foundational R&D developed from Other R&D Programs to satisfy requirements for the performance of such Foundational R&D for the ABRD R&D Program ("**Interchangeable Foundational R&D**"), and to have such Interchangeable Foundation R&D performed in conjunction with one or more Other R&D Programs if Dyadic determines, in its commercially reasonable discretion, that performance of that Interchangeable Foundational R&D in any such Other R&D Program is cost-effective or otherwise commercially desirable, and that doing so materially improves the prospects for achieving the ABRD R&D Objective; provided that (i) the ABRD representatives to the Steering Committee shall first be furnished with a complete presentation of Dyadic plans in connection therewith which, from a commercial reasonableness standard, demonstrates that the use of the Interchangeable Foundational R&D from such Other R&D Program would not materially diminish Dyadic's R&D effort being applied to the development of Custom Enzyme Mixtures, and related Custom Processing Technologies and Custom Manufacturing Technologies, for ABRD and (ii) the use of such Interchangeable Foundational R&D from any Other R&D Program will not materially impair or limit ABRD in its enjoyment of its option to license the commercial rights described in Article V, below.

(c) ABRD expressly acknowledges and agrees that certain Foundational R&D to be performed in the ABRD R&D Program may be performed by Dyadic in satisfaction of Dyadic obligations to perform the same Foundational R&D for Third Parties, whether pursuant to Other R&D Programs or not.

ARTICLE III

STEERING COMMITTEE

3.1 Formation and Duration. Within ninety (90) days following the Agreement Date, the Parties shall establish an advisory board for the purposes set forth in Section 3.2 and with a composition specified by Section 3.3 (the "**Steering Committee**"). Except to the extent otherwise provided by mutual written agreement of the Parties, the Steering Committee shall not disband until the expiration of the Term or the earlier termination of this Agreement.

3.2 Functions of Steering Committee. The functions of the Steering Committee shall be: (i) to approve the first annual Statement of Work submitted by Dyadic, which shall occur not more than one hundred eighty (180) days following the Agreement Date, and thereafter approve annual Statements of Work for each subsequent calendar year falling within the Term not less than thirty (30) days prior to the commencement of each such calendar year, which Statements of Work shall reflect decisions of the Steering Committee regarding research strategies, levels of effort (resources assigned) for each task listed therein, and to prioritize activities; (ii) to determine whether CE R&D Activities are Foundational R&D or Applications R&D; (iii) to determine which ABRD Substrates should become Applicable Substrates and make adjustments or modifications to each Statement of Work, as necessary to improve the prospects of achieving the ABRD R&D Objective; (iv) to monitor Dyadic's progress in achieving the performance benchmarks fixed in each Statement of Work and provide overall guidance to Dyadic's assigned researchers with regard thereto; (v) to monitor and control the ABRD R&D Program budget and to consider whether any proposed changes should be made to the R&D Plan and its execution; and (vi) to exchange suggestions, ideas and recommendations pertaining to the overall achievement of the ABRD R&D Objective. In addition to the voting members of the Steering Committee designated pursuant to Section 3.3, the Steering Committee may also have non-voting members nominated by one Party and approved by the other Party in its absolute discretion.

3.3 Composition. Dyadic shall designate a total of two (2) employees or officers of Dyadic to represent Dyadic, and ABRD shall designate two (2) employees or officers of ABRD or its Affiliates to represent ABRD on the Steering Committee. Only representatives designated pursuant to this Section 3.3 shall have the right to vote on the Steering Committee, provided that if any representative of a Party is unable to attend a meeting of the Steering Committee, another representative of that Party shall be entitled to attend and vote in his or her stead. The number of voting representatives may be increased upon mutual written agreement of the Parties. Each Party shall appoint or nominate its respective representatives to the Steering Committee and, from time to time, may substitute one or more of its representatives. Additional representatives or consultants of a Party may from time to time, with the consent of the other Party (with such consent not to be unreasonably withheld or delayed) attend meetings of the Steering Committee, subject to such representative's and/or consultant's agreement to comply with the confidentiality obligations equivalent to those set forth in Article VI and provided that such additional representatives shall have no vote. The Steering Committee may establish such working groups or sub-committees as it may choose from time to time to accomplish its purposes.

3.4 Governance. The Steering Committee shall be chaired by one of the members of the Steering Committee, who shall be a representative of Dyadic. Decisions of the Steering Committee, shall be made by unanimous vote (with each Party's voting representatives participating in the vote collectively having one (1) vote.

3.5 Meetings. The Steering Committee shall meet not less than once every four (4) months in accordance with a schedule established by mutual written agreement of the Parties, with the location for such meetings determined by agreement of the Parties. Either Party may call for non-scheduled meetings of the Steering Committee for good cause, which shall occur at mutually agreeable times. The Steering Committee, upon mutual agreement, may meet by means of teleconference, videoconference or other similar communications equipment. No meeting may be conducted unless at least two (2) voting representatives of each Party are participating.

3.6 Records. The chair of the Steering Committee, or his/her designee, shall have responsibility for preparing minutes of each meeting. Such minutes shall provide a description, in reasonable detail, of the discussions at the meeting and decisions made by the Steering Committee. Such minutes shall be circulated on a confidential basis to all members of the Steering Committee within thirty (30) days following such meeting.

ARTICLE IV

INTELLECTUAL PROPERTY

4.1 Dyadic Ownership of Intellectual Property. Dyadic is the sole and exclusive owner of all intellectual property rights (i) in Dyadic Core Technologies, (ii) in all improvements thereto made or contributed to in whole or in part by Dyadic outside of the ABRD R&D Program (" **Dyadic Improvements**") and (iii) except for (x) certain "Jointly Developed Technology" (as defined in Section 4.3, below) and (y) ABRD Background Technology, in all Enzyme Mixtures, Processing Technologies, Manufacturing Technologies and any other New Applications Technology developed by Dyadic in its conduct of the ABRD R&D Program and the Master R&D Program, whether alone or in collaboration with any Third Parties ("**New Technologies**," and together with the Dyadic Core Technologies and the Dyadic Improvements, collectively "**Dyadic Technology**") in order that Dyadic is able to freely research, develop and commercialize for manufacture, distribution, sale and/or license such Dyadic Technology or otherwise grant commercial rights to use the Dyadic Technology to Third Parties, including without limitation Collaboration Partners.

4.2 ABRD Ownership of its ABRD Background Technology. ABRD shall provide Dyadic with proprietary samples of various Applicable Substrates from time to time, as approved by the Steering Committee, and may disclose certain proprietary ABRD information pertaining to the source and composition of each such Applicable Substrate for the purpose of enabling Dyadic to perform the R&D Plan. ABRD shall remain the exclusive owner of all ABRD Background Technology, provided that to the extent that any ABRD Background Technology is incorporated into any Dyadic Technology, including but not limited to any Processing Technology, any Manufacturing Technology or any other Enzyme Mixture that Dyadic may develop, ABRD shall agree to grant to Dyadic, a license to use such ABRD Background Technology in accordance with the provisions of subsection (d) below in any manner Dyadic chooses, further provided that:

(a) Dyadic shall obtain ABRD's prior written approval to incorporate each ABRD Background Technology into any Dyadic Technology, provided that ABRD shall consent thereto unless to grant such consent would cause ABRD to suffer a clear and convincing material adverse affect on its business, taken as a whole;

(b) In order to be eligible to such approval, Dyadic shall disclose in writing to ABRD each Dyadic Technology into which such ABRD Background Technology is incorporated and the method of such incorporation as promptly as practicable but in no case later than two (2) weeks after such incorporation, and Dyadic shall not enter into any agreement which restricts its ability to make any such disclosure;

(c) in no event shall Dyadic identify or otherwise disclose to any Third Party as ABRD Background Technology any ABRD Background Technology incorporated into any Dyadic Technology, nor shall Dyadic disclose any other information in breach of its obligations of confidentiality as set forth hereunder; and

(d) any license granted by ABRD to Dyadic under this Section 4.2 shall not be effective until the Parties have entered into a definitive license agreement granting to Dyadic a license to use, make, have made and sell products or services incorporating such ABRD Background Technology or any derivation thereof, on a world-wide, irrevocable, paid-up, non-exclusive, royalty-free, but freely transferable and freely sub-licensable basis, in consideration for Dyadic's payment to ABRD of a one-time license fee in an amount which shall be commercially reasonable in light of the relevant circumstances, provided that if the Parties, after negotiating in good faith, are unable to agree upon the one-time license fee within a reasonable period of time following Dyadic's request for any such license, such license fee shall be determined by binding arbitration in accordance with the provisions of Article X hereof, further provided in any event that such license fee and other terms shall be not less favorable to Dyadic then the most favorable terms offered by ABRD to any other licensee of ABRD Background Technology.

4.3 Jointly Developed Technology. Subject to the last sentence of this Section 4.3, if any technology directly or indirectly related to the CE R&D Activities, shall, under applicable U.S. patent laws, be deemed to be jointly developed by Dyadic and ABRD in connection with the completion of any facet of the ABRD R&D Program ("**Jointly Developed Technology**"), then:

(a) if the Jointly Developed Technology relates to either (x) Dyadic's Core Technology, any Dyadic Improvements thereto and any New Technologies other than New Applications Technology or (y) any Enzyme Mixture and related Processing Technology and \or Manufacturing Technology developed by Dyadic, ABRD shall assign exclusive ownership thereof to Dyadic, and ABRD shall enjoy no rights therein except to the extent of a License from Dyadic on the terms set forth in Article V hereof;

(b) if the Jointly Developed Technology:

(i) relates to the ABRD Background Technology other than New Applications Technology, Dyadic shall assign exclusive ownership thereof to ABRD, provided that ABRD shall license such Jointly Developed Technology to Dyadic to use, make, have made and sell products or services incorporating such Jointly Owned Technology or any derivation thereof, on a world-wide, irrevocable, paid-up, non-exclusive, royalty-free, but freely transferable and freely sub-licensable basis, in consideration for Dyadic's payment to ABRD of a one time license fee in an amount which shall be commercially reasonable in light of the relevant circumstances, provided that if the Parties, after negotiating in good faith,

are unable to agree upon the one-time license fee within a reasonable period of time following Dyadic's request for any such license, such license fee shall be determined by binding arbitration in accordance with the provisions of Article X hereof, further provided in any event that such license fee and other terms shall be not less favorable to Dyadic then the most favorable terms offered by ABRD to any other licensee of ABRD Background Technology;

(ii) relates to New Applications Technology, Dyadic shall assign exclusive ownership thereof to ABRD, provided that ABRD shall license such Jointly Developed Technology to Dyadic to use, make, have made and sell products or services incorporating such Jointly Owned Technology or any derivation thereof, on a world-wide, irrevocable, paid-up, non-exclusive, royalty-free, but freely transferable and freely sub-licensable basis, in consideration for Dyadic's payment to ABRD of a ten dollar ($10.00) one-time license fee;

and

(c) if the provisions of subsections (a) and (b) do not apply, then each of Dyadic and ABRD shall enjoy identical ownership rights in that Jointly Developed Technology except that ABRD shall be allowed to use such Jointly Developed Technology for any use which does not constitute the conduct of a trade or business activity which is competitive with the enzyme development and manufacturing business in which Dyadic is engaged (or in which Dyadic can reasonably demonstrate it was then planning to engage) on the date such Jointly Developed Technology was developed.

ABRD agrees that the term "Jointly Developed Technology" also includes any new conceptions, ideas, inventions, innovations, concepts, reductions to practice, solutions to problems and other know-how or technology which directly or indirectly relates to the CE R&D Activities: (i) in the conduct of any Steering Committee review meeting, is revealed by ABRD at any such meeting or arises therefrom; or (ii) is conceived out of ABRD's review of any confidential information furnished to ABRD by Dyadic in reports or other communications furnished or made by Dyadic in connection with its reporting to ABRD on the ABRD R&D Program.

4.4 Dyadic Disclosure of New Technologies to ABRD. To the extent that Dyadic or its Affiliates develop any New Technology during the Term of this Agreement, whether derived out of the Master R&D Program or derived out of the ABRD R&D Program, that might reasonably have commercial utility to any of the Applicable Substrates (each an "**Applicable New Technology**"), Dyadic covenants to ABRD that Dyadic will promptly disclose in writing to ABRD each such Applicable New Technology on a timely basis but in no case later than the next Steering Committee meeting following such development. Such disclosure of an Applicable New Technology shall include without limitation, descriptions of the nature, the perceived utility of, and the new and/or improved product and/or process aspects of that Applicable New Technology; provided that Dyadic shall not be obligated to disclose the identity of any Third Party contributing to or expressing a commercial interest in any Applicable New Technology or information owned or controlled by a Third Party in respect of which Dyadic has an obligation of confidentiality. Dyadic covenants that it will not enter into any agreement with any Third Party which restricts its ability to grant ABRD a non-exclusive license for ABRD to practice each Applicable New Technology and all Dyadic Technology or to make any such disclosure to ABRD pertaining to each such Applicable New Technology, to the extent each Applicable New Technology is owned by Dyadic or its Affiliates; except that Dyadic shall be free to grant the first license granted by Dyadic with respect to such Applicable New Technology on an exclusive basis to a Third Party for the first year of such Dyadic license to any such Third Party.

4.5 Third Party Infringement. Each Party shall indemnify, defend and hold harmless the other Party and its Affiliates and their respective officers, directors, and employees (the "**Indemnifying Party**" and the "**Indemnified Parties**," respectively) from any losses, damages, liabilities, fines, penalties, and expenses (including reasonable attorneys' fees) that arise out of or result from any Third Party claims of infringement of any patent or copyright, or misappropriation of any trademark, trade secret or other intellectual property right, private right, or any other proprietary or personal interest ("**Infringement Claim**"), and related by circumstances to the existence of this Agreement and the Dyadic Technology, in the case of Dyadic, or the ABRD Background Technology, in the case of ABRD, provided by the Indemnifying Party to the Indemnified Party hereunder or performance under or in contemplation of this Agreement, except to the extent such Infringement Claim is due to the infringing acts and/or products of the other Party.

(a) The Indemnified Parties shall furnish the Indemnified Party with reasonable notice of such Infringement Claim and, upon the written request of the Indemnified Parties, reasonable assistance and information (at the Indemnifying Party's expense) in the defense or settlement of such Infringement Claim. The Indemnifying Party shall have sole control of the defense and settlement negotiations. The Indemnifying Party will not make any statement in its defense that is against the interest of Indemnified Parties and will not enter into any settlement without the consent of the Indemnified Parties that requires an admission of guilt or wrong-doing on the part of any of the Indemnified Parties or a monetary payment by Indemnified Parties that is in addition to the amount Indemnifying Party is obligated to pay on Indemnified Parties' behalf under this Section.

(b) The Indemnifying Party will have no obligation to indemnify the Indemnified Parties under this Section for Infringement Claims that result solely from: (i) the Indemnified Parties' combination, operation or unauthorized use of the Indemnifying Party's intellectual property or products supplied by the Indemnified Parties or others on behalf of Indemnified Parties where such product alone would not be infringing; (ii) any alteration or modification of an Indemnifying Party's products by the Indemnified Parties not approved in writing by Indemnifying Party, if the products or intellectual property of the Indemnifying Party alone would not be infringing; (iii) the use of any product or intellectual property of the Indemnifying Party other than in accordance with its applicable specifications or documentation for such product or intellectual property where same was used in accordance with the applicable specifications or documentation would not be infringing; or (iv) Indemnifying Party's compliance with Indemnified Parties' designs, specifications, or instructions, where the product or intellectual property would not be infringing if it were not for such compliance.

(d) In the event of an Infringement Claim, or if the Indemnifying Party has reasons to believe its product or intellectual property may become the subject of an Infringement Claim, the Indemnifying Party will (i) procure for the Indemnified Parties the right to continue to use such product or intellectual property, as the case may be; and if such procurement is not commercially reasonable; (ii) replace or modify such product or intellectual property, or portion thereof, so it is no longer infringing; or (iii) if the Indemnifying Party, using commercially reasonable efforts, is unable to do (i) or (ii) above, refund all moneys paid to the Indemnifying Party by Indemnified Parties for such infringing product or intellectual property, less a reasonable amount for use based upon a five (5) year straight line depreciation calculation.

4.6 Restrictions on Dyadic Entry Into Agreements with Third Parties. Dyadic covenants to ABRD that Dyadic shall not enter into any agreement with any Third Party which restricts Dyadic's ability to license any Custom Enzyme Mixture and related Custom Processing Technology and Custom Manufacturing Technology to ABRD for ABRD to practice.

ARTICLE V

ABRD COMMERCIAL RIGHTS

5.1 ABRD Commercial Rights. In respect of each Applicable Substrate, ABRD will have an option for a non-exclusive and non-transferable right (except as permitted by the provisions of Section 12.8 hereof) to one or multiple licenses (each a "**License**"), to the Custom Enzyme Mixture, related Custom Processing Technology and Custom Manufacturing Technology, (the "**Licensed Enzyme Mixture,**" and its related "**Licensed Processing Technology**" and "**Licensed Manufacturing Technology**," respectively) developed by Dyadic for that Applicable Substrate, and on a per ABRD Facility basis for the internal consumption of ABRD and its Affiliates only (and for no other purpose) and only at the site of that licensed ABRD Facility (each a "**Licensed ABRD Facility**"), except as permitted by the provisions of Sections 5.1(c) and 5.1(e), below.

(a) License Option Exercise Periods: The option period within which ABRD shall have the right to one or more Licenses for each "completed"

Custom Enzyme Mixture and related Custom Processing Technology and Custom Manufacturing Technology for an Applicable Substrate shall be the ninety (90) day period of time following the completion by ABRD of a verification testing period of thirty (30) days after Dyadic has delivered to ABRD for such verification testing, a completed Applicable Substrate and its related Manufacturing Technology (as to such Custom Enzyme Mixture, related Custom Processing Technology and Custom Manufacturing Technology, its applicable "**Option Period**").

(b) Dyadic Technology Transfer to ABRD Facility: Incident to each License, Dyadic personnel will, promptly, but in no event more than ten (10) Business Days following the date of the execution of the license agreement evidencing the License for such Licensed Enzyme Mixture and related Licensed Processing Technology and Licensed Manufacturing Technology, provide ABRD with a complete technology transfer of the relevant Licensed Processing Technology and Licensed Manufacturing Technology and know-how to use the Licensed Enzyme Mixture and related Licensed Manufacturing Technology at the Licensed ABRD Facility.

(c) ABRD Licensed Usage: Each License will permit ABRD to use the Licensed Enzyme Mixture and related Licensed Processing Technology and Licensed Manufacturing Technology solely for the production of ethanol for the internal consumption of ABRD and its Affiliates, and only on-site at the specifically Licensed ABRD Facility. Except for "Qualified Manufacturing Sublicenses" (as defined below) and "Qualified Entire System Sublicenses" described in Section 5.1(e), each License will prohibit ABRD from selling, licensing or otherwise transferring either the Licensed Manufacturing Technology and/or Processing Technology, in whole or in part, or any of the Licensed Enzyme Mixture it produces, to any Third Party. ABRD shall have the right to grant a manufacturing sub-license of the Licensed Processing Technology and\or Manufacturing Technology for the exclusive purpose of enabling that manufacturing sub-licensee to manufacture such Licensed Enzyme Mixture solely for the internal consumption of ABRD and its Affiliates, and for no other purpose (a "**Qualified Manufacturing Sublicense**"), provided that no term of such sub-license shall be in any way inconsistent with ABRD's obligations to Dyadic under ABRD's License and ABRD shall, except in the case where the sublicensee's principal place of business and situs of its usage of the Licensed Enzyme Mixture is located in North America or the European Union, first obtain the prior written consent of Dyadic, which consent shall not be unreasonably withheld or delayed, further provided that no such Qualified Manufacturing Sublicense shall be entered into until Dyadic shall have reviewed same and commercially reasonably satisfied itself that the terms thereof fully protect Dyadic against any prohibited use of the Licensed Enzyme Mixture and the related Licensed Processing Technology and Licensed Manufacturing Technology or the dissemination of Dyadic Technology outside the sub-licensee's use and control.

(d) Most Favored Nation Royalty Protection: If Dyadic offers a license of the Licensed Enzyme Mixture (but not any other Enzyme Mixture) to any licensee upon royalty terms more favorable to such licensee than the terms of the License to ABRD set forth herein, ABRD's "Royalty" (as that term is defined in Section 5.2(b)) for the usage of that Enzyme Mixture shall, effective as of the date of such other licensing transaction, be reduced to the Royalty fixed in that other licensing transaction.

(e) Qualified Entire System Sublicenses: Notwithstanding any provision to the contrary, ABRD shall have the right to sub-license the Licensed Enzyme Mixture and related Licensed Processing Technology and Licensed Manufacturing Technology to a Third Party solely for such Third Party's internal consumption of the Licensed Enzyme Mixture upon the following conditions: (i) such sublicense is made incident to ABRD's license of ABRD's ethanol production system into which Dyadic's Licensed Processing Technology and\or Licensed Manufacturing Technology has been incorporated; (ii) except for the royalty terms and the right of such Third Party sub-licensee to use the Licensed Enzyme Mixture and related Licensed Processing Technology and Licensed Manufacturing Technology for its own internal consumption (and not to produce Licensed Enzyme Mixture for ABRD or any other Third Parties), no term of such sub-license shall be in any way inconsistent with ABRD's obligations to Dyadic under its License; (iv) such Qualified Entire System Sublicense shall not be entered into by ABRD until Dyadic shall have reviewed same and commercially reasonably satisfied itself that the terms thereof fully protect Dyadic against any prohibited use of the Licensed Enzyme Mixture and the related Licensed Processing Technology and Licensed Manufacturing Technology or the dissemination of Dyadic Technology outside the sub-licensee's use and control; (iii) such Third Party sub-licensee shall pay the same License Fees and Technology Transfer Fees to Dyadic as are fixed by subsections (a) and (c) of Section 5.2; (iv) ABRD shall, except in the case where the sub-licensee's principal place of business and situs of its usage of the Licensed Enzyme Mixture is located in North America or the European Union, first obtain the prior written consent of Dyadic, which consent shall not be unreasonably withheld or delayed; and (v) ABRD shall pay to Dyadic a Royalty and License Fees on such Third Party Qualified Entire System Sublicense at the same License Fee rate and a royalty rate equal to the "Applicable Royalty Rate" fixed in Section 5.2(a) and 5.2(b), respectively.

5.2 License, Tolling and Technology Transfer Fees for Each License. As part consideration for the commercial rights granted by Dyadic to ABRD, ABRD shall pay the following amounts to Dyadic separately for each License:

(a) License Fee Per License: ABRD shall pay to Dyadic a one-time license fee of $**** per **** gallons of ethanol capacity for the Licensed Enzyme Mixture and related Licensed Processing Technology and Licensed Manufacturing Technology for the Licensed ABRD Facility upon Dyadic's delivery of the that Licensed Manufacturing Technology to that Licensed ABRD Facility (the "**License Fee**"), provided that (i) the maximum License Fee per License is $**** and (ii) not more than **** License Fee shall have to be paid in respect of a single ABRD Facility without regard to the number of Custom Enzyme Mixtures and related Custom Processing Technologies and Custom Manufacturing Technologies, licensed by ABRD for that particular ABRD Facility.

(b) Royalties Per License: ABRD shall pay to Dyadic a royalty in the amount of **** (US$****) per gallon of ethanol produced at that Licensed ABRD Facility using that Licensed Enzyme Mixture, related Licensed Processing Technology and\or Licensed Manufacturing Technology, on a quarterly basis thereafter, for a term of the greater of (x) the life of any patents included in either that Licensed Enzyme Mixture and\or its related Licensed Processing Technology and\or its related Licensed Manufacturing Technology (each an "**Applicable Patent**") or (y) **** years from the date of the commencement of commercial production of that Licensed Enzyme Mixture on-site at that Licensed ABRD Facility, provided that if the last Applicable Patent shall expire prior to the ****, the royalty rate shall drop from US$**** per gallon of ethanol to US$**** per gallon of ethanol (the "**Applicable Royalty Rate**"), provided that commencing on ****, and on the first day of each subsequent calendar year, the Applicable Royalty Rate shall be adjusted for inflation on an annual basis, using the United States Consumers Price Index and the year **** as the reference year; and

(c) Technology Transfer Fees Per License: ABRD shall pay to Dyadic fees (calculated at **** of Dyadic's the fully-loaded salaried cost of the deployed personnel performing the applicable transfer services) for time expended by Dyadic personnel (and reimburse all reasonable out-of-pocket expenses incurred) in completing Dyadic's transfer of that Licensed Enzyme Mixture, related Licensed Processing Technology and related Licensed Manufacturing Technology to that Licensed ABRD Facility, and for any additional technical services furnished by Dyadic thereafter at that Licensed ABRD Facility ("**Technology Transfer Fees**").

5.3 Other License Terms. Other License provisions, including without limitation, provisions governing (i) royalty accounting, (ii) rights controlled by Dyadic which, if enforced against ABRD would abrogate or abridge the rights of ABRD under the Licenses granted pursuant to this Agreement, (iii) sub-licensor liability for misuse of the Licensed Enzyme Mixture and related Licensed Processing Technology and Licensed Manufacturing Technology, (iv) confidentiality and related restrictions on sub-licensing, (v) ownership of, rights to, and license-back provisions for improvements to such Licensed Enzyme Mixture and related Licensed Processing Technology and Licensed Manufacturing Technology, (vi) indemnities and (vii) other customary license provisions, will all be negotiated by the Parties in good faith.

ARTICLE VI

CONFIDENTIALITY

6.1 Definition. "**Confidential Information**" means any information disclosed by one Party (the "**Disclosing Party**") to the other (the "**Receiving Party**"), whether oral, written, visual, electromagnetic, electronic or in any other form, and whether contained in memoranda, summaries, notes, analyses, compilations, studies or other documents, and whether same have been prepared by the Disclosing Party or the Receiving Party: (i) which, if in written, graphic, machine-readable or other tangible form is marked as "Confidential" or "Proprietary," or which, if disclosed orally or by demonstration, is identified at the time of initial disclosure as confidential and is summarized in writing and similarly marked and delivered to the Receiving Party within thirty (30) Days of initial disclosure; and (ii) which is (A) technical data or information, including proprietary host organisms and their strains, plasmids/vectors, DNA sequences, gene expression, fungal high throughput screening, enzymes and their applications, research and manufacturing protocols and practices, formulae, charts, analyses, reports, patent applications, trade secrets, ideas, methods, processes, know-how, computer programs, products, equipment, raw materials, designs, data sheets, schematics, configurations, specifications, techniques, drawings, and the like, whether or not relating to experimental data, projects, products, processes, research practices and the like, (B) past, present and future business, financial and commercial data or information, prices and pricing methods, marketing and customer information, financial forecasts and projections, and other data or information relating to strategies, plans, budgets, sales and the like; and (C) any other data or information delivered by the Disclosing Party to the Receiving Party or which the Receiving Party has acquired from the Disclosing Party by way of the former's inspection or observation during visits to the research laboratory, manufacturing plan or other type of facility of the latter Party. The Parties expressly acknowledge and agree that all information of a proprietary and/or confidential nature furnished by the Disclosing Party to the Receiving Party in furtherance of the Disclosing Party's obligations under this Agreement shall be deemed Confidential Information to which the provisions of this Article VI shall apply.

6.2 Confidential Information Exclusions. Confidential Information will exclude information that the Receiving Party can demonstrate is: (i) now or hereafter, through no unauthorized act or failure to act on Receiving Party's part, in the public domain; (ii) known to the Receiving Party from a source other than the Disclosing Party (including former employees of the Disclosing Party) without an obligation of confidentiality at the time Receiving Party receives the same from the Disclosing Party, as evidenced by written records; (iii) furnished to others by the Disclosing Party without restriction on disclosure; or (iv) independently developed by the Receiving Party without use of the Disclosing Party's Confidential Information. Nothing in this Agreement shall prevent the Receiving Party from disclosing Confidential Information to the extent the Receiving Party is legally compelled to do so by any governmental investigative or judicial agency pursuant to proceedings over which such agency has jurisdiction; provided, however, that prior to any such disclosure, the Receiving Party shall (a) assert the confidential nature of the Confidential Information to the agency; (b) immediately notify the Disclosing Party in writing of the agency's order or request to disclose; and (c) cooperate fully with the Disclosing Party in protecting against any such disclosure and/or obtaining a protective order narrowing the scope of the compelled disclosure and protecting its confidentiality.

6.3 Confidentiality Obligation. Except as provided in Section 6.4, for a period commencing June 10, 2006 and ending on the fifth anniversary of the expiration of the Term of the Agreement, the Receiving Party shall treat as confidential all of the Disclosing Party's Confidential Information and shall not use such Confidential Information for any purpose whatsoever other than for the purposes set forth herein, except as expressly otherwise permitted under this Agreement. Without limiting the foregoing, the Receiving Party shall use the same degree of care and means that it utilizes to protect its own information of a similar nature, but in any event not less than reasonable care and means, to prevent the unauthorized use or the disclosure of such Confidential Information to Third Parties. The Confidential Information may be disclosed only to employees or contractors of the Receiving Party with a "need to know" who are instructed and agree not to disclose the Confidential Information and not to use the Confidential Information for any purpose, except as set forth herein; provided, however, in the case of Dyadic, the term "employees or contractors of a Receiving Party" shall include employees of each of those of Dyadic's independent contractor research organizations with whom Dyadic has written agreements pursuant to which such independent contractor research organization is bound by an obligation of confidence to Dyadic that makes such independent contractor research organization liable for any breach by its employees of those confidentiality obligations to Dyadic. The Receiving Party shall have appropriate written agreements with any such employees or independent contractor research organizations sufficient to comply with the provisions of this Agreement. A Receiving Party may not alter, decompile, disassemble, reverse engineer, or otherwise modify any Confidential Information received hereunder and the mingling of the Confidential Information with information of the Receiving Party shall not affect the confidential nature or ownership of the same as stated hereunder.

6.4 Permitted Disclosures of Embedded ABRD Confidential Information. The preceding to the contrary notwithstanding, Dyadic shall be entitled to disclose ABRD Confidential Information to Third Parties if the following three (3) conditions are satisfied in connection with any such disclosure: (i) such ABRD Confidential Information is not identified to any such Third Party as being or having originated from ABRD Confidential Information; (ii) such disclosure of ABRD Confidential Information occurs solely by reason of the fact that such ABRD Confidential Information is embedded or otherwise embodied in Dyadic Technology, without regard to whether such Dyadic Technology was derived from Dyadic Foundational R&D activities or Applications R&D activities performed by Dyadic (whether in the conduct of the ABRD R&D Program or the conduct of the Master R&D Program); and (iii) any Third Party to whom such disclosure of such ABRD Confidential Information is made is a party to a written confidentiality agreement with Dyadic by which such Third Party is bound to hold such disclosure in confidence.

6.5 Confidentiality of Agreement and Superceding of Prior Confidentiality Agreement.

Each Party agrees that the terms and conditions, but not the existence, of this Agreement will be treated as the other Party's Confidential Information and that no reference to the terms and conditions of this Agreement or to commercial metrics and activities pertaining thereto (but no disclosure of any intellectual property of ABRD may be made, other than to list same on disclosure schedules) may be made in any form of press release or public statement without first consulting with the other Party; provided, however, that each Party may disclose the terms and conditions of this Agreement: (i) as may be required by law; (ii) to legal counsel of the Parties; (iii) in confidence, to accountants, banks, and financing sources and their advisors; (iv) in confidence, in connection with the enforcement of this Agreement or rights under this Agreement; or (v) in confidence, in connection with a merger or acquisition or proposed merger or acquisition, or the like. The Parties hereby expressly agree that the provisions of this Article VI shall supercede the terms of that certain Confidentiality Agreement dated June 10, 2006, which shall be of no further force and effect, and that this Article VI shall apply to all non-public information furnished by Dyadic to ABRD since the June 10, 2006.

6.6 No Confidential Information of Other Persons.

Each Party represents and warrants to the other that it has not used and shall not use in the course of its performance hereunder, and shall not disclose to the other, any confidential information of any other Person, unless it is expressly authorized in writing by such Person to do so.

6.7 Required Disclosure. Each Party shall be entitled to make such disclosures as shall be required by law, provided that if

the Receiving Party is required to disclose the Disclosing Party's Confidential Information pursuant to the order or requirement of a court, administrative agency, or other governmental body, the Receiving Party shall provide prompt notice thereof to the Disclosing Party and shall use its reasonable efforts to obtain a protective order or otherwise prevent public disclosure of such information.

ARTICLE VII

REPRESENTATIONS AND WARRANTIES

7.1 Representations and Warranties of the Parties. The Parties represent and warrant that:

(a) it is a company duly organized, validly existing and in good standing under the laws of, in the case of Dyadic, Florida, and in the case of ABRD, Missouri;

(b) the execution of this Agreement on its behalf has been properly authorized by all necessary corporate action;

(c) this Agreement is valid and binding on it and enforceable against it in accordance with the terms hereof, subject to applicable bankruptcy and similar laws affecting creditors' rights and remedies generally, and subject, as to enforceability, to general principles of equity;

(d) neither the execution nor the performance of this Agreement will constitute a breach or violation of the terms of its charter or organizational documents or any contract, agreement or other commitment to which it is a party or by which it or any of its properties are bound; and

(e) there are no bankruptcy, insolvency, receivership or similar proceedings involving it or any of its Affiliates either pending or being contemplated, or any other pending or threatened actions, suits, arbitrations or other proceedings by or against it.

7.2 Disclaimer. Except for the foregoing warranties (and commercially reasonable warranties of Dyadic to ABRD that shall be included in the license agreement evidencing the License(s) granted by Dyadic to ABRD in accordance with the provisions of Article V hereof), THE FOREGOING WARRANTIES OF EACH PARTY ARE IN LIEU OF ALL OTHER WARRANTIES, EXPRESS OR IMPLIED, EITHER IN FACT OR BY OPERATION OF LAW, STATUTORY OR OTHERWISE, INCLUDING BUT NOT LIMITED TO WARRANTIES OF MERCHANTABILITY AND FITNESS FOR PARTICULAR PURPOSE, ALL OF WHICH ARE HEREBY DISCLAIMED.

ARTICLE VIII

INDEMNIFICATION

8.1 In General. Subject to the provisions of Section 9.8 hereof, each Party (the "**Indemnifying Party**") shall defend, indemnify and hold harmless the other Party, its Affiliates, and its and their employees, officers, directors, agents, distributors and licensees (each an "**Indemnified Party**") against any loss, damage, expense, or cost, including reasonable attorneys' fees, arising out of any claim, demand, action, suit, investigation, arbitration or other proceeding by a Third Party (an "**Action**") based on (a) the Indemnifying Party's breach of this Agreement; or (b) negligence, willful misconduct or violation of any law or regulation by the Indemnifying Party, its Affiliates, or its or their employees, officers, directors, or agents.

8.2 Procedure. If an Indemnified Party becomes aware of any Action it believes is indemnifiable under Section 8.1, (a) the Indemnified Party shall give the Indemnifying Party prompt written notice of such Action; (b) the Indemnifying Party shall assume, at its expense, the sole defense of such claim or cause of action through counsel selected by it and reasonably acceptable to the Indemnified Party, except that in the case of a conflict of interest between the Parties, the Indemnifying Party shall, at the Indemnifying Party's expense, provide separate counsel for the Indemnified Party selected by the Indemnified Party; (c) the Indemnifying Party shall maintain control of such defense, including any decision as to settlement, except that any settlement of an Action shall require the written consent of both Parties, which consent shall not be withheld or delayed unreasonably; (d) the Indemnified Party may, at its option and expense, participate in such defense, and in any event, the Parties shall cooperate with one another in such defense; and (e) the Indemnifying Party shall bear the total costs of any court award or settlement in such Action.

ARTICLE IX

TERM AND TERMINATION

9.1 Term. The term of this Agreement (the "**Term**"), unless sooner terminated as below set forth, shall commence as of the Effective Date and, end upon the first to occur of: (i) the third anniversary of the date that the Steering Committee approved the initial Statement of Work; or (ii) ABRD's receipt of Dyadic's written notice of its full funding of the Applicable R&D Spend (the "**Program Completion Date**").

9.2 Termination for Default. If either Party materially breaches this Agreement or the SPA and fails to cure the breach within thirty (30) days after receiving written notice thereof from the other Party identifying with reasonable specificity the nature of the alleged breach, the other Party may terminate this Agreement upon further written notice to the breaching Party at any time that the breach remains uncured.

9.3 Termination for Insolvency. Either Party may terminate this Agreement if the other Party becomes insolvent, voluntarily files a petition for relief under bankruptcy or any similar or other insolvency laws (or has a petition filed against it and the same remains undischarged or unstayed for 60 days) or voluntarily or involuntarily enters receivership or any similar or other insolvency proceeding.

9.4 Effect of Termination. In the event of termination of this Agreement either on or prior to the expiration of its fixed term by ABRD or Dyadic:

(a) if this Agreement was breached by Dyadic on account of its failure to achieve an aggregate cumulative Applicable R&D Spend of not less than $10,000,000.00 on or before the close of the R&D Spend Measurement, then Dyadic shall grant to ABRD the Licenses fixed in Article V for the Custom Enzyme Mixture, related Custom Processing Technology and Custom Manufacturing Technology for each Applicable Substrate on a Royalty-free basis (and free of any duty of Royalty accounting thereunder), and further, ABRD shall have the right to sublicense the Enzyme Mixture and related Custom Processing Technology and Custom Manufacturing Technology in accordance with the provisions of Sections 5.1(c) and 5.1(e), on a Royalty-free basis (and free of any duty of Royalty accounting thereunder), except that no consent shall be required of Dyadic, provided that the obligations of Dyadic to deliver such Licenses to ABRD shall be only as to such of that technology as has been developed by Dyadic up through the date of the breach, further provided that if Dyadic and ABRD are unable to agree upon the material terms of the license agreement evidencing the Licenses referred to in Section 5.3 hereof, such that the Parties are compelled to resort to arbitration pursuant to the provisions of Section 10.1, then in that event, without regard to the outcome of such arbitration proceedings, Dyadic shall (x) promptly following the execution of the final form of agreement evidencing such Licenses, reimburse ABRD for all reasonable costs (including legal fees) incurred by it in the negotiation, arbitration and resolution of the all matters surrounding such arbitration and the execution and delivery of that form agreement evidencing the Licenses, and (y) pay all of the costs of the referenced arbitration;

(b) if this Agreement is materially breached by ABRD which breach is not cured within the time period fixed by the provisions of Section 9.2 hereof, then any provision to the contrary notwithstanding, provided that ABRD shall continue to enjoy the benefit of all Licenses granted to it by Dyadic pursuant to the provisions of Article V hereof prior to the date of such breach (including all rights to grant sublicenses as therein set forth), all further rights of ABRD rights to license Custom Enzyme Mixtures and related Custom Processing Technologies and Custom Manufacturing Technologies, shall automatically terminate, Dyadic shall have no further obligation to continue to make any Applicable R&D Spend, and Dyadic shall be entitled to damages in the amount determined by arbitration pursuant to the provisions of Article X (except in the instance where the provisions of Section 10.3 shall apply, in which case such damages shall be determined by a court of competent jurisdiction); and

(c) if this Agreement is materially breached by Dyadic for any reason other than that set forth in subsection (a), above, which breach is not cured within the time period fixed by the provisions of Section 9.2 hereof, provided that Dyadic shall continue to enjoy all of the benefit of all licenses granted to it by ABRD pursuant to the provisions of Sections 4.2 and 4.3(b) hereof prior to the date of such breach (including all of the rights in respect thereof set forth therein), all further rights of Dyadic to license ABRD Background Technology under Section 4.2 and Jointly Developed Technology under Section 4.3(b) shall automatically terminate. In addition to enjoying the commercial rights set forth in Article V hereof, ABRD shall be entitled to damages

in the amount determined by arbitration pursuant to the provisions of Article X (except in the instance where the provisions of Section 10.3 shall apply, in which case such damages shall be determined by a court of competent jurisdiction).

9.5 Dyadic Breach of Covenant to Make Applicable Spend. Dyadic hereby covenants and agrees that if Dyadic breaches its covenant to ABRD to achieve an aggregate cumulative Applicable R&D Spend of not less than $10,000,000.00 on or before the close of the R&D Spend Measurement, then in that event, without regard to the consequences to the Dyadic fixed by the provisions of Section 4.6 of the SPA, ABRD shall be entitled to the remedy fixed in Section 9.4(a) hereof.

9.6 Effect of Termination; Other Remedies Available. Notwithstanding anything in this Agreement to the contrary, in the event of termination of this Agreement as is provided in this Article IX, each Party shall have available every remedy allowed under law and equity, including but not limited to specific performance, suit for damages, and rescission.

9.7 Effectiveness of this Agreement. The effectiveness of this Agreement is conditioned upon the Closing of the purchase and sale of the "Purchased Securities" by ABRD from Dyadic pursuant to the terms of the SPA Agreement on or before the "Closing Date" fixed by the SPA (as those terms are defined therein).

9.8 Limitation of Liability. EXCEPT WITH RESPECT TO DAMAGES TO THIRD PARTIES UNDER INFRINGEMENT INDEMNIFICATION OBLIGATIONS SET FORTH IN SECTION 4.5 HEREOF OR WITH RESPECT TO BREACH OF CONFIDENTIALITY OBLIGATIONS SET FORTH IN ARTICLE VI HEREOF WHICH BREACH IS EITHER INTENTIONAL OR ON ACCOUNT OF AN ACT OR ACTS OF GROSS NEGLIGENCE (BUT NOT SIMPLE NEGLIGENCE)`, NEITHER PARTY SHALL BE LIABLE TO THE OTHER UNDER ANY CONTRACT, STRICT LIABILITY, NEGLIGENCE OR OTHER THEORY FOR ANY INDIRECT, INCIDENTAL OR CONSEQUENTIAL DAMAGES INCLUDING WITHOUT LIMITATION LOST PROFITS IN CONNECTION WITH THE SUBJECT MATTER OF THIS AGREEMENT OR ANY PURCHASE ORDER IRRESPECTIVE OF WHETHER SUCH PARTY HAD ADVANCE NOTICE OR KNOWLEDGE OF THE POSSIBILITY OF SUCH DAMAGES.

ARTICLE X

DISPUTE RESOLUTION

10.1 Arbitration of Disputes. Other than any dispute arising in connection with the obligations of the Parties created by the provisions of Article VI hereof (pertaining to Confidential Information) or the right of a Party to enjoy the benefits of all intellectual property of which Party is the sole and exclusive owner, as to which the provisions of Section 10.3 hereof shall apply, any other dispute between the Parties not resolved within fifteen (15) days after one Party notifies the other Party that it wishes to discuss the matter ("**Dispute**"), shall be resolved by arbitration in New York City, New York under the Commercial Arbitration Rules ("**Commercial Rules**") of the American Arbitration Association ("**AAA**"), including the AAA Supplementary Procedures for Large Complex Commercial Disputes ("**Complex Procedures**"), as such rules shall be in effect on the date of delivery of a demand for arbitration ("**Demand**"), except to the extent that such rules are inconsistent with the provisions set forth herein. Notwithstanding the foregoing, the Parties may agree that the Complex Procedures shall not apply in order to promote the efficient arbitration of Disputes where the nature of the Dispute, including the amount in controversy, does not justify the application of such procedures.

10.2 Arbitration Procedures. The arbitration shall be conducted in the English language before one (1) impartial arbitrator selected by mutual agreement of the Parties. If the Parties are unable to mutually agree on an impartial arbitrator within ten (10) days, a neutral arbitrator shall be appointed by the AAA from the panel of commercial arbitrators of any of the AAA Large and Complex Resolution Programs. The arbitrator's award shall be a final and binding determination of the dispute. If awarded by the arbitrator, the prevailing Party shall be entitled to recover its reasonably attorneys' fees and expenses, including arbitration administration fees incurred in connection with such proceeding.

10.3 Judicial Action. Notwithstanding the above, either Party may seek from any court having jurisdiction hereof any interim, provisional or injunctive relief or specific performance that may be necessary to protect that Party's intellectual property rights (including its Confidential Information) and tangible property or to maintain the status quo before, during or after the pendency of the arbitration proceeding. The institution and maintenance of any judicial action or proceeding for any such interim, provisional or injunctive relief shall not constitute a waiver of the right or obligation of either Party to submit the dispute to arbitration, including any claims or disputes arising from the exercise of any such interim, provisional or injunctive relief.

ARTICLE XI

NOTICES

11.1 Delivery of Notices. All notices sent under this Agreement shall be in writing and (a) hand delivered; (b) transmitted by legible facsimile with a copy sent concurrently by certified mail, return receipt requested; or (c) delivered by prepaid priority delivery service.

11.2 Addresses for Notices. Notices shall be sent to the Parties at the following addresses or such other addresses as the Parties subsequently may provide:

If to Dyadic: 140 Intracoastal Pointe Drive, Suite 404,
Jupiter, Florida 33477

Facsimile No.: 561-743-8333
Telephone No.: 561-743-8513
Attn: Chief Executive Officer

With a copy to: Greenberg Traurig, LLP
77 West Wacker Drive, Suite 2500
Chicago, Illinois 60601

Facsimile: 312-899-0431
Telephone: 312-476-5015
Attn: Robert I. Schwimmer, Esq.

If to ABRD: 1400 Elbridge Payne
Suite 212
Chesterfiled, MO 63017
Attention: Gerson Santos

Telephone: (636) 728-0508
Fax: (636) 728-1148

With a copy to: Squire, Sanders & Dempsey L.L.P
127 Public Square, Suite 4900
Cleveland, Ohio 44114
Telephone: 216-479-8552
Facsimile**:** 216-479-8780
Attn: Laura D. Nemeth

ARTICLE XII

MISCELLANEOUS

12.1 No Authority to Bind Parties. Neither Party shall have the authority and shall not purport to have the authority to enter into any contracts or make any representations or warranties on behalf of the other Party or its Affiliates or otherwise to bind or obligate the other Party or its Affiliates in any manner whatsoever.

12.2 Relationship Between Parties. Dyadic and ABRD are separate business entities, and shall not be considered as joint ventures, partners, agents, servants, employee, or fiduciaries of each other. Neither this Agreement nor the relationship between the Parties shall be considered in any way to deem ABRD a franchisee of Dyadic for any purpose whatsoever. The Parties specifically agree that any obligation to act in good faith and to deal fairly with each other which may be implied in law shall be deemed satisfied by the Parties' compliance with the express terms of this Agreement.

12.3 Foreign Corrupt Practices Act and Anti-Bribery Provisions.

(a) During the Term of this Agreement, the Parties will not, and shall cause their Affiliates to not, make or provide any payments or gifts or any offers or promises of any kind, directly or indirectly, to any official of any government or to any official of any agency or instrumentality of any government, or to any political party or to any candidate for political office (the foregoing individually and collectively referred to as "**Government Official**"). If on the date hereof or at any time during the term of this Agreement any Governmental Official or an active member of the armed services of any government (a) owns an interest in that certain Party or its Affiliate, (b) has any legal or beneficial interest in this Agreement or in payments to be received by that certain Party or its Affiliate in connection with the services to be provided by hereunder, or (c) is a director, officer or employee of that certain Party or its Affiliate, that certain Party will notify the other Party and will take such actions to assure that the affected person does not take any action, official or otherwise, and/or use any influence in connection with the other Party's business.

(b) Each Party warrants, on its behalf and on behalf of its Affiliates, that they have not and will not pay or offer, directly or indirectly, any commission or finders or referral fee to any person or entity in connection with its activities relating to this Agreement, unless it has obtained prior written agreement thereto from the other Party.

(c) Each Party, including its Affiliates, and all of its and their directors, officers, shareholders, employees and agents, have conducted with respect to the activities contemplated in this Agreement and shall during the term of this Agreement conduct all of their activities in accordance with the U.S. Foreign Corrupt Practices Act and the substantive provisions of the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions dated 21 November 1997 as well as any amendments thereto.

12.4 Governing Law; Jurisdiction. This Agreement shall be governed by and construed in accordance with the law of the State of Delaware, without regard to its conflict of laws principles.

12.5 Recordkeeping and Inspection. During the Term and for three (3) years thereafter, or such longer period as may be required by law, the Parties shall keep and maintain reasonable records of all agreements, approvals and other activities relating to this Agreement. Without limiting the relevant terms of any License pertaining to the subject matter of this Section 12.5, Dyadic may, at its expense, during regular business hours and with reasonable prior notice, examine, review, and inspect all facilities in which Dyadic Technology is being practiced by or on behalf of ABRD and review, audit and analyze ABRD's records relating to this Agreement (in combination, conduct an "**Inspection**"). ABRD may, at its expense, during regular business hours and with reasonable prior notice, conduct an Inspection of all facilities in which the ABRD R&D Program is being performed by or on behalf of Dyadic and review, audit and analyze Dyadic's records relating to this Agreement.

12.6 Severability. The provisions of this Agreement are severable, and the unenforceability of any provision of this Agreement shall not affect the enforceability of the remainder of this Agreement. The Parties acknowledge that it is their intention that if any provision of this Agreement is determined by a court to be unenforceable as drafted, that provision should be construed in a manner designed to effectuate the purpose of that provision to the greatest extent possible under applicable law.

12.7 Construction of Agreement. The Parties acknowledge that they thoroughly have reviewed this Agreement and bargained over its terms. Accordingly, this Agreement shall be construed without regard to the Party or Parties responsible for its preparation and shall be deemed to have been prepared jointly by the Parties.

12.8 Cumulative Rights and Remedies. The rights and remedies provided in this Agreement and all other rights and remedies available to either Party at law or in equity are, to the extent permitted by law, cumulative and not exclusive of any other right or remedy now or hereafter available at law or in equity. Neither asserting a right nor employing a remedy shall preclude the concurrent assertion of any other right or employment of any other remedy, nor shall the failure to assert any right or remedy constitute a waiver of that right or remedy.

12.9 Assignment. Either Party may transfer or assign its rights and obligations under this Agreement or any License to any Affiliate or to any Person who purchases from that Party all or substantially all of the assets of the business to which this Agreement pertains (and in the case of ABRD, the ABRD Affiliate owning or operating the ABRD Facility shall have the right to pledge its License to secure funded indebtedness). No other assignment of this Agreement, or any rights or obligations thereunder may be made by either Party without the consent of the Party, which consent shall not be unreasonably withheld or delayed. Subject to the foregoing, this Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors, permitted assigns and legal representatives.

12.10 Headings. All headings in this Agreement are included solely for convenient reference, are not intended to be full and accurate descriptions of the contents of this Agreement, shall not be deemed a part of this Agreement, and shall not affect the meaning or interpretation of this Agreement.

12.11 Publicity. Subject to Dyadic's SEC reporting responsibilities (in respect of which each Party shall furnish the other reasonable advance notice to the extent practicable or not in violation of applicable securities laws), neither Party shall, without the prior written approval of the other Party, (i) advertise or otherwise publicize the existence or terms of this Agreement or any other aspect of the relationship between the Parties, or (ii) use the other Party's or its Affiliates or any or their employees' names or any trade name, trademark or service mark belonging to the other Party in press releases or in any form of advertising.

12.12 **Amendments.** This Agreement may be modified or amended only by written agreement of the Parties.

12.13 **English Language.** The Parties shall use the English language in all communications relating to this Agreement, and the English language version of this Agreement signed by the Parties shall control over any and all translations.

12.14 **Entire Agreement.** This Agreement, together with the SPA, constitutes the entire agreement between the Parties concerning the subject matter of this Agreement and supersedes all prior agreements between the Parties concerning the subject matter hereof.

12.15 **Counterparts.** This Agreement may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original and all of which when taken together shall constitute this Agreement.

12.16 **Survival.** Article I (relating to definitions), Section 2.1 (to the extent the terms thereof provide for obligations to be performed following the expiration of the Agreement), Article IV (relating to ownership of intellectual property), Article VI (relating to Confidential Information), Section 7.2 (pertaining to warranty disclaimers), Article VIII (relating to indemnification), Sections 9.4, 9.5, 9.6 and 9.8, Article X (relating to dispute resolution), Article XI (relating to notices), Article XII (relating to miscellaneous matters) of this Agreement shall survive the expiration or termination of this Agreement in any event. Article V (relating to ABRD commercial rights) shall survive the expiration or termination of this Agreement except in the instance where this Agreement was terminated on account of ABRD's default pursuant to the provisions of Section 9.2 hereof.

IN WITNESS WHEREOF, the parties hereto have caused this R&D Agreement to be duly executed by their respective authorized signatories as of the date first indicated above.

DYADIC INTERNATIONAL (USA), INC.

By: /s/
Name: Mark A. Emalfarb
Title: Chief Executive Officer

ABENGOA BIOENERGY R&D, INC.

By: /s/
Name: Christopher G. Standlee
Title: Vice President

EXHIBIT A[1] **Five (5) pages have been omitted from this Exhibit A as a result of the confidential portions omitted herefrom and filed separately with the Commission.**

R&D Plan

ABRD / DIL

26 Oct 2006

Capitalized terms not expressly defined herein shall have the meanings assigned them in the R&D Agreement

1.0 R&D Objective

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2.0 Background

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3.0 Scope of Work

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3.1 **

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4. Resources

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5. R&D Steering Committee

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6. Milestones

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7. Project Budget:

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Exhibit 23

Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

(1) Registration Statement (Form S-3 No. 333-139542) of Dyadic International, Inc.;
(2) Post-Effective Amendment No. 1 on Form S-3 to Form SB-2 (Form S-3 No. 333-121738) of Dyadic International, Inc.;
(3) Registration Statement (Form S-8 No. 333-122339) pertaining to the 2001 Equity Compensation Plan of Dyadic International, Inc.; and
(4) Registration Statement (Form S-8 No. 333-136676) pertaining to the 2006 Stock Option Plan of Dyadic International, Inc.

of our report dated March 28, 2007, with respect to the consolidated financial statements of Dyadic International, Inc. and subsidiaries included in this Annual Report (Form 10-KSB) of Dyadic International, Inc. for the year ended December 31, 2006.

/s/ Ernst & Young LLP
Certified Public Accountants

West Palm Beach, Florida
March 28, 2007

Exhibit 31.1

Dyadic International, Inc.

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Mark A. Emalfarb, Chief Executive Officer, certify that:

1. I have reviewed this Annual Report on Form 10-KSB of Dyadic International, Inc. (the "Company");

2. Based on my knowledge, this Annual Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Annual Report;

3. Based on my knowledge, the financial statements, and other financial information included in this Annual Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this Annual Report;

4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Company and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Annual Report is being prepared;

b) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this Annual Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Annual Report based on such evaluation; and

c) Disclosed in this Annual Report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth fiscal quarter in the case of an annual report) that has materially affected or is reasonably likely to materially affect the Company's internal control over financial reporting; and

5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of Company's Board of Directors (or persons performing equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls over financial reporting.

Date: April 2, 2007 /s/ Mark A. Emalfarb

Mark A. Emalfarb

Chief Executive Officer

Exhibit 31.2

Dyadic International, Inc.

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Wayne Moor, Chief Financial Officer, certify that:

1. I have reviewed this Annual Report on Form 10-KSB of Dyadic International, Inc. (the "Company");

2. Based on my knowledge, this Annual Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Annual Report;

3. Based on my knowledge, the financial statements, and other financial information included in this Annual Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this Annual Report;

4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Company and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Annual Report is being prepared;

b) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this Annual Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Annual Report based on such evaluation; and

c) Disclosed in this Annual Report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth fiscal quarter in the case of an annual report) that has materially affected or is reasonably likely to materially affect the Company's internal control over financial reporting; and

5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of Company's Board of Directors (or persons performing equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls over financial reporting.

Date: April 2, 2007 /s/ Wayne Moor

Wayne Moor
Chief Financial Officer

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Mark A. Emalfarb, Chief Executive Officer of Dyadic International Inc. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

1. The Annual Report on Form 10-KSB of the Company for the year ended December 31, 2006 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

IN WITNESS WHEREOF, the undersigned has executed this certification as of the 2nd day of April 2007.

//s/ Mark A. Emalfarb
_____
Name: Mark A. Emalfarb
Title: Chief Executive Officer

This certification accompanies the Annual Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by Dyadic International, Inc. for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 has been provided to Dyadic International, Inc. and will be retained by Dyadic International, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.