

**U. S. SECURITIES AND EXCHANGE COMMISSION**  
**Washington, DC 20549**  
**FORM 10-KSB**

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the fiscal year ended September 30, 2004  
Commission file number: 000-27503

**DYNASIL CORPORATION OF AMERICA**

New Jersey 22-1734088  
(State of (I.R.S. Employer  
Incorporation) Identification No.)

385 Cooper Road, West Berlin, New Jersey 08091  
(856) 767-4600

Securities registered under Section 12(b) of the Act: none

Securities registered under Section 12(g) of the Act: common stock,  
\$.0005 par value

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act during the past 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Check if there is no disclosure of delinquent filers in response to item 405 of Regulation S-B contained in this form, and that 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

State issuer's revenues for its most recent fiscal year: \$2,296,264

The Company's common stock is quoted on the NASDAQ OTC Bulletin Board under the symbol "DYSL.OB". The estimated aggregate market value of the voting and non-voting stock held by non-affiliates of the registrant as of November 30, 2004 was \$1,355,459. The market value is based upon the last sale of the Common Stock on the NASDAQ OTC Bulletin Board of \$.60 per share on November 30, 2004.

The Company had 3,430,644 shares of common stock, par value \$.0005 per share, outstanding as of November 30, 2004.

Documents incorporated by reference: none

Transitional Small Business Disclosure: Yes  No

## PART I

### ITEM 1. DESCRIPTION OF BUSINESS

Dynasil Corporation of America ("Dynasil", "we", or the "Company") was incorporated in the State of New Jersey on October 20, 1960.

On April 22, 1996, the Company's articles of incorporation were amended to reflect an increase in the authorized shares of common stock from 1,500,000 to 25,000,000, and a reduction of the par value of the common stock from \$.10 to \$.001. On June 1, 1996, the Board of Directors declared a three-for-two stock split, effected in the form of a 50% stock dividend payable to stockholders of record on April 30, 1996.

On October 16, 1996, the Board of Directors declared a two-for-one stock split payable on November 1, 1996 to stockholders of record on October 1, 1996, which split further reduced the par value of our common stock from \$.001 to \$.0005 per share.

We were founded as a manufacturer and fabricator of synthetic fused silica, a high purity, industrial optical material. The manufacturing aspect of the business entails producing synthetic fused silica through a chemical-vapor-deposition process in furnaces. The fabricating aspect deals with precision cutting, coring and shaping to customer specifications, also done at our manufacturing facility. Fabrication occurs on in-house manufactured material as well as material procured from outside vendors.

In recent years, we have suspended operations of our glass furnaces and concentrated on expanding our product lines to include the fabrication of optical materials supplied by other manufacturers. This has included fused quartz from General Electric, fused silica from Corning Incorporated, and various optical materials from Schott Glass Technologies Inc., Ohara Corporation, and others. Our products are used primarily as components of optical instruments, lasers, analytical instruments, semiconductor/electronic devices, spacecraft/aircraft components, and in devices for the energy industry. These applications include:

- o Optical components - lenses, prisms, reflectors, mirrors, filters, optical flats
- o Lasers - Beam Splitters, brewster windows, q-switches, medical/industrial lasers, exciter systems
- o Analytical Instruments - UV spectrophotometer cells, fire control devices, reticle substrates, and interferometer plates
- o Semiconductor/Electronic - Microcircuit substrates, microwave devices, photomasks, sputter plates, microlithography optics
- o Spacecraft/Aircraft - Docking light covers, windows, re-entry heat shields, ring laser gyros

Our products are distributed through direct sales and delivered by commercial carriers. We have a two person sales force located in our corporate headquarters, West Berlin, New Jersey, that handles all

sales. We also use manufacturer's representatives in various foreign countries for international sales. Marketing efforts include direct customer contact through sales visits, advertising in trade publications and presentations at trade shows.

We compete for business in the optics industry primarily with fabricators of industrial optical material. Market share in the optics industry is largely a function of quality, price and speed of delivery. We believe that we compete effectively in all three areas.

Our primary suppliers are Corning Incorporated and General Electric.

We presently have over 150 customers, with approximately 87% of our business concentrated in our top 40 customers. Our five largest customers accounted for approximately 11.4%, 6.5%, 6.2%, 5.0% and 4.5%, respectively, of our revenues during fiscal year 2004. The loss of any of these customers would likely have a material adverse effect on our business, financial condition and results of operations. Generally, our customers provide purchase orders for a specific size, quantity and quality. These purchase orders are filled with material from inventory or purchased material. Orders are normally filled over a period ranging from one to three weeks. We have blanket orders that call for monthly deliveries of a predetermined amount.

We have no patents or patent applications filed or pending.

Other than federal, state and local environmental and safety laws, our fabricating process is not subject to direct governmental regulation. We do not have any pending notice of environmental violations and are aware of no potential violations. There are no buried storage tanks on our property. Environmental costs for fiscal year 2004 have not exceeded \$50,000.

Our research and development activities primarily have involved changes to our manufacturing process and the introduction of improved methods and equipment. Improvements to our processes are ongoing and related costs are incorporated into our manufacturing expenses.

Our total work force consists of 17 employees: 3 administrative; 2 sales; and 12 shop personnel. The shop is non-union.

The public may read and copy any materials we have filed with the SEC at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of the internet site is <http://www.sec.gov>. The public can also contact Mr. Craig T. Dunham at Dynasil Corporation of America, 385 Cooper Road, West Berlin, NJ 08091 or through the internet web address <http://www.Dynasil.com>.

## **ITEM 2. DESCRIPTION OF PROPERTY**

Facilities

We own a manufacturing and office facility consisting of a one-story, masonry and steel building containing approximately 15,760 square feet, located at 385 Cooper Road, West Berlin, New Jersey, 08091. The building is situated on a 3.686-acre site. It contains eight inactive furnaces with attendant pollution control systems, glass processing equipment, quality control functions and administrative office space. We believe the property is in satisfactory condition and suitable for our purposes.

The property is mortgaged as collateral against a note payable to a bank.

### **ITEM 3. LEGAL PROCEEDINGS**

On August 30, 2004, the Company was served with a Summons and Complaint in an action entitled *Torrero v. Alcoa, Inc., et al* filed on August 19, 2004 in the Los Angeles (CA) Superior Court. In that case, the plaintiffs, Lucy Torrero and Juan Pedrosa Torrero allege that glass blanks manufactured and sold by the Company, along with the products or tools made and sold by approximately twenty other defendants including General Electric, ALCOA, Corning Incorporated, and Raytheon, caused plaintiff Lucy Torrero to develop lung cancer and other injuries during her employment as an optical lens grinder and laborer by companies that purchased or used those products or tools. The plaintiffs seek compensatory and punitive damages aggregating approximately \$31,500,000. The Company has referred the matter over to its commercial general liability insurance carrier which is defending the Company under a reservation of rights. The Company does not believe that an adverse outcome on this matter will have any material adverse effect on the Company, its financial condition or prospects.

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

During the Fourth Quarter of the Fiscal Year covered by this report, no matter was submitted to a vote of security holders through solicitation of proxies or otherwise.

## **PART II**

### **ITEM 5. MARKET FOR THE COMMON EQUITY AND RELATED STOCKHOLDER MATTERS**

The Registrant's Common Stock is quoted on the NASD-OTC Bulletin Board under the symbol "DYSL.OB". The Company's Common Stock has been traded publicly since April 22, 1981. The "high" and "low" bid quotations for the Company's Common Stock as reported by the OTC Bulletin Board for each quarterly period for the fiscal years ended September 30, 2003 and September 30, 2004 were as follows:

<u>Fiscal Quarter</u>	<u>High Bid Price</u>	<u>Low Bid Price</u>
2003		
First	\$0.20	\$0.07
Second	0.15	0.10
Third	0.51	0.10
Fourth	0.51	0.13

2004		
First	\$0.51	\$0.21
Second	0.40	0.25
Third	0.45	0.20
Fourth	0.29	0.07

The above listed quotes reflect inter-dealer prices without retail mark-up, mark-down, or commissions, and may not represent actual transactions.

As of September 30, 2004, there were 3,240,020 shares of common stock outstanding held by approximately 500 holders of record of the Common Stock of the Company (including shareholders whose stock is held in street name and who have declined disclosure of such information).

The Company has paid no cash dividends since its inception. The Company intends to retain any future earnings for use in its business and does not intend to pay cash dividends on common stock in the foreseeable future. Holders of the Common stock are entitled to share ratably in dividends when and as declared by the Board of Directors out of funds legally available therefore.

The Company adopted Stock Incentive Plans in 1996 and 1999 that permit, among other incentives, grants to officers, directors, employees and consultants, options to purchase up to 1,350,000 shares of the Company's common stock. At September 30, 2004, 1,004,000 shares of common stock were reserved for issuance under the Plans. Options are generally exercisable at the fair market value on the date of grant over a five-year period. To date, options have been granted at exercise prices ranging from \$.40 to \$4.25 per share. At September 30, 2004, 135,000 options were outstanding.

The securities authorized for issuance under equity compensation plans is set forth in a tabular format in response to Item 11.

The Company adopted an Employee Stock Purchase Plan that permits substantially all employees to purchase common stock. Employees have an opportunity to acquire common stock at a purchase price of 85% of the fair market value of the shares. Under the plan, a total of 150,000 shares had been reserved for issuance. Of these, 95,387 shares have been purchased by the employees at purchase prices ranging from \$.06 to \$2.68 per share. During any twelve-month period, employees are limited to a total of \$5,000 of stock purchases.

On September 19, 2000 the Company filed a Form S-8 with the United States Securities and Exchange Commission to register the shares associated with the Stock Incentive Plans and the Employee Stock Purchase Plan. Prior to that date the shares were restricted and subject to the holding periods of Rule 144. On September 23, 2004, the Company signed a three year employment agreement with Mr. Craig T. Dunham to become President/ CEO effective October 1, 2004. In conjunction with that agreement, the Company entered into a Subscription Agreement with Mr. Dunham pursuant to which Mr. Dunham agreed to acquire 1,000,000 shares of Dynasil's common stock at \$0.15 per share for \$150,000. On that date, the Company also granted a Stock Purchase Warrant to Mr. Dunham pursuant to which Mr. Dunham may

acquire, at any time prior to January 31, 2008, up to an additional 1,200,000 shares of the Company's common stock at an exercise price of \$0.225 or \$0.25 per share dependent upon certain conditions.

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

The following management's discussion and analysis should be read in conjunction with our financial statements and the notes thereto appearing elsewhere in this Form 10-KSB

### General Business Overview

The downturn in demand that we had experienced in fiscal year 2003 continued into the first part of the fiscal year ending September 30, 2004. Revenues for the first three quarters of 2004 were down 8.8% versus 2003 but the fourth quarter of 2004 rebounded with a 23% increase over 2003. For 2003 and earlier in 2004, two important areas of our customer base, semi-conductors and telecommunications, had not fully recovered from adverse economic conditions. While telecommunications has still not fully recovered, overall, the optics industry appears to be strengthening, as evidenced by the 23% increase for the fourth quarter of 2004 and continued strong orders and shipments for the first two months of fiscal year 2005. Detailed action plans have recently been implemented which are designed to continue revenue growth and new optical materials have recently been added to our product line. We expect to return to profitability in fiscal year 2005 and to continue to deliver positive cash flow from operations. In addition, on October 18, 2004, the Company announced a letter of intent to acquire the assets of Optometrics LLC in Ayer, Massachusetts. This planned transaction is anticipated to approximately double the revenues of the Company and significantly improve profitability. Management is pleased with progress on this transaction and closing is tentatively planned for January 31, 2005.

### Results of Operations

Revenues for the fiscal year ended September 30, 2004 were \$2,296,264. This represents a decrease of 2% for the fiscal year ended September 30, 2003 of \$2,340,397. The small overall decrease in sales resulted from a slow start for the year that was not quite overcome by the strong finish with a 23% revenue increase in the fourth quarter. During 2004, new optical materials were added to the Company's product line including the recent addition of several glasses closely related to fused silica. Management believes that improved economic conditions combined with proactive sales and marketing efforts resulted in the fourth quarter revenue turnaround which has continued into the first two months of fiscal year 2005 with a 20% increase in shipments and a 36% increase in order bookings versus the same period last year.

Cost of sales for the fiscal year ended September 30, 2004 was \$1,759,736, or 76.6% of sales, versus \$1,849,291 or 79.0% of sales for fiscal year ended September 30, 2003. The improvement in percentage of sales of 2.4% (5.9% over the last two years) can be attributed in part

to our continuous expense monitoring and cost reductions throughout the year.

Gross profit increased to \$536,528 or 23.4% of sales, for fiscal year 2004 from \$491,106 or 21.0% of sales for fiscal year 2003. We believe the increase of \$45,422, or 2.4%, is primarily a result of closely managing our expenses and capital lower depreciation from reduced capital spending.

Selling, general and administrative expenses increased to \$676,972 or 29.5% of sales for fiscal year 2004 from \$657,465 or 28.1% of sales for fiscal year 2003. A reduction in Directors fees for fiscal year 2004 was more than offset by higher legal expenses for the leadership transition, higher external sales commissions on international sales, and increased advertising, travel, and selling expenses aimed at increasing revenues. Fiscal year 2003 included a non-cash asset impairment charge of \$158,333 related to the shutdown of glass furnaces.

Interest Expense-net, decreased to \$35,433 or 1.5% of sales for fiscal year 2004 from \$43,989 or 1.9% of sales for fiscal year 2003. The decrease of \$8,556 was the result of debt decreasing overall by \$304,817 for fiscal year 2004. On April 15, 2004, the Company's debt was restructured to extend the maturity date two years while maintaining the interest rate at the bank's prime rate plus 0.5%.

The Company lost \$175,881 for the year ended September 30, 2004 compared to a loss of \$368,681 for the fiscal year ended September 30, 2003.

The Company has no provisions for income taxes for either fiscal 2004 or 2003. As of September 30, 2004 we have approximately \$1,400,000 of net operating loss carry-forwards to offset future taxable income for federal tax purposes expiring in various years through 2021. In addition, the Company has approximately \$800,000 of net operating loss carry-forwards to offset certain future states' taxable income, expiring in various years through 2013.

#### Liquidity and Capital Resources

Net cash provided by operating activities was \$87,794 for fiscal year 2004 versus \$192,006 for fiscal year 2003. Despite showing a net loss for the year, the Company generated \$87,794 of cash from operating activities primarily through depreciation and reductions in inventory.

Cash flows from investing activities increased to \$198,091 for fiscal year 2004, from (\$11,803) for fiscal year 2003. \$200,000 of the cash flow from investing activities came from certificates of deposit that matured during 2004 and were used to reduce debt by \$150,000 with the remainder used in operations. Capital expenditures to purchase Plant, Property, and Equipment decreased to \$5,834 for fiscal year 2004 versus \$13,206 for 2003.

Cash flows used in financing activities decreased to \$154,298 for fiscal year 2004, from \$229,000 for fiscal year 2003. Cash used in financing activities for fiscal year 2004 and 2003 was primarily used to reduce long-term debt. In addition during fiscal year 2004, \$150,519

worth of the Company's common stock was sold, primarily through a private placement to Mr. Craig T. Dunham.

Despite reported losses over the last three years, net cash from operations has totaled \$552,000 and total debt has been reduced by \$927,000 from \$1,536,000 to \$609,000.

The Company believes that its current cash and cash equivalent balances, and net cash generated by operations, will be sufficient to meet its anticipated cash needs for working capital for at least the next 12 months. The proposed Optometrics acquisition and any other business expansions may require the Company to seek additional debt or equity financing.

#### Recent Announcement

On October 18, 2004, the Company announced that it had signed a Letter of Intent to acquire the assets of Optometrics LLC of Ayers, Massachusetts. Optometrics LLC is a worldwide supplier of high quality optical components including diffraction gratings, lenses, thin film filters, laser optics, monochromators, and specialized optical systems and software. The transaction is currently targeted to close by January 31, 2005 and is contingent upon completion of a definitive asset purchase agreement, financing, and due diligence. Under the terms of the Letter of Intent, the current Optometrics owners, Ms. Laura Lunardo and Mr. Frank Denton will continue to actively lead the Optometrics business as well as Ms. Lunardo becoming Dynasil's CFO. The acquisition of Optometrics LLC is expected to double Dynasil revenues in addition to contributing significant net income and cash flow. Dynasil has been a long term supplier to Optometrics and glass is a key raw material for Optometrics products. Management believes that, if the transaction is consummated, Optometrics will be an excellent addition to the Company with its track record of profitable growth, strong people, and optical customers/ markets that fit well with the Company. Management is pleased with the progress of the transaction to date.

#### Strategic Plan

Under new leadership, the strategy for Dynasil is to significantly grow revenues through improvements in our core optical materials business as well as strategic acquisitions. The ongoing project to acquire the assets of Optometrics LLC represents the first step planned for strategic acquisitions and several other potential acquisition candidates have been identified. Improving the core business is planned by enhancing product offerings, increasing value offered to customers, and pursuing new business in order to grow revenues. Here are the key elements of the strategy:

- 1) Increase revenues and profitability of the Dynasil optical materials business

- a. Grow revenues more than 20% for 2005 and then continue growth in future years. After several depressed years, the optics industry seems to be showing a strong recovery and Dynasil's orders have picked up significantly. For the quarter ending September 30, 2004, revenues were up 23% over 2003. For the first quarter of FY 2005 ending December 31, 2004, order entry for the first two months was up 36% over the previous year

and shipments are on track for an expected revenue increase exceeding 20% for the first quarter of fiscal 2005 (ending December 31, 2004). Recent customer visits have resulted in new business orders that are expected to add to FY 2005 revenues. A sales and marketing action plan has recently been completed which is aimed at driving up revenues and margins. The planned acquisition of Optometrics is expected to offer access to several large potential customers as well as the opportunity to combine sales and marketing efforts. Here are some of the Company's specific strategies and plans:

i. Expand the Company's product line into other high value optical materials. The Company has recently announced the addition of ultra low expansion fused silica and low water content fused silica. Dynasil recently started offering other higher priced optical glasses and will continue to pursue attractive opportunities for those products.

ii. Outperform competitors for quality, service, technical advice, and flexibility to add value for customers. Dynasil has a strong reputation for quality and service. With an expanded product offering of high value optical materials, the Company also plans to strengthen its technical knowledge of the optical material alternatives to provide enhanced technical advice for customer selection and usage of different optical materials. Customers have special needs and Dynasil plans to add value by flexibly servicing those needs where there is an attractive economic opportunity.

b. Systematically Reduce Costs and realize margin percentage improvements by keeping fixed costs fairly constant as sales volume increases. Changes over the last several years have significantly reduced the Company's break-even point. The new CEO has extensive experience implementing cost reduction plans and structured cost reduction is targeted to more than offset inflation. In addition, nearly all of Dynasil S&A costs are fixed costs as well as about 40% of product costs. As sales volume goes up, our plan is to control costs so that they do not go up proportionally.

c. Investigate alternative processes for optical materials. During 2005, the Company plans to investigate the licensing of alternative processes to manufacture optical materials which could provide the capability to produce unique, higher value products as well as potentially significant cost savings for customers.

2) Grow through strategic acquisitions and alliances. The planned Optometrics acquisition represents a first step to grow through acquisition. Several other potential acquisition candidates have been identified and are planned to be evaluated after the conclusion of the Optometrics activities. Target companies include manufacturers in optics related industries. In particular, companies that could take the Company's products and add value are of particular interest so that a greater range of capabilities could be offered to customers.

#### "Off Balance Sheet" Arrangements

The Company has no "Off Balance Sheet" arrangements.

#### Forward-Looking Statements

The statements contained in this Annual Report on Form 10-KSB which are not historical facts, including, but not limited to, certain statements found under the captions "Business," "Results of Operations," and "Liquidity and Capital Resources" above, are forward-looking statements that involve a number of risks and uncertainties. The actual results of the future events described in such forward-looking statements could differ materially from those stated in such forward-looking statements. Among the factors that could cause actual results to differ materially are the risks and uncertainties discussed in this Annual Report on Form 10-KSB, including, without limitation, the portions of such reports under the captions referenced above, and the uncertainties set forth from time to time in the Company's filings with the Securities and Exchange Commission, and other public statements. Such risks and uncertainties include, without limitation, seasonality, interest in the Company's products, consumer acceptance of new products, general economic conditions, consumer trends, costs and availability of raw materials and management information systems, competition, litigation and the effect of governmental regulation. The Company disclaims any intention or obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

**ITEM 7. FINANCIAL STATEMENTS**

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders  
Dynasil Corporation of America and Subsidiaries  
Berlin, New Jersey

We have audited the accompanying consolidated balance sheets of DYNASIL CORPORATION OF AMERICA AND SUBSIDIARIES as of September 30, 2004 and 2003, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of DYNASIL CORPORATION OF AMERICA AND SUBSIDIARIES as of September 30, 2004 and 2003 and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

HAEFELE, FLANAGAN & CO, p.c.

Moorestown, New Jersey  
November 5, 2004

**DYNASIL CORPORATION OF AMERICA AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**SEPTEMBER 30, 2004 AND 2003**

	ASSETS	
	<u>2004</u>	<u>2003</u>
Current assets		
Cash and cash equivalents	\$254,908	\$ 123,321
Certificates of deposit	-0-	200,000
Accounts receivable, net of allowance for doubtful accounts of \$5,000 for 2004 and 2003	309,276	242,919
Inventories	369,813	435,820
Prepaid expenses and other current assets	16,656	38,935
	-----	-----
Total current assets	950,653	1,040,995
Property, Plant and Equipment, net	419,718	558,191
Other Assets	3,321	10,654
	-----	-----
Total Assets	\$1,373,692	\$1,609,840
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Current portion of long-term debt	\$120,000	\$ 140,925
Accounts payable	184,214	131,518
Accrued expenses and other current liabilities	114,959	73,624
	-----	-----
Total current liabilities	419,173	346,067
Long-term Debt, net	488,889	772,781
Stockholders' Equity		
Common Stock, \$.0005 par value, 25,000,000 shares authorized, 4,050,180 and 3,047,857 shares issued, 3,240,020 and 2,237,697 shares outstanding for 2004 and 2003, respectively	2,025	1,524
Additional paid in capital	1,239,736	1,089,718
Retained earnings	210,211	386,092
	-----	-----
1,451,972	1,451,972	1,477,334
Less 810,160 shares of treasury stock, at cost	(986,342)	(986,342)
	-----	-----
Total stockholders' equity	465,630	490,992
	-----	-----
Total Liabilities and Stockholders' Equity	\$1,373,692	\$1,609,840
	=====	=====

The accompanying notes are an integral part of these consolidated financial statements.

DYNASIL CORPORATION OF AMERICA AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
Net sales	\$2,296,264	\$2,340,397
Cost of sales	1,759,736	1,849,291
	-----	-----
Gross profit	536,528	491,106
Operating Expenses		
Selling, general and administrative	676,976	657,465
Asset impairment	-0-	158,333
	-----	-----
Total operating expenses	676,976	815,798
	-----	-----
Loss from operations	(140,448)	(324,692)
Interest expense, net	( 35,433)	( 43,989)
	-----	-----
Loss before income taxes	(175,881)	(368,681)
Income taxes	-0-	-0-
	-----	-----
Net loss	\$ (175,881)	\$ (368,681)
	=====	=====
Basic and diluted net loss per common share	\$ (0.08)	\$ (0.16)
	=====	=====

The accompanying notes are an integral part of these consolidated financial statements.

**DYNASIL CORPORATION OF AMERICA AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003**

	<u>Shares</u>	<u>Amount</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>
Balance, October 1, 2002	3,043,563	\$1,522	\$1,089,200	\$ 754,773
Issuance of shares of common stock under employee stock purchase plan	4,294	2	518	0
Purchase of treasury stock	0	0	0	0
Net loss	0	0	0	(368,681)
	-----	-----	-----	-----
Balance, September 30, 2003	3,047,857	1,524	1,089,718	386,092
Issuance of shares of common stock under employee stock purchase plan	2,323	1	518	0
Issuance of shares of common stock in a negotiated private transaction (Note 6)	1,000,000	500	149,500	0
Net loss	0	0	0	(175,881)
	-----	-----	-----	-----
Balance, September 30, 2004	\$4,050,180	\$2,025	\$1,239,736	\$ 210,211
	=====	=====	=====	=====
	<u>Treasury Stock</u>		<u>Total</u>	
	-----	-----	Stockholders'	
	<u>Shares</u>	<u>Amount</u>	<u>Equity</u>	
	-----	-----	-----	
Balance, October 1, 2002	640,624	\$(959,303)	\$ 886,192	
Issuance of shares of common stock under employee stock purchase plan	0	0	520	
Purchase of treasury stock	169,536	( 27,039)	( 27,039)	
Net loss	0	0	(368,681)	
	-----	-----	-----	
Balance, September 30, 2003	10,160	(986,342)	\$ 490,992	
Issuance of shares of common stock under employee stock purchase plan	0	0	519	
Issuance of shares of common stock in a negotiated private transaction (Note 6)	0	0	150,000	
Net loss	0	0	(175,881)	
	-----	-----	-----	
Balance, September 30, 2004	\$ 10,160	\$(986,342)	\$ 465,630	
	=====	=====	=====	

The accompanying notes are an integral part of these consolidated financial statements.

**DYNASIL CORPORATION OF AMERICA AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Net loss	\$(175,881)	\$(368,681)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization	147,715	191,351
Asset impairment	-0-	158,333
(Increase) decrease in:		
Accounts receivable	(66,357)	100,308
Inventories	66,007	145,284
Prepaid expenses and other current assets	22,279	1,632
Increase (decrease) in:		
Accounts payable	52,696	(32,385)
Accrued expenses and other current liabilities	41,335	(3,836)
	-----	-----
Net cash provided by operating activities	87,794	192,006
	-----	-----
Cash flows from investing activities:		
Purchases of property, plant and equipment	(5,834)	(13,206)
Decrease in certificates of deposit	200,000	0
Other assets	3,925	1,403
	-----	-----
Net cash provided by (used in) investing activities	198,091	(11,803)
	-----	-----
Cash flows from financing activities:		
Repayment of long-term debt	(304,817)	(202,481)
Purchase of treasury stock	0	(27,039)
Issuance of common stock	150,519	520
	-----	-----
Net cash used in financing activities	(154,298)	(229,000)
	-----	-----
Net increase (decrease) in cash and cash equivalents	131,587	(48,797)
Cash and cash equivalents, beginning	123,321	172,118
	-----	-----
Cash and cash equivalents, ending	\$ 254,908	\$ 123,321
	=====	=====

The accompanying notes are an integral part of these consolidated financial statements.

**DYNASIL CORPORATION OF AMERICA AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2004 AND 2003**

**Note 1- Summary of Significant Accounting Policies**

Nature of Operations

The Company is primarily engaged in the fabrication and marketing of customized synthetic fused silica products. The Company's products and services are used in the optical lens and laser manufacturing industries, as well as in the medical industry. Other applications include usage in the manufacturing of analytical instruments and semi-conductors.

The Company's products and services are sold throughout the United States and internationally.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Dynasil Corporation of America and its wholly owned subsidiaries, Dynasil International Incorporated and Hibshman Corporation. All significant intercompany transactions have been eliminated.

Use of Estimates

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

Revenue Recognition

The Company records sales revenue upon shipment to customers as the terms are generally FOB shipping point at which time title and risk of loss have been transferred to the customer, pricing is fixed or determinable and collection of the resulting receivable is reasonably assured. Returns of products shipped are and have historically been not material. The Company also provides an allowance for doubtful accounts based on historical experience and a review of its receivables.

Shipping and Handling Costs

The Company includes shipping and handling fees billed to customers in sales and shipping and handling costs incurred in cost of sales.

Inventories

Inventories are stated at the lower of average cost or market. Cost is determined using the first-in, first-out (FIFO) method. Inventories consist primarily of raw materials, work-in-process and finished goods. The Company evaluates inventory levels and expected usage on a periodic basis and records adjustments for impairments as required.

#### Property, Plant and Equipment and Depreciation and Amortization

Property, plant and equipment are recorded at cost. Depreciation is provided using the straight-line method for financial reporting purposes and accelerated methods for income tax purposes over the estimated useful lives of the respective assets.

The estimated useful lives of assets for financial reporting purposes are as follows: building and improvements, 10 to 25 years; machinery and equipment, 5 to 10 years; office furniture and fixtures, 5 to 7 years; transportation equipment, 5 years. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. When items of property, plant and equipment are sold or retired, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is included in income.

#### Impairment of Long-Lived Assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted future net cash flows to be generated by the assets. If these assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Based on these reviews, asset impairment charges of \$-0- and \$158,333 were made to the carrying value of long-lived assets during the years ended September 30, 2004 and 2003. Additional disclosures are included in Note 3.

#### Other Assets

Other assets include deferred financing costs which are amortized using the straight-line method over 7 years. Amortization expense for the years ended September 30, 2004 and 2003 was \$3,408 and \$3,408. Accumulated amortization as of September 30, 2004 and 2003 was \$21,016 and \$17,608.

#### Advertising

The Company expenses all advertising as incurred. Advertising expense for the years ended September 30, 2004 and 2003 was \$14,688 and \$7,125.

#### Income Taxes

Dynasil Corporation of America and its wholly owned subsidiaries file a consolidated federal income tax return.

The Company uses the asset and liability approach to account for income taxes. Under this approach, deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and net operating loss and tax credit carryforwards. The amount of deferred taxes on these temporary differences is determined using the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, as applicable, based on tax rates, and tax laws, in the respective tax jurisdiction then in effect. Valuation allowances are provided if, it is more likely than not, that some or all of the deferred tax assets will not be realized. The provision for income taxes includes taxes currently payable, if any, plus the net change during the year in deferred tax assets and liabilities recorded by the Company.

#### Loss per Common Share

Loss per common share is computed by dividing net loss by the weighted average number of shares outstanding during each period. Diluted loss per share gives effect to all dilutive potential common shares outstanding during the years ended September 30, 2004 and 2003. Common stock options aggregating 135,000 and 267,000, and stock warrants of 1,200,000 and -0- as of September 30, 2004 and 2003, respectively, representing common stock equivalents have been excluded from the calculation of loss per share as their effect is anti-dilutive.

#### Stock Based Compensation

Statement of Financial Accounting Standards No.123, "Accounting for Stock-Based Compensation", ("SFAS No.123") allows companies to account for stock-based compensation either under the new provisions of SFAS No. 123 or using the intrinsic value method provided by Accounting Principles Board Opinion No.25 ("APB 25"), "Accounting for Stock Issued to Employees", but requires pro forma disclosure in the footnotes to the financial statements as if the measurement provisions of SFAS No. 123 had been adopted.

In December 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard NO.148, "Accounting for Stock-Based Compensation-Transition and Disclosure" ("SFAS No. 148"). SFAS No. 148 amends SFAS No. 123, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results.

The Company has adopted the disclosure provisions of SFAS No.148 effective December 31, 2002 and continues to account for stock-based compensation using the intrinsic value method. SFAS No.148 did not have a material impact on the Company's consolidated financial statements, as the adoption of this standard does not require the Company to change, and the Company does not plan to change, to the fair value based method of accounting for stock-based compensation. Accordingly, no compensation cost has been recognized in the financial statements for stock options and warrants issued to employees since the options were granted at the quoted market price on the date of grant. Stock options granted to consultants and other non-employees are reported at fair value in accordance with SFAS No. 123. The following table shows the Company's pro forma net loss and net loss per share as if the Company had recorded the fair value of stock options and warrants as compensation expense.

	<u>2004</u>	<u>2003</u>
Net loss, as reported	(\$ 175,881)	(\$ 368,681)
Add: Stock-based employee compensation expense included in reported net income	-0-	-0-
Less: Total stock-based employee compensation expense determined under fair method for all options	-0-	-0-
	-----	-----
Pro forma net loss	(\$ 175,881)	(\$368,681)
Net loss per common share, as reported	(\$ 0.08)	(\$ 0.16)
Pro forma net loss per common share	(\$ 0.08)	(\$ 0.16)

#### Fair Value

The Company's financial instruments consist primarily of cash and cash equivalents, accounts receivable, accounts payable, and debt. The carrying amounts of cash and cash equivalents, accounts receivable, and accounts payable approximate fair value due to the short maturity of these instruments. Based on borrowing rates currently available to the Company for loans with similar terms and maturities, the Company's debt approximates its fair value.

#### Concentrations of Credit Risk

Financial instruments which potentially subject the Company to significant concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. The Company maintains cash and cash equivalents at various financial institutions in New Jersey and Pennsylvania. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$100,000. At September 30, 2004, the Company's uninsured bank balances totaled \$99,823. The Company has not experienced any significant losses on its cash and cash equivalents. The Company performs ongoing credit evaluations of its customers and generally requires no collateral from its customers. The Company maintains allowances for potential credit losses and has not experienced any significant losses

related to the collection of its accounts receivable. As of September 30, 2004 and 2003, approximately \$27,028 and \$17,273 or 9% and 7% of the Company's accounts receivable are due from foreign sales.

#### New Accounting Pronouncements

In January 2003 FIN No.46, as revised "Consolidation of Variable Interest Entities" was issued. FIN 46 is intended to achieve more consistent application of consolidation policies to variable interest entities. Application of FIN 46 is required in financial statements of public entities that have interest in variable interest entities or potential variable interest entities commonly referred to as special-purpose entities for periods ending after December 15, 2003. Application by public entities for all other types of entities is required in financial statements for periods ending after March 15, 2004. Accordingly, the Company has adopted FIN 46 as of September 30, 2004. The adoption had no effect on the Company's financial position, results of operations or cash flows.

#### Statement of Cash Flows

For purposes of the statement of cash flows, the Company generally considers all highly liquid investments with maturities of three months or less to be cash equivalents.

#### Note 2 - Inventories

Inventories at September 30, 2004 and 2003 consisted of the following:

	2004	2003
Raw Materials	\$148,278	\$182,666
Work-in-Process	114,170	118,836
Finished Goods	107,365	134,318
	-----	-----
	\$369,813	\$435,820
	=====	=====

#### Note 3 - Property, Plant and Equipment

Property, plant and equipment at September 30, 2004 and 2003 consist of the following:

	2004	2003
Land	\$ 261	\$261
Building and improvements	1,012,966	1,012,968
Machinery and equipment	2,477,540	2,471,702
Office furniture and fixtures	231,246	231,248
Transportation equipment	53,419	53,419
	-----	-----
	3,775,432	3,769,598

Less accumulated depreciation	3,355,714	3,211,407
	-----	-----
	\$ 419,718	\$ 558,191
	=====	=====

Included in the cost of machinery and equipment at September 30, 2004 and 2003 is \$-0- and \$123,300 representing the cost of assets under capitalized lease obligations. Accumulated depreciation at September 30, 2004 and 2003 for the capitalized leases was \$-0- and \$31,853.

Depreciation expense for the years ended September 30, 2004 and 2003 was \$144,307 and \$187,943, of which \$-0- and \$12,330 represents depreciation of assets under capitalized lease obligations.

During the years ended September 30, 2004 and 2003, the Company recorded asset impairment charges of \$-0- and \$158,333 respectively. The impairment charges were required to bring the carrying value of the production furnaces in line with their fair value. The combination of reduced demand and substantially reduced market pricing for synthetic fused silica required management to recognize the impairment.

#### Note 4 - Long-Term Debt

Long-term debt at September 30, 2004 and 2003 consisted of the following:

	<u>2004</u>	<u>2003</u>
Note payable to bank in monthly installments of \$10,000 plus interest at the Bank's prime rate plus 0.5%(5.0% and 4.5% at September 30, 2004 and 2003), final payment of \$278,889 due July 1, 2007, secured by first mortgage on Berlin, New Jersey property and substantially all assets of the Company	\$608,889	\$ 859,445
Note payable to bank in monthly installments of \$5,556 plus interest at 7.25%, due and paid April 2004, secured by certificate of deposits, first mortgage on Berlin, New Jersey property, and all accounts receivable, inventory, equipment and general intangibles of the Company	-0-	38,889
Capital lease obligations payable in total monthly installments of \$5,328 including interest at rates ranging from 10.2% to 11.2% due and paid April 2004, secured by equipment	-0-	15,372
	-----	-----
	\$ 608,889	\$ 913,706
Less current portion	(120,000)	( 140,925)
	-----	-----
	\$ 488,889	\$ 772,781
	=====	=====

As of September 30, 2003, the current portion includes \$15,372 payable under capital lease obligations, which had been repaid as of September 20, 2004.

On April 15, 2004, to coincide with the final payment on the above term note and the maturity of \$200,000 of certificates of deposit ("CD's") used as corresponding collateral, the Company restructured the remaining mortgage note (the "Note") with the bank. Under terms of the agreement, \$100,000 of the funds from the CD's were initially used to reduce the balance of the Note and the principal payment was increased from \$7,222 to \$10,000 per month; and the maturity date of the note was extended from August 2005 to July 2007. In August 2004, an additional \$50,000 of the funds from the CD's were used to further pay down the Note with the remaining funds from the CDs transferred for use in operations. The interest rate of the Bank's prime rate plus 0.5% remained the same under the new agreement.

The aggregate maturities of long-term debt, as of September 30, 2004 are as follows:

September 30, 2006	\$ 120,000
September 30, 2007	368,889
	-----
Total	\$ 488,889
	=====

#### Note 5- Income Taxes

The Company's income tax expense (benefit) for the years ended September 30, 2004 and 2003 are as follows:

	2004	2003
Current		
Federal	\$ 0	\$ 0
State	0	0
	-----	-----
	0	0
Deferred		
Federal	0	0
State	0	0
	-----	-----
	\$ 0	\$ 0
	=====	=====

The reasons for the difference between total tax expense and the amount computed by applying the statutory federal income tax rates to income before income taxes at September 30, 2004 and 2003 are as follows:

	2004	2003
Taxes at statutory rates applied to loss before income taxes	(\$ 59,800)	( \$125,400)
Increase (reduction) in tax resulting		

from:

Depreciation	( 20,000)	( 18,300)
Loss on asset retirement	-0-	53,800
Inventories	( 1,600)	( 4,600)
Vacation pay	200	( 1,300)
State income taxes	( 21,500)	( 25,300)
Net operating loss carryforwards	102,700	121,000
	-----	-----
	\$ 0	\$ 0
	=====	=====

Deferred income taxes (benefit) reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and the tax effects of net operating losses that are available to offset future taxable income. Significant components of the Company's deferred tax assets (liabilities) at September 30, 2004 and 2003 are as follows:

	2004	2003
Inventories	\$ 19,500	\$21,400
Vacation pay	6,600	6,400
Accounts receivable	2,000	2,000
Depreciation	124,300	145,300
Net operating loss carryforwards	568,300	465,600
Less valuation allowance	(720,700)	(640,700)
	-----	-----
	\$ 0	\$ 0
	=====	=====

Based on the company's history of significant fluctuations in net earnings there is uncertainty as to the realization of certain net operating loss carryforwards. Accordingly, a valuation allowance has been provided for those deferred tax assets since management believes it is more likely than not that the tax benefit will not be realized. At September 30, 2004, the Company has approximately \$1,400,000 of net operating loss carryforwards to offset future taxable income for federal tax purposes expiring in various years through 2021. In addition, the main operating Company has approximately \$800,000 of net operating loss carryforwards to offset certain future state taxable income, expiring in various years through 2013.

#### **Note 6 - Stockholders' Equity**

In November 2002, the Company reactivated its share buy-back program originally authorized by the Board of Directors in October 2001. Under the plan, these repurchases may be made on the open market or in negotiated transactions and the timing and amount of shares repurchased will be determined by the Company's management. During the year ended September 30, 2003 the Company repurchased 169,536 shares for \$27,039. No shares were repurchased during the year ended September 30, 2004.

On September 23, 2004, in a privately negotiated

transaction, the Company entered into a Subscription Agreement (the "Agreement") with Mr. Craig T. Dunham, an individual, pursuant to which Mr. Dunham agreed to acquire 1,000,000 shares of the Company's common stock at a cash purchase price of \$.15 per share. The aggregate dollar amount of the transaction was \$150,000. In connection with the Agreement, the Company also granted to Mr. Dunham a Stock Purchase Warrant (the "Warrant") pursuant to which he may acquire, at any time prior to January 31, 2008, up to an additional 1,200,000 shares of the Company's common stock at an exercise price per share of either \$.225 or \$.25 dependent upon certain conditions as further described in the Agreement. Effective October 1, 2004, the Company also entered into an Employment Agreement with Mr. Dunham pursuant to which Mr. Dunham will become the Company's President and Chief Executive Officer.

#### Stock Based Compensation

The Company adopted Stock Incentive Plans in 1996 and 1999 which provide for, among other incentives, the granting to officers, directors, employees and consultants options to purchase shares of the Company's common stock. The Company's 1999 Stock Incentive Plan was amended on July 25, 2000, with an effective date of January 1, 1999. Options are generally exercisable at the fair market value on the date of grant over a five-year period currently expiring through 2005.

The Plans also allow eligible persons to be issued shares of the Company's common stock either through the purchase of such shares or as a bonus for services rendered to the Company. Shares are generally issued at the fair market value on the date of issuance. The maximum shares of common stock, which may be issued under the plans are 1,350,000 shares, of which 1,004,000 shares of common stock are available for future purchases under the plan at September 30, 2004.

#### DYNASIL CORPORATION OF AMERICA AND SUBSIDIARIES

A summary of stock option activity for the years ended September 30, 2004 and 2003 is presented below:

	Shares	Exercise Price Per Share
	-----	-----
Options outstanding at October 1, 2002	463,977	\$.56 - \$4.25
Granted in 2003	-0-	
Exercised in 2003	-0-	
Cancelled in 2003	(196,977)	\$.56 - \$3.52
	-----	
Options outstanding at September 30, 2003	267,000	\$.56 - \$1.50
Granted in 2004	-0-	
Exercised in 2004	-0-	
Cancelled in 2004	(132,000)	\$.56 - \$1.50
	-----	

Options outstanding at September 30, 2004	135,000	\$1.50
	=====	

Options exercisable at September 30, 2004	135,000	\$1.50
	=====	

During the years ended September 30, 2004 and 2003, no stock options were granted and no options were exercised. The Company cancelled 132,000 and 196,977 options during the years ended September 30, 2004 and 2003, respectively. Compensation expense relating to non-employee stock options granted during the years ended September 30, 2004 and 2003 was \$-0-.

As discussed above, on September 23, 2004, the Company issued warrants to purchase 1,200,000 of the Company's common stock at an exercise price of either \$.225 or \$.25 per share. The warrants will expire January 31, 2008. No warrants were exercised as of September 30, 2004. The fair value of the warrants was estimated on the date of grant using Black-Scholes option-pricing model.

Based on the assumptions presented below, the weighted average fair value of the warrants was \$-0- per warrant.

Expected life in years	3.25
Risk-free interest rate	4.80%
Expected volatility	6.35%
Dividend yield	0.0%

#### Employee Stock Purchase Plan

The Company has an Employee Stock Purchase Plan which permits substantially all employees to purchase common stock at a purchase price of 85% of the fair market value of the shares. Under the plan, a total of 150,000 shares have been reserved for issuance of which 95,387 shares have been issued as of September 30, 2004.

During any twelve-month period, employees may not purchase more than the number of shares for which the total purchase price exceeds \$5,000. During the years ended September 30, 2004 and 2003, 2,323, and 4,294 shares of common stock were issued under the plan for aggregate purchase prices of \$519, and \$520, respectively.

#### Note 7 - Profit Sharing Plan

The Company has 401(k) Plan for the benefit of its employees. The Company did not make a contribution to the plan during the years ended September 30, 2004 and 2003.

#### Note 8 - Related Party Transactions

During the years ended September 30, 2004 and 2003, the Company made sales of \$83,961 and \$7,000, respectively, to a company in which a member of the board of directors is also an officer. As of September 30, 2004 and 2003, amounts due from this customer included in accounts receivable were \$15,310 and \$526.

**Note 9 - Vendor Concentration**

The company purchased \$536,636 and \$568,853 of its raw material from one supplier during the years ended September 30, 2004 and 2003. As of September 30, 2004 and 2003, amounts due to that supplier included in accounts payable were \$101,729 and \$55,792.

**Note 10 - Supplemental Disclosure of Cash Flow Information:**

	2004	2003
Cash paid during the year for:		
Interest	\$41,824	\$56,031
	=====	=====

**Note 11 - Subsequent Events**

On October 1, 2004, Mr. Craig T. Dunham assumed the position of the Company's President and Chief Executive Officer.

On October 14, 2004, the Board of Directors authorized the issuance of 140,834 shares of the Company's common stock valued at \$.14 per share in satisfaction of accrued directors' fees of \$19,717 as of September 30, 2004. The Board of Directors also authorized the issuance of 80,000 of stock options to the directors at \$.40 per share.

On October 27, 2004, 49,788 shares of the Company's common stock were issued under the Employee Stock Purchase Plan for an aggregate amount of \$10,130.

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

There were no disputes or disagreements of any nature between the Company or its management and its public auditors with respect to any aspect of accounting or financial disclosure.

**ITEM 8A CONTROLS AND PROCEDURES**

The Company carried out an evaluation, under the supervision and the participation of its management, of the effectiveness of its disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) of the

Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the period covered by this report. Based on this evaluation, the Company's principal executive officer and acting principal financial officer concluded that its disclosure controls and procedures were effective. It should be noted that design of any system controls is based in part upon certain assumptions, and there can be no assurance that any design will succeed in achieving its stated goal.

There were no significant changes in the Company's internal controls or in other factors that could significantly affect the internal controls subsequent to the date the Company completed its evaluation, including any corrective actions with regard to significant deficiencies and material weakness.

### PART III

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

All of our directors were elected to serve for a one-year term at our Annual meeting of the shareholders held on January 20, 2004. All directors will hold office until their successors are elected at the next annual meeting of the shareholders with the exception of Mr. John Kane who resigned from the Board effective October 1, 2004 and was replaced with his successor as President/ CEO, Mr. Craig T. Dunham.

Our executive officers and directors, and their ages at November 30, 2004, are as follows:

Name	Age	Position
-----	---	-----
James Saltzman	61	Chairman of the Board
Craig T. Dunham	48	President, CEO, Director
David Manzi	43	Director
John Kane	53	CFO, Treasurer
Paul Roehrenbeck	59	Vice President

None of the above persons is related to any other of the above-named persons by blood or marriage.

The Company's Board of Directors does not have an audit committee financial expert. Although it would like to attract a qualified person to serve in that capacity, the Company's small size and limited resources have precluded it from attracting an appropriate individual.

Based upon a review of filings with the Securities and Exchange Commission and written representations that no other reports were required, the Company believes that all of the Company's directors and executive officers complied during fiscal 2004 with the reporting requirements of Section 16(a) of the Securities Exchange Act of 1934.

Craig T. Dunham, 48, President and CEO, has been with the Company since October 1, 2004 when he replaced John Kane as a Director. Prior to joining the Company, he spent about one year partnering with a private equity group to pursue acquisitions of mid market manufacturing companies. From 2000 to 2003, he was Vice President/ General Manager of the Tubular Division at Kimble Glass Incorporated. From 1979 to 2000, he held progressively increasing leadership responsibilities at Corning Incorporated in manufacturing, engineering, commercial, and general management positions. At Corning, he delivered results in various glass and ceramics businesses including optics and photonics businesses. Mr. Dunham earned a B.S. in mechanical engineering and an M.B.A. from Cornell University.

James Saltzman, Chairman, 61, has been a member of the Board since February 1998. From January 1997 to June 2000, Mr. Saltzman served as Vice Chairman of the Board and a director of Madison Monroe, Inc., a private company engaged in investments. He served as a director of Xyvision, Inc., a publicly held company that develops, markets, integrates and supports content management and publishing software, since 1992, and was Chairman of the Board of such company from February 1994 to February 1995. On September 19, 2001, in the matter of Securities and Exchange Commission v. James S. Saltzman, Civil Action No. 00-CV-2468 in the United States District Court for the Eastern District of Pennsylvania, Saltzman consented, without admitting or denying the allegations of the Commission's Complaint, to the entry of a Final Judgment and Order in the case, to an order permanently enjoining him from violating Sections 17(a)(2) and 17(a)(3) of the Securities Act of 1933 and Section 206(2) of the Investment Advisers Act of 1940 (the "Advisers Act"), and requiring him to pay disgorgement plus prejudgment interest in the amount of \$1,920,340, and a civil penalty in the amount of \$50,000. The Order was entered on September 19, 2001, by the Honorable Anita B. Brody.

Also on January 31, 2001, the Commission instituted and simultaneously settled an Administrative Proceeding against Saltzman pursuant to Section 203(f) of the Advisers Act. Without admitting or denying the Commission's findings, Saltzman consented to the entry of an Order suspending him from association with any investment adviser for a period of twelve months. The basis for the Administrative Proceeding against Saltzman and the Commission's findings was the entry of the Final Judgment and Order in the District Court action. The suspension from association with any investment adviser has been lifted as twelve months have now elapsed.

The Commission's Complaint in the District Court action alleged that from at least 1994 through February 4, 2000, Saltzman, as investment adviser to Saltzman Partners, violated the securities laws at issue by failing to disclose material information relating to loans to him by Saltzman Partners in annual financial statements of Saltzman Partners that were sent to the limited partners, namely, that he had taken out

approximately \$1.78 million in loans from Saltzman Partners, that by 1999 the loans amounted to approximately 20% of Saltzman Partners' assets, and that the loans violated specific terms of the loan provisions in the governing Partnership Agreement and Private Placement Memorandum. Prior to the entry of the Final Judgment and Order, Saltzman fully repaid with interest the loans he had taken from Saltzman Partners, thus satisfying the Order of disgorgement by the District Court.

John Kane, 53, CFO and Treasurer, had been with the Company since January 1997 and he left the company as of the end of his employment agreement on November 30, 2004. He elected not to renew his employment agreement and was replaced on October 1, 2004 by Craig Dunham as President and CEO. On December 1, 2000 he was appointed President of the Company and assumed primary responsibility for the day-to-day operations. He took on the additional position of CEO on August 1, 2001. Prior to his appointment as President Mr. Kane served as the Chief Financial Officer of the Company. Prior to joining the Company he spent three years as an independent financial consultant, primarily engaged in the design and implementation of accounting systems. He was the Chief Financial Officer of Delaware River Stevedores, Inc. from 1985 to 1993. Mr. Kane earned a B.B.A in accounting from Temple University in 1975, and is a certified public accountant.

David Manzi, 43, has been a member of the Board since June 2002. Since November 1999, Mr. Manzi has served as President and CEO of Special Optics Inc., a Wharton New Jersey company that specializes in the design and manufacture of diffraction-limited lens systems used in high resolution imaging and laser applications. Mr. Manzi served as General Manager and as Vice President of Special Optics from 1991 through 1999. Prior to Special Optics he served in various capacities from 1988 through 1991, including Product Manager, for Synoptics, a division of Litton Corporation. Mr. Manzi earned his B.S. degree in Physics from the Pennsylvania State University in 1986.

Paul Roehrenbeck, 59, Vice President - Sales and Marketing, has been with the Company since May 2003. He held the position of Manager, Business Development for the Center for Advanced Photonics Technology at the City University of New York (CUNY CAT) from 2001 through May 2003. He has previously served in sales and marketing management positions in the optics and photonics industry including positions at Fiberguide (1999-2001), Archon Technology Resources (1997-1999) and Hamamatsu (1986-1995) as well as an assignment as Director of Corporate Services at the Optical Society of America (1996). He holds a BS degree in Physics from the College of Holy Cross.

#### Code of Ethics

The Company has adopted a Code of Ethics for Principal Executives and Senior Financial Officers that applies

to its Chief Executive Officer and Chief Financial Officer. The Company will provide a copy to any person without charge upon request in the manner set forth under item 1 on page 3.

**ITEM 10. EXECUTIVE COMPENSATION**

**Summary Compensation Table**

Name and Principle Position	Year	Annual Compensation		Other Annual Compen- sation (\$)	Restricted Stock Awards (\$)	Long Term Compensation		
		Salary (\$)	Bonus (\$)			Awards	Payouts	Long- Term Incentive Plans (\$)
John Kane President And CEO, Treasurer	2004	110,000						
	2003	110,000						
	2002	110,000						
Paul Roehrenbeck, VP	2004	77,000						
	2003	29,430						

Employment Agreements

The employment agreement with John Kane, formerly President, CEO, Chief Financial Officer and Treasurer, commenced on December 1, 2000 and ended on November 30, 2004.

The employment agreement with Craig T. Dunham, President and CEO, commenced on October 1, 2004 and will continue for a three-year period, after which the agreement will automatically renew for one-year terms, unless terminated by either party upon ninety days written notice prior to the end of any term, or for cause. Under the employment agreement, Mr. Dunham has agreed to work for us full time, and receives an annual base salary of \$110,000. Mr. Dunham's agreement also provides for performance bonuses, and an additional annual bonus at the discretion of our Board of Directors. The agreement also provides for a 401(k) pension plan, health insurance benefits and a company car (or car allowance).

**ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth the beneficial ownership of the Common Stock of the Company as of September 30, 2004 by each person who was known by the Company to beneficially own more than 5% of the common stock, by each director and executive officer who owns shares of common stock and by all directors and executive officers as a group:

Title of Class Percent of Class	Name and Address of Beneficial Owner	No. of Shares and nature of Beneficial Ownership(1)
--	---	--

Common 49.6%	Craig Dunham (4) 385 Cooper Road West Berlin, NJ 08091	2,200,000
Common 11.3%	Saltzman Partners (2) 4 Tower Bridge Suite 200 West Conshohocken, PA 19428	367,009
Common 5.0%	Penn Independent Corporation 420 S. York Road Hatboro, PA 19040	160,236
Common 3.8%	James Saltzman (2) (3) 1508 Gypsy Hill Road Box 439 Gwynedd Valley, PA 19437	125,370
Common 1.7%	John Kane (5) 149 Plowshare Road Norristown, PA 19403	54,925
All Officers and Directors as a Group 52.0%		2,380,295

(1) The numbers and percentages shown include shares of common stock issuable to the identified person pursuant to stock options that may be exercised within 60 days. In calculating the percentage of ownership, such shares are deemed to be outstanding for the purpose of computing the percentage of shares of common stock owned by such person, but are not deemed to be outstanding for the purpose of computing the percentage of share of common stock owned by any other stockholders. The number of shares outstanding on September 30, 2004 was 3,240,020.

(2) James Saltzman disclaims beneficial ownership of the 367,009 shares owned by Saltzman Partners.

(3) Includes options to purchase 90,000 shares of the Company's common stock at \$1.50 per share.

(4) Includes warrants to purchase 1,200,000 shares of the Company's common stock at an exercise price of either \$0.225 or \$0.25 per share dependent upon certain conditions.

(5) Includes options to purchase 45,000 shares of the Company's stock at \$1.50 per share.

## **ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

NONE.

**ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K**

(a) The following exhibits are filed pursuant to Item 601 of Regulation S-B:

Exhibit No. Description of Document

- 3.01\* Restated Certificate of Incorporation of Registrant filed April 1, 1969, filed as an exhibit to Registrant's Registration Statement on Form 10-SB, filed October 1, 1999
- 3.02\* Certificate of Amendment to the Certificate of Incorporation of Registrant filed March 18, 1988, filed as an exhibit to Registrant's Registration Statement on Form 10-SB, filed October 1, 1999
- 3.03\* Certificate of Amendment to the Certificate of Incorporation of Registrant filed April 7, 1989, filed as an exhibit to Registrant's Registration Statement on Form 10-SB, filed October 1, 1999
- 3.04\* Certificate of Amendment to the Certificate of Incorporation of Registrant filed June 12, 1996, filed as an exhibit to Registrant's Registration Statement on Form 10-SB, filed October 1, 1999
- 3.05\* By-laws of Registrant, filed as an exhibit to Registrant's Registration Statement on Form 10-SB, filed October 1, 1999
- 4.01\* Form of Debenture, filed as an exhibit to Registrant's Registration Statement on Form 10-SB, filed October 1, 1999
- 4.02\* Subordinated Debenture Extension Agreement, filed as an exhibit to Registrant's Registration Statement on Form 10-SB, filed October 1, 1999
- 4.03\* Debenture Extension Warrant, filed as an exhibit to Registrant's Registration Statement on Form 10-SB, filed October 1, 1999
- 10.01\* Loan Agreement and associated documents dated July 10, 1998 with Premier Bank, for a \$300,000 line of credit, filed as an exhibit to Registrant's Registration Statement on Form 10-SB, filed October 1, 1999
- 10.02\* Loan Agreement and associated documents dated July 10, 1998 with Premier Bank, for a \$1,300,000 line of credit
- 10.03\* 1996 Stock Incentive Plan, filed as an exhibit to Registrant's Registration Statement on Form 10-SB, filed October 1, 1999
- 10.04\* 1999 Stock Incentive Plan, filed as an exhibit to Registrant's Registration Statement on Form 10-SB, filed October 1, 1999

- 10.05\* Employee Stock Purchase Plan, filed as an exhibit to Registrant's Registration Statement on Form 10-SB, filed October 1, 1999
- 10.06\* Employment Agreement of John Kane dated December 1, 2000, filed December 28, 2000
- 10.07\* Audit Committee Charter
- 10.08\* Loan Agreement and associated documents dated April 15, 2004 with Premier Bank, for a \$708,889 term loan, filed as an exhibit to Registrant's Registration Statement on Form 10-SB, filed May 14, 2004.
- 10.09+ Employment Agreement of Craig T. Dunham dated October 1, 2004, filed herewith.
- 21.01\* List of Subsidiaries of Registrant, filed as an exhibit to Registrant's Registration Statement on Form 10-SB, filed October 1, 1999
- 31.1(a)+ Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.1(b)+ Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1+ Certification of Chief Executive Officer/Acting Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

\* Incorporated herein by reference

+ Filed herewith

(b) Reports on Form 8-K: The following reports on Form 8-K were filed during the last quarter of the period covered by this report:

- On 8-12-2004, a current report for Items 12 and 7 including June 30, 2004 financial results.
- On 9-30-04, a current report for Items 3.02 and 5.01 covering Mr. Dunham's Stock Purchase and Warrant Agreement as part of joining the Company as CEO effective October 1, 2004.

#### ITEM 14. Principal Accountant Fees and Services

##### (a) Audit Fees

The aggregate fees billed or to be billed for professional services rendered by the Company's principal accountant for the audit of the Company's annual financial statements for the fiscal years ended September 30, 2004 and 2003 and the reviews of the

financial statements included in the Company's Forms 10-QSB during those fiscal years are \$33,780 and \$32,200, respectively.

(b) Audit Related Fees

The Company incurred no fees during the last two fiscal years for assurance and related services by the Company's principal accountant that were reasonably related to the performance of the audit or review of the Company's financial statements.

(c) Tax Fees

The Company incurred fees of \$ 3,600 and \$ 3,600 during the last two fiscal years for professional services rendered by the Company's principal accountant for tax compliance, tax advice and tax planning.

(d) All Other Fees

The Company incurred no other fees during the last two fiscal years for products and services rendered by the Company's principal accountant.

(e) Pre-approval Policies and Procedures

The Board of Directors has adopted a pre approval policy requiring that the Audit Committee pre-approve the audit and non-audit services performed by the independent auditor in order to assure that the provision of such services do not impair the auditor's independence.

SIGNATURES

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

DYNASIL CORPORATION OF AMERICA

BY: /s/ Craig Dunham  
-----  
Craig Dunham, President, CEO

DATED: December 21, 2004  
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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.

Signature -----	Title -----	Date -----
BY: /s/ James Saltzman -----	Chairman of the Board of Directors	December 17, 2004
BY: /s/ David Manzi -----	Director	December 17, 2004
BY: /s/ Craig Dunham	President, CEO and Acting Principal Financial and Accounting Officer	December 17, 2004