

U. S. SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-KSB

(Mark One)

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the fiscal year ended September 30, 2008.

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT for the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 000-27503

DYNASIL CORPORATION OF AMERICA  
(Exact name of small business issuer as specified in its charter)

Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)

22-1734088  
(I.R.S. Employer  
Identification No.)

385 Cooper Road, West Berlin, New Jersey  
(Address of Principal Executive Offices)

08091  
(Zip Code)

(856) 767-4600  
(Issuer's Telephone Number)

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 (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  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: \$17,116,341.

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 December 12, 2008 was \$4,024,263. The market value is based upon the last sale of the Common Stock on the NASDAQ OTC Bulletin Board of \$1.16 per share as of December 12, 2008.

The Company had 11,348,635 shares of common stock, par value \$.0005 per share, outstanding as of December 12, 2008.

Documents incorporated by reference: none

Transitional Small Business Disclosure:      Yes              No      X  
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## ITEM 1. DESCRIPTION OF BUSINESS

Dynasil Corporation of America, a Delaware corporation ("Dynasil", "we" or the "Company"), was incorporated in the State of New Jersey on October 20, 1960 to manufacture synthetic fused silica, the purest form of glass known to man. For nearly five decades, Dynasil has provided high quality synthetic fused silica and fused quartz products to customers for a wide range of photonics applications. Today, Dynasil, after several acquisitions, is comprised of five related businesses: the original optical materials business, optical components, optical coatings, optical instruments, and contract research. We supply a broad range of applications markets in the medical, industrial, and homeland security/ defense sectors.

The Company entered a period of financial distress after 9/11/01. Mr. Craig Dunham purchased a large ownership interest in Dynasil and became its President and CEO on October 1, 2004. Under his leadership, Dynasil's strategy changed to one designed for significant profitable growth through increasing the revenues of the existing business and strategic acquisitions. During the last 4 years, Dynasil has implemented clear focus, professional management tools, process improvements, and has realized improved execution across its companies with the following results:

- Revenue has grown from \$2 million to \$17.1 million, a 65% compound annual growth rate.
- Net income has gone from a \$176,000 loss for FY 2004 to a \$1,162,000 profit for FY 2008.
- Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") has been increased from \$7 for FY 2004 to \$1,954,649 for FY 2008.

Dynasil was 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. In 2002, we suspended operations of our glass furnaces and concentrated on the fabrication of optical materials supplied by other manufacturers. This has included fused quartz from General Electric and fused silica from Corning Incorporated.

On March 8, 2005, we acquired the operating assets and assumed certain liabilities of Optometrics LLC, a worldwide supplier of optical components and instruments including diffraction gratings, interference filters, laser optics, monochromators and specialized optical systems. This acquisition approximately doubled our revenues and added significant profitability. We conduct this business through our Optometrics Corporation subsidiary ("Optometrics") which is located in Ayer, Massachusetts.

On October 2, 2006, we acquired 100% of the stock of Evaporated Metal Films Corporation ("EMF") in Ithaca, NY. EMF provides optical thin-film coatings for a broad range of application markets including solar energy, display systems, optical instruments, satellite communications and lighting. This acquisition increased our fiscal year 2007 revenues by approximately 37%.

On January 18, 2008, Optometrics acquired the optical filter equipment and customer list of Precision Optics Corporation, Inc. of Gardener, MA ("Precision Optics"). The Precision Optics assets have been relocated to Optometrics' Ayer, MA location. The purchase price was \$250,000 plus a royalty of 25% of revenues exceeding \$300,000 from the purchased customer list for a three year period. The customer list is expected to generate approximately \$500,000 of annual revenues for optical filter sales.

On July 1, 2008, Dynasil acquired the stock of Radiation Monitoring Devices, Inc. ("RMD Research") and specific assets of RMD Instruments, LLC ("RMD Instruments") which are advanced instruments and research companies located in Watertown, MA. RMD Instruments and RMD Research are referred to, together, in this Annual Report as "RMD." RMD Instruments manufactures and sells instruments and components that management believes have high growth potential. These are sold

into the medical imaging, environmental sensing and quality control markets and include hand-held analyzers for lead paint and medical probes for cancer surgery with the potential to significantly improve surgical outcomes. RMD Research is one of the largest small business participants for U.S. government funded research. The

RMD acquisition more than tripled our revenues for quarter four of fiscal year 2008.

Our products include optical instruments as well as components that are used for optical instruments, lasers, analytical instruments, semiconductor/electronic devices, automotive components, spacecraft/aircraft components, and in devices for the solar energy industry. These applications for our optical materials, coatings and components include:

- Lasers - beam splitters, brewster windows, q-switches, exciter systems, diffraction gratings, coatings for laser eye protection
- Analytical Instruments - diffraction gratings for Spectrometers, fused silica for fire control devices, interference filters for optical instruments
- Astronomy - coatings for telescope mirrors
- Energy - coatings for solar energy concentrators
- Transportation- beamsplitters for heads-up displays, reflective coatings for motorcycle helmet visors
- Imaging and sensors - Avalanche photodiodes for medical imaging, defense and security sensors

We also produce several analytical instruments including instruments designed to measure the "Sun Protection Factor" ("SPF") of sunscreens, handheld instruments to determine whether there is lead in the paint of buildings and whether electronics are in compliance with the Reduction of Hazardous Substances ("ROHS") regulations, and medical probes which support cancer surgery.

Our products are distributed through direct sales as well as other channels and delivered by commercial carriers. We have seventeen sales and marketing people who handle all sales. We also use manufacturer's representatives and distributors in various foreign countries for international sales and U.S. manufacturer's representatives for some of the RMD Instruments' product lines. 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 and instrument industries primarily with fabricators of industrial optical materials, other optical components manufacturers and other optical coaters as well as other analytical instruments manufacturers. Market share in the optics and analytical instrument industries is largely a function of quality, price and speed of delivery. We believe that we compete effectively in all three areas.

Our largest supplier for materials and components is Corning Incorporated, which is a primary supplier of the fused silica material that is fabricated and sold by our New Jersey facility.

We presently have over 550 customers with approximately 38% of our business concentrated in our top 10 customers. Our five largest customers accounted for approximately 10.5%, 7.2%, 4.5%, 3.2% and 2.7%, respectively, of our revenues during fiscal year 2008. The loss of any of these top five 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 part, quantity and quality or they provide a contract for research projects. Product orders are normally filled over a period ranging from one to six weeks. We have blanket orders that call for monthly deliveries of a predetermined amount.

We have 27 patents granted and an additional 17 patents in the application process.

More than 30% of RMD Instrument's 2007 commercial revenue came from after-sales maintenance and support providing ongoing, profitable revenue from the installed base of instruments. RMD Research has been conducting government research under the Small Business Innovation Research ("SBIR") program for more than 25 years and the current contract backlog exceeds one year. Management

believes that prior and current research projects are a source for new commercial products in areas like medical imaging, industrial sensors and homeland security.

Other than federal, state and local environmental and safety laws as well as International Traffic in Arms Regulation ("ITAR") and FDA requirements, our operations are not subject to direct governmental regulation, although RMD Research must comply with the government contracting rules contained in the federal acquisitions register. We do not have any pending notices of environmental violations and are aware of no potential violations. There are no buried storage tanks on our properties. Environmental costs for fiscal year 2008 did not exceed \$50,000.

Our research and development ("R&D") activities include government funded SBIR research which totaled \$4.1 million for fiscal year 2008. R&D for our historical businesses has primarily involved new product development, changes to our manufacturing processes 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 184 employees: 22 administrative, 17 sales, 73 research and/or engineering, and 72 manufacturing personnel. The operations are 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 includes optical materials fabrication and administrative offices and is situated on a 3.7-acre site. We lease a 10,000 square foot building in Ayer, MA from a related party with a lease that expires in March 2013. We own a two-story, 44,000 square foot manufacturing and office facility in Ithaca, New York. We also lease a 40,000 square foot building in Watertown, MA for RMD from a related party with leases that expire in June 2013. We believe the properties are in satisfactory condition and suitable for our purposes.

The New Jersey and New York properties are mortgaged as collateral against notes payable to banks.

## **ITEM 3. LEGAL PROCEEDINGS**

On or about May 6, 2008, EMF received a copy of Summons with Notice (the "Summons") filed on January 18, 2008 in the Supreme Court of the State of New York, County of Albany, by the New York State Attorney General on behalf of the State of New York Workers' Compensation Board, as plaintiff. The Summons required EMF, which is one of a large number of defendants, to appear in the action commenced by the plaintiff alleging its entitlement to recover previously billed and unpaid assessments aggregating approximately \$1 million and other, but as yet undetermined, assessments which could aggregate to more than \$25 million from the defendants based upon their participation on a joint and several liability basis in a Manufacturing Self Insurance Trust that closed on or about August 31, 2007. EMF has engaged counsel who appeared for it in this action. Although the action is in an early state, EMF believes that its ultimate liability, if any, in this matter will not have a material adverse effect on its financial condition.

**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, 2007 and September 30, 2008 were as follows:

Fiscal Quarter	High Bid Price	Low Bid Price
-----	-----	-----
2007		
First	\$1.85	\$0.63
Second	1.71	1.20
Third	1.93	1.27
Fourth	1.70	0.92
2008		
First	\$2.40	\$1.36
Second	2.25	1.60
Third	2.25	1.61
Fourth	2.50	1.05

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

The "high" and "low" sale prices for trades of the Company's Common stock on the OTC bulletin board were as follows for each quarterly period:

Fiscal Quarter	High Sale Price	Low Sale Price
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2007		
First	\$1.99	\$0.65
Second	1.75	1.20
Third	1.95	1.28
Fourth	1.74	0.92
2008		
First	\$2.50	\$1.36
Second	2.25	1.60
Third	2.30	1.65
Fourth	2.53	1.05

As of September 30, 2008 there were 11,332,689 shares of common stock outstanding held by approximately 530 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 on its common stock 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 its common stock in the foreseeable future.

Holder 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. Preferred Stock dividends of \$203,501 and \$101,590 were paid during the years ended September 30, 2008 and 2007 respectively.

The Company adopted Stock Incentive Plans in 1996 and 1999 that permit, among other incentives, grants and options to officers, directors, employees and consultants to purchase up to 2,250,000 shares of the Company's common stock. At

September 30, 2008, 500,920 shares of common stock are available for issuance under the Plans in addition to the number of stock options outstanding. Options are generally exercisable at the fair market value or higher on the date of grant over a three to five-year period. To date, options have been granted at exercise prices ranging from \$.40 to \$4.25 per share. On September 30, 2008, 843,725 options were outstanding.

The securities authorized for issuance under equity compensation plans are set forth in Note 7 to the Consolidated Financial Statements of this 10-KSB document and are hereby incorporated by reference.

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 450,000 shares had been reserved for issuance. Of these, 156,159 shares have been purchased by 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 entered into a Subscription Agreement with Mr. Craig T. 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 including a Stock Purchase Warrant pursuant under which Mr. Dunham has acquired an additional 1,200,000 shares of the Company's common stock at an exercise price of \$0.225.

## **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**

Fiscal year 2008 was a transformational year for Dynasil with the significant acquisition of RMD on July 1, 2008. When compared to fiscal year 2007, revenues increased by 58.6% to \$17.1 million and net income increased by 113.8% to \$1,161,967. Fiscal year 2008 results included only one quarter of results from the RMD acquisition and annualized quarter four revenues would be \$34.3 million. Management is pleased with the results compared to a starting point of \$2.3 million in revenues and a \$176,000 loss for fiscal year 2004. Fiscal year 2008 revenues for our historical businesses other than RMD were up 5% and net income before tax was up 47%, from \$433,550 to \$636,000, compared to fiscal year 2007. Revenue growth and major operational improvements at EMF drove those substantial gains. For Quarter 4, the RMD acquisition tripled our revenues, from \$2.7 to \$8.6 million, and nearly quadrupled our net profit before taxes, from \$169,000 to \$812,000, as well as significantly increasing our technical capabilities and intellectual property. At a time when economic conditions are adversely impacting commercial revenues, Management views it as very beneficial to have a significant portion of revenues coming from RMD's contract research where the revenues are expected to increase substantially and the contract backlog is more than one year. We remain focused on continuing to effectively execute our internal growth as well as growing through further acquisitions and strategic alliances.

### **Results of Operations**

Revenues for the fiscal year ended September 30, 2008 were \$17,116,341. This represents an increase of 58.6% over revenues for the fiscal year ended September 30, 2007 of \$10,794,650. The revenue increases were driven by 5% growth in our historical businesses as well as the effect in the fourth quarter of the acquisition of RMD.

Cost of sales for the fiscal year ended September 30, 2008 was \$11,307,034, or 66.1% of sales, versus \$7,498,691, or 69.4% of sales for fiscal year ended September 30, 2007. Gross profit increased to \$5,809,307, or 33.9% of sales, for fiscal year 2008 from \$3,295,959, or 30.6% of sales for fiscal year 2007. The increase in gross margin dollars and percentage came primarily from the impact of the RMD acquisition as well as the gross margin percentage impact of large operational improvements at EMF.

Selling, general and administrative ("SG&A") expenses increased to \$4,359,493 or 25.5% of sales for fiscal year 2008 from \$2,708,886 or 25% of sales for fiscal year 2007. The changes in SG&A expenses resulted primarily from the impact of the acquisition of RMD.

Interest Expense-net, increased to \$214,090 or 1.25% of sales for fiscal year 2008 from \$153,523 or 1.4% of sales for fiscal year 2007. The increase in combined interest expense is primarily related to the additional interest payments resulting from the indebtedness incurred in connection with the RMD acquisition.

For fiscal year 2008, the Company had a net income tax cost of \$73,757 which was largely related to Massachusetts tax for Optometrics and RMD. For fiscal year 2007, the Company had a net income tax benefit of \$108,460. After the utilization of current net operating loss carry-forwards, the Company had a \$20,240 net current provision for fiscal year 2007 income taxes, largely related to Optometrics' profits in Massachusetts. This was offset by a \$128,700 increase in the deferred tax asset to recognize that the Company's return to profitability means that the Company's net operating loss carry-forwards are likely to have future value. Current federal and some New Jersey state taxes for fiscal year 2008 and 2007 were offset by utilization of net operating loss carry-forwards. As of September 30, 2008 we have no further net operating loss carry-forwards to offset future taxable income for federal tax purposes. The Company has approximately \$816,720 of net operating loss carry-forwards to offset certain future New Jersey and New York state taxable income, expiring in various years through 2013.

The Company had net income of \$1,161,967 for the year ended September 30, 2008 compared to net income of \$542,010 for the fiscal year ended September 30, 2007. Net income for our historical businesses was up significantly due largely to operational improvements at EMF and the addition of RMD, which more than tripled our net income for the fourth quarter.

#### Liquidity and Capital Resources

The net cash increase for fiscal year 2008 was \$3,386,007 compared to \$144,809 for fiscal year 2007.

Net cash provided by operating activities was \$960,950 for fiscal year 2008 versus \$324,043 for fiscal year 2007. Net income was \$1,161,967, depreciation/amortization added back \$504,836, accounts receivable increased by \$1,318,626, inventory increased by \$368,969, and accounts payable and accrued expenses increased by \$976,037.

Cash flows used in investing activities were \$13,323,756 for fiscal year 2008 compared to \$1,056,612 for fiscal year 2007. Cash paid for the RMD acquisition and acquisition costs was \$12,801,151 and cash paid for the Precision Optics product line acquisition was \$250,000 during fiscal year 2008. Capital expenditures to purchase property, plant and equipment of \$272,605 for fiscal year 2008 compared to \$374,491 for 2007.

Cash flows from (used in) financing activities were \$15,748,813 for fiscal year 2008 and \$877,378 for fiscal year 2007. Cash from financing activities for fiscal year 2008 came largely from the sale of \$5,256,000 of Preferred Stock, \$2 million from a note from RMD Instruments, LLC and \$9,000,000 of proceeds from bank financing that were completed as part of the RMD acquisition. Cash provided by financing activities for 2007 came primarily from \$700,000 of net proceeds from Preferred Stock. Cash from 2008 and 2007 issuance of common stock was \$177,928 and \$164,464 respectively which came primarily from the exercise of stock options and warrants.

Management believes that its current cash and cash equivalent balances, along with the net cash generated by operations and credit lines, are sufficient to meet its anticipated cash needs for working capital for at least the next 12 months. As of September 30, 2008, the Company had cash of \$3,882,955 and available bank line of credit borrowings of \$723,000. However, the current worldwide economic slow-down has significantly impacted the Company's revenues and profits so that a prolonged slowdown could cause a cash shortage. The Company has a \$2 million note to RMD Instruments, LLC which is scheduled to be repaid in a balloon repayment by October 1, 2009. The Company plans to refinance that note well in advance of its due date but the financing markets are currently in a credit crisis. Therefore, the Company may not be able to refinance that loan. There are currently no plans for any major capital expenditures in the next six to nine months, except for a \$125,000 investment to complete upgrades to diffraction grating mastering capabilities at Optometrics. Any major business expansions or acquisitions likely will require the Company to seek additional debt and/or equity financing.

## **DYNASIL'S STRATEGY**

### **Summary**

Dynasil's strategy is to grow profitably through acquisitions and organic growth in the Photonics industry. A major industry association estimates the Photonics industry at \$264 billion and growing at a double digit rate. It is highly fragmented with more than 90% of firms worldwide estimated to have 50 employees or less. We believe that the Photonics industry is rich in opportunities and that Dynasil can successfully use its status as a public company to deliver superior stockholder returns. Our goal is to reach at least \$100 million of revenues by 2012; the Dynasil/ RMD combination alone is projected to increase revenues to over \$50 million.

Dynasil has a proven track record for delivering results by bringing focus to businesses and improving their execution. The acquisitions of Optometrics, EMF, the Precision Optics filter product line and RMD have been completed and we have significantly improved operational execution and results in these businesses. Management views the RMD acquisition as adding high potential optical instruments to our commercial products as well as bringing exciting new product opportunities from RMD Research's work to continue to drive top line and bottom line growth. Here are the key elements of our strategy:

### **Mission**

Dynasil's mission is to be recognized as a premier manufacturer of photonic products, to achieve financial results which are consistently superior to those of its peers, and to be regarded by its employees as an outstanding place to work. Dynasil strives to achieve the highest level of customer service and product quality and to maximize stockholder value.

### **Financial Objectives**

Dynasil's goal is to perform in the top 25% of peer group companies with respect to:

- 4 year compound annual growth rate in diluted earnings per share
- Its return on equity

The goal for Revenues is to exceed \$100 million by 2012

### **Ethics Policy**

Dynasil has a Code of Conduct which requires adherence to the highest ethical standards in all its dealings with customers, vendors, employees and stockholders. Ethical behavior includes the principals of integrity, fairness, respect, openness, and obeying all laws.

### **Operations Strategy**

The Company is organized into highly competitive, semi-autonomous business units which are focused on customers and meeting key business goals. Each



business unit is led by a General Manager with overall responsibility for their unit results as well as managing the interfaces with other business units and the corporate staff. The Company seeks to foster a high level of employee involvement, motivation, and profit-sharing participation.

A small corporate staff focuses on adding value by centralizing a few selected activities and by developing key competencies within the business units including:

- Providing overall corporate leadership and coordination.
- Implementing key corporate competencies in the business units to support organic growth by teaching and consulting to include:
  - Clear focus by defining a few, key business objectives; prioritizing the projects to best meet those objectives; setting individual goals; consistently communicating updates; and sharing in the profits;
  - Disciplined manufacturing and business processes;
  - Market understanding, strategy process, and identification of a few high growth projects; and
  - Continuous revenue growth and operational improvements
- Providing cost effective financial reporting, tax compliance, investor relations, SEC compliance, legal support, and fund raising to support growth.
- Identifying, structuring, and coordinating acquisition activities to support growth objectives.
- Facilitating cooperation and coordination between business units such as working together to maximize overall effectiveness of sales and marketing.
- Identifying transferable skills within the business units and using them to help other business units (e.g. Laser Safety Officer).
- Purchasing shared items, such as insurance, where consolidated purchasing delivers savings.
- Coordinating Human Resource policies, high level recruiting, and supporting business units with HR issues.

## **Acquisitions**

The Company plans to aggressively pursue additional acquisitions to enhance growth. A goal of one acquisition per year will be targeted using two sets of criteria:

- a) Acquisitions that can quickly add to financial results. Target companies are manufacturers in optics-related industries that can be purchased on attractive financial terms. Of particular interest are companies where a combination with Dynasil offers increased customer access, complementary capabilities that can expand revenues, cost savings or where companies have developed capabilities that can be rapidly brought to market given access to Dynasil's existing infrastructure, growth capital and/or leadership assistance. Our business model has proven to be an attractive exit option for long term owners who want to see their business continue to prosper and grow.
- b) Acquisitions that create strategic competitive advantage through market penetration and/or technology leadership. Target companies are key players in existing supply chains or stepping stones to pursue adjacent markets. Target "technology" companies are start-ups or small companies pitted against large companies who lack the scale and traction to increase market share but have "industry-best" product.

## **Strategy and Plans for RMD**

### Existing Commercial Products

RMD Instruments' Commercial products are organized in a separate business unit with medical, industrial, and regulatory testing products. Nearly 30% of its historical commercial product revenue has come from the recurring source replacements required for existing instruments. The highest growth area for RMD is expected to be hand-held x-ray fluorescence ("XRF") instruments used to detect lead and other hazardous materials in paint, toys, and electronics to comply with

various environmental and hazardous waste laws and regulations. The overall handheld XRF market is estimated to exceed \$250 million and has been growing at a double digit growth rate. RMD also has a successful line of medical probes used in breast cancer surgery (the sentinel node breast biopsy probe) and other surgical applications. Dynasil plans to apply its proven execution skills to help drive RMD Instruments' commercial products growth and profitability. Mr. Mark Caldwell was hired as RMD Instruments General Manager during October 2008 to help drive growth in revenues and profits.

#### RMD Research

Dynasil expects to use RMD's proprietary capabilities to accelerate the growth of Dynasil's historical businesses as well as to develop new businesses. With more than 30 Ph.Ds doing government funded research, RMD Research brings leading technology to Dynasil's historical businesses that is unique in our industry. For example, RMD Research has developed faster and higher resolution thin film scintillators for digital x-ray and high speed x-ray imaging that could be a potential high volume product at EMF, our thin film coatings division. RMD's extensive background in probes is targeted to make RMD Instruments a market leader in medical probes. RMD's expertise in the UV and Gamma sectors of the electromagnetic spectrum are complimentary to the historical business units' expertise. Photonics developments are areas of rich promise for market sectors such as semi-conductor, homeland security and medical imaging. Examples of potential new businesses include high speed x-ray imaging to enable the military to photograph projectiles as they pass through objects and avalanche photodiodes which are being used to enhance medical imaging by combining MRI and PET (Positron Emission Tomography) into a single imaging unit. RMD has twenty-seven recently issued patents and 17 applications pending, with topics ranging from new gamma ray and neutron detectors critical for Homeland Security applications to improved films to convert x-ray patterns to light patterns, a crucial step central to all modern digital radiography. We believe that Dynasil can provide the means to more effectively transition research to commercialized product. Dynasil's expertise in effective execution and process control can become key factors in establishing this evolution. Commercialization of government-funded research is a key aspect of our strategy with RMD.

#### **"Off Balance Sheet" Arrangements**

The Company has no "Off Balance Sheet" arrangements.

#### **Critical Accounting Policies and Estimates**

There have been no material changes in our critical accounting policies or critical accounting estimates since September 30, 2007. Except for the adoption of Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statements No. 109" ("FIN 48"), we have not adopted an accounting policy that has or will have a material impact on our consolidated financial statements. For further discussion of our accounting policies see Footnote 1 "Summary of Significant Accounting Policies" in the Notes to Consolidated Financial Statements in our Annual Report on Form 10-KSB for the fiscal year ended September 30, 2008.

The accounting policies that reflect our more significant estimates, judgments and assumptions and which we believe are the most critical to aid in fully understanding and evaluating our reported financial results include the following:

#### **Revenue Recognition**

Revenue from sales of products is recognized at the time title and the risks and rewards of ownership pass. This is when the products are shipped per customers' instructions, the sales price is fixed and determinable, and collections are reasonably assured. Revenues from research and development activities consists of up-front fees, research and development funding and milestone payments. Periodic payments for research and development activities and government grants are recognized over the period that the Company performs the related activities under the terms of the agreements.

We assess the recoverability of long-lived assets whenever we determine that events or changes in circumstances indicate that their carrying amount may not be recoverable. Our assessment is primarily based upon our estimate of future cash flows associated with these assets. These valuations contain certain assumptions concerning estimated future revenues and future expenses. We have determined that there is no indication of impairment of any of our assets. However, should our operating results deteriorate, we may determine that a portion

of our long-lived assets is impaired. Such a determination could result in non-cash charges to income that could materially and adversely affect the Company's financial position or results of operations for that period.

#### **Estimating Allowances for Doubtful Accounts Receivable**

We perform ongoing credit evaluations of our customers and adjust credit limits based upon payment history and the customer's current credit worthiness, as determined by our review of their current credit information. We continuously monitor collections and payments from our customers and maintain a provision for estimated credit losses based upon our historical experience and any specific customer collection issues that we have identified. While such credit losses have historically been minimal, within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same credit loss rates that we have in the past. A significant change in the liquidity or financial position of any of our significant customers could have a material adverse effect on the collectability of our accounts receivable and our future operating results.

#### **Valuation of Deferred Tax Assets**

We regularly evaluate our ability to recover the reported amount of our deferred income taxes considering several factors, including our estimate of the likelihood of the Company generating sufficient taxable income in future years during the period over which temporary differences reverse. The Company believes that some of these carryforwards will be realized, and has adjusted the valuation allowance accordingly.

#### **Valuation of Intangible Assets**

The SFAS 142 accounting standard requires the valuation of intangible assets after an acquisition for financial statement purposes. Arriving at these valuations can be a complicated and uncertain process which requires significant judgments to be made. The Company now has significant goodwill and other intangible assets from the RMD acquisition that will likely have a material impact on our financial statements. These intangible assets will require annual testing for impairment which will involve significant management estimates.

#### **Stock-Based Compensation**

Effective October 1, 2006, we adopted SFAS 123(R), "Accounting for Stock Based Compensation." As a result, compensation costs are now recognized for stock options granted to employees and directors. Options and warrants granted to employees and non-employees are recorded as an expense at the date of grant based on the then estimated fair value of the security in question, determined using the Black-Scholes option pricing model.

#### **Recent Accounting Pronouncements**

Recent Accounting Pronouncements addressed in Note 1 to the Consolidated Financial Statements of this 10-KSB document are hereby incorporated by reference.

#### **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," "Strategic Plan," 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.

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**ITEM 7. FINANCIAL STATEMENTS**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**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** (the "Company") as of September 30, 2008 and 2007, 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, 2008 and 2007 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.

We were not engaged to examine management's assessment of the effectiveness of Dynasil Corporation of America and subsidiaries internal control over financial reporting as of September 30, 2008, included in the accompanying management's report on internal control over financial reporting and, accordingly, we do not express an opinion thereon.

HAEFELE, FLANAGAN & CO., p.c.

Moorestown, New Jersey  
December 23, 2008

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**DYNASIL CORPORATION OF AMERICA AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**SEPTEMBER 30, 2008 and 2007**

	2008	2007
	-----	-----
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$3,882,955	\$ 496,948
Accounts receivable, net of allowance for doubtful accounts of \$70,165 for 2008 and \$98,863 for 2007 and sales returns of \$8,200 for 2008 and \$30,790 for 2007	3,390,703	1,284,844
Inventories	2,909,730	1,832,720
Deferred tax asset	233,500	216,100
Prepaid expenses and other current assets	259,896	130,548
	-----	-----
Total current assets	10,676,784	3,961,160
Property, Plant and Equipment, net	2,694,290	2,436,517
Other Assets		
Intangibles, net	7,807,414	49,475
Goodwill	11,014,240	-0-
Deferred financing costs, net	81,136	30,167
Other assets	8,360	9,056
	-----	-----
Total other assets	18,911,150	88,698
	-----	-----
Total Assets	<u>\$32,282,224</u>	<u>\$6,486,375</u>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Current Liabilities		
Short Term Note payable	\$ 490,117	\$ 311,870
Current portion of long-term debt	1,649,101	99,237
Accounts payable	1,026,675	684,208
Accrued expenses and other current liabilities	1,657,168	587,872
	-----	-----
Total current liabilities	4,823,061	1,683,187
Long-term Liabilities		
Long-term debt, net	8,178,420	1,626,980
Note payable to related party	<u>2,000,000</u>	<u>-0-</u>
Total long-term liabilities	10,178,420	1,626,980
Stockholders' Equity		
Common Stock, \$.0005 par value, 25,000,000 shares authorized, 12,142,849 and 6,926,683 shares issued, 11,332,689 and 6,116,523 shares outstanding for 2008 and 2007, respectively	6,072	3,464
Preferred Stock, \$.001 par value, 10,000,000 Shares authorized, 5,966,000 and 710,000 shares issued and outstanding for 2008 and 2007 respectively, 10% Cumulative, Convertible	5,966	710
Additional paid in capital	16,122,185	2,983,980
Retained earnings	2,132,862	1,174,396
	-----	-----
Less 810,160 shares of treasury stock, at cost	(986,342)	(986,342)
	-----	-----
Total stockholders' equity	17,280,743	3,176,208
	-----	-----
Total Liabilities and Stockholders' Equity	<u>\$32,282,224</u>	<u>\$6,486,375</u>

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, 2008 and 2007**

	2008	2007
	-----	-----
Net sales	\$17,116,341	\$10,794,650
Cost of sales	11,307,034	7,498,691
	-----	-----
Gross profit	5,809,307	3,295,959
Selling, general and administrative expenses	4,359,493	2,708,886
	-----	-----
Income from operations	1,449,814	587,073
Interest expense, net	214,090	153,523
	-----	-----
Income before income taxes	1,235,724	433,550
Income tax (expense) benefit	(73,757)	108,460
	-----	-----
Net income	\$ 1,161,967	\$ 542,010
	=====	=====
Basic net income per common share	\$ 0.12	\$ 0.08
Diluted net income per common share	<u>\$ 0.11</u>	<u>\$ 0.07</u>

**DYNASIL CORPORATION OF AMERICA AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2008 and 2007**

	Common Shares -----	Common Amount -----	Preferred Shares -----	Preferred Amount -----	Additional Paid-in Capital -----
Balance, October 1, 2006	4,698,453	\$2,350	700,000	\$ 700	\$2,100,098
Issuance of shares of common stock under employee stock purchase plan	497	-0-	-0-	-0-	529
Issuance of shares of common stock in lieu of compensation to directors	3,289	2	-0-	-0-	4,998
Issuance of shares of common stock under stock option plan	80,000	40	-0-	-0-	31,960
Issuance of shares of common stock under stock warrant plan	586,373	293	-0-	-0-	131,642
Issuance of shares of Series B preferred stock net of issuance costs of \$10,000	-0-	-0-	710,000	710	699,290
Issuance of shares of common stock for conversion of Series A preferred stock	1,555,540	778	(700,000)	(700)	(78)
Compensation costs recognized in connection with stock options	-0-	-0-	-0-	-0-	11,366
Stock based compensation	2,531	1	-0-	-0-	4,175
Preferred stock dividends paid	-0-	-0-	-0-	-0-	-0-
Net income	-0-	-0-	-0-	-0-	-0-
Balance, September 30, 2007	<u>6,926,683</u>	<u>\$3,464</u>	<u>710,000</u>	<u>\$ 710</u>	<u>\$2,983,980</u>
Issuance of shares of common stock under employee stock purchase plan	9,537	5	-0-	-0-	17,978
Issuance of shares of common stock in lieu of compensation to directors	7,142	4	-0-	-0-	14,248
Compensation costs recognized in connection with stock options	-0-	-0-	-0-	-0-	159,950
Issuance of shares of common stock under stock warrant plan	613,627	307	-0-	-0-	137,759
Issuance of shares of Series C preferred stock net	-0-	-0-	5,256,000	5,256	5,250,744
Stock based compensation	3,860	1	-0-	-0-	7,717
Stock issued in connection with the purchase of RMD	4,582,000	2,291	-0-	-0-	7,549,809
Preferred stock dividends paid	-0-	-0-	-0-	-0-	-0-
Net income	-0-	-0-	-0-	-0-	-0-
Balance, September 30, 2008	<u>12,142,849</u>	<u>\$6,072</u>	<u>5,966,000</u>	<u>5,966</u>	<u>\$16,122,185</u>



**DYNASIL CORPORATION OF AMERICA AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2008 and 2007 (continued)**

	Retained Earnings	Treasury Shares	Stock Amount	Total Stockholders' Equity
	-----	-----	-----	-----
Balance, October 1, 2006	\$733,976	810,160	\$(986,342)	\$1,850,782
Issuance of shares of common stock under employee stock purchase plan	-0-	-0-	-0-	529
Issuance of shares of common stock in lieu of compensation to Directors	-0-	-0-	-0-	5,000
Issuance of shares of common stock under stock option plan	-0-	-0-	-0-	32,000
Issuance of shares of common stock under stock warrant plan	-0-	-0-	-0-	131,935
Issuance of shares of Series B preferred stock net of issuance costs of \$10,000	-0-	-0-	-0-	700,000
Issuance of shares of common stock for conversion of Series A preferred stock	-0-	-0-	-0-	-0-
Compensation costs recognized in connection with stock options	-0-	-0-	-0-	11,366
Stock based compensation	-0-	-0-	-0-	4,176
Preferred stock dividends paid	(101,590)	-0-	-0-	(101,590)
Net income	542,010	-0-	-0-	542,010
Balance, September 30, 2007	<u>\$1,174,396</u>	<u>810,160</u>	<u>\$(986,342)</u>	<u>\$3,176,208</u>
Issuance of shares of common stock under employee stock purchase plan	-0-	-0-	-0-	17,983
Issuance of shares of common stock in lieu of compensation to directors	-0-	-0-	-0-	14,252
Compensation costs recognized in Connection with stock options	-0-	-0-	-0-	159,950
Issuance of shares of common stock under stock warrant plan	-0-	-0-	-0-	138,066
Issuance of shares of Series C Preferred Stock	-0-	-0-	-0-	5,256,000
Stock based compensation	-0-	-0-	-0-	7,718
Stock issued in connection with the purchase of RMD	-0-	-0-	-0-	7,552,100
Preferred stock dividends paid	(203,501)	-0-	-0-	(203,501)
Net Income	1,161,967	-0-	-0-	1,161,967
Balance, September 30, 2008	<u>2,132,862</u>	<u>810,160</u>	<u>\$(986,342)</u>	<u>\$17,280,743</u>

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, 2008 and 2007**

	2008	2007
	-----	-----
Cash flows from operating activities:		
Net income	\$1,161,967	\$542,010
Adjustments to reconcile net income to net cash provided by operating activities		
Stock compensation expense	159,950	20,542
Provision for doubtful accounts and sales returns	(51,288)	(72,060)
Depreciation and amortization	504,836	368,771
Deferred taxes	(31,900)	(128,700)
(Gain) Loss on Disposal of assets	-0-	(17)
(Increase) decrease in:		
Accounts receivable	(1,318,826)	156,185
Inventories	(368,969)	(625,861)
Prepaid expenses and other current assets	( 70,856)	37,565
Increase (decrease) in:		
Accounts payable and accrued expense	976,036	25,608
Net cash provided by operating activities	960,950	324,043
	-----	-----
Cash flows from investing activities:		
Purchases of property, plant and equipment	(272,605)	(374,491)
Proceeds from sale of fixed assets	-0-	1,825
Cash paid for acquisition of RMD	(12,500,000)	-0-
Cash paid for acquisition of EMF	-0-	(580,000)
Cash paid for acquisition costs	(301,151)	(94,890)
Other assets	-0-	(9,056)
Cash paid for acquisition of filter equipment	(250,000)	-0-
Net cash used in investing activities	(13,323,756)	(1,056,612)
	-----	-----
Cash flows from financing activities:		
Issuance of common stock	177,928	164,464
Issuance of preferred stock	5,256,000	700,000
Proceeds from short-term debt	415,631	211,870
Proceeds from related party note	2,000,000	-0-
Proceeds from long-term debt	9,000,000	174,816
Repayment of long-term debt	(841,243)	(97,021)
Repayment of short-term debt	-0-	(175,161)
Deferred financing costs incurred	(56,002)	-0-
Preferred stock dividends paid	(203,501)	(101,590)
Net cash provided by financing activities	15,748,813	877,378
	-----	-----
Net increase in cash and cash equivalents	3,386,007	144,809
Cash and cash equivalents, beginning	496,948	352,139
	-----	-----
Cash and cash equivalents, ending	<u>\$3,882,955</u>	\$ <u>496,948</u>

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, 2008 and 2007**

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

Nature of Operations

The Company is primarily engaged in the development, marketing and manufacturing of optical products and optical instruments as well as contract research. The Company's products and services are used in a broad range of application markets including the medical, industrial and defense sectors. The 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: Optometrics Corporation, Dynasil International Incorporated, Hibshman Corporation, Evaporated Metal Films Corp, RMD Instruments Corp, and Radiation Monitoring Devices, Inc. All significant intercompany transactions have been eliminated.

Use of Estimates

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

Business Acquisition - EMF

On October 2, 2006, the Company completed its acquisition of all of the outstanding capital stock of EMF in a transaction accounted for as a purchase. Total cost of the acquisition was \$1,194,890, of which \$1.1 million was paid to the seller, and \$94,890 represented acquisition costs incurred. From the proceeds of the issuance of 710,000 shares of Preferred Stock, Dynasil paid \$580,000 in cash to the seller, incurred stock issuance costs of \$10,000 and incurred acquisition related costs of approximately \$94,890. Also on October 2, 2006, in a concurrent bank transaction, EMF borrowed \$1,050,000 of which \$338,161 was used to retire assumed EMF debt, \$520,000 was paid directly to the seller at settlement, \$17,023 was used to pay transaction costs and the remaining funds of \$174,816 were used for working capital purposes. The total purchase price of approximately \$1,194,890 has been allocated to the tangible and identifiable intangible assets acquired and liabilities assumed on the basis of their estimated fair values. The results of operations of EMF have been included in the consolidated financial statements from October 2, 2006, the effective date of acquisition. The allocation of purchase price is summarized below:

Purchase price:

Total consideration to seller	\$1,100,000
Acquisition costs incurred	\$ 94,890
	<u>\$1,194,890</u>

Purchase price allocation:

Cash and cash equivalents	\$ 45,457
Accounts receivable	282,575
Inventories	75,211
Prepaid expenses and other current assets	65,057
Property and equipment	1,789,621
Current liabilities assumed	(443,158)
Other liabilities assumed	( 74,227)
Debt assumed	<u>(545,646)</u>

Net fair value of assets acquired \$1,194,890

**DYNASIL CORPORATION OF AMERICA AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008 and 2007**

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

Acquisition of Optical Filter Equipment and Customer List

On January 18, 2008, Optometrics acquired the optical filter equipment and customer list of Precision Optics Corporation, Inc. of Gardener, MA. The purchase price was \$250,000 in cash plus a 25% royalty on annual revenues exceeding \$300,000 from the purchased customer list for a three year period.

Business Acquisition - RMD

On July 1, 2008, the Company completed its acquisition of all of the outstanding capital stock of RMD Research and the specific assets and liabilities of RMD Instruments in transactions that were accounted for as a purchase. Total cost of the acquisition was \$20,353,251 of which a total of \$12.5 million was paid to the seller in cash, \$7,552,100 was paid to the seller in stock and \$301,151 represented acquisition costs incurred. The cash paid to the seller came from the \$5,256,000 of proceeds from the issuance of 5,256,000 shares of Series C Preferred Stock as well as bank financing. Also on July 1, 2008, in a concurrent bank transaction, Dynasil borrowed \$10,000,000 of which \$425,460 was used to retire Dynasil debt, \$468,620 was used to retire Optometrics debt, \$8,500,000 was paid directly to the seller at settlement, and the remaining funds of \$605,920 were used for working capital purposes. The total purchase price of approximately \$20,353,251 has been allocated to the tangible and identifiable intangible assets acquired and liabilities assumed on the basis of their estimated fair values. The results of operations of RMD have been included in the consolidated financial statements from July 1, 2008, the effective date of acquisition. The allocation of purchase price is summarized below:

Purchase price:	
Total consideration to seller	\$20,052,100
Acquisition costs incurred	<u>\$ 301,151</u>
	\$20,353,251
Purchase price allocation:	
Cash and cash equivalents	\$ 297,923
Accounts receivable	742,512
Inventories	696,123
Prepaid expenses and other current assets	12,789
Intangibles and goodwill	18,964,563
Property and equipment	89,657
Current liabilities assumed	<u>(450,316)</u>
Net fair value of assets acquired	<u>\$20,353,251</u>

The following is the proforma financial information of the Company for the year ended September 30, 2008, assuming the transaction had been consummated at the beginning of the year ended September 30, 2008:

	For the year ended September 30, 2008 (Unaudited)
Statement of Operations:	
Revenues	\$34,293,615
Cost of sales	<u>19,836,804</u>
Gross profit	\$14,456,811
Operating Expenses	<u>10,788,272</u>
Income from operations	3,668,539
Interest and other expense	<u>(575,036)</u>
Income before taxes	3,093,503
Income taxes	<u>(1,002,752)</u>
Net Income	<u>\$2,090,751</u>
Earnings per share:	
Basic	\$ 0.13
Diluted	\$ 0.13

**DYNASIL CORPORATION OF AMERICA AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008 and 2007**

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

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 not been material. Optometrics and EMF, however, provide an allowance for sales returns based upon historical experience. The Company also provides an allowance for doubtful accounts based on historical experience and a review of its receivables.

Revenues from research and development activities consists of up-front fees, research and development funding and milestone payments. Non-refundable up-front fees are deferred and amortized to revenue over the related performance period. Periodic payments for research and development activities and government grants are recognized over the period that the Company performs the related activities under the terms of the agreements. Revenue resulting from the achievement of milestone events stipulated in the agreements is recognized when the milestone is achieved.

Shipping and Handling Costs

The Company includes some 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 or at fair market value for acquired assets. 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, 8 to 25 years; machinery and equipment, 5 to 10 years; office furniture and fixtures, 5 to 10 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, no asset impairment charges were made to the carrying value of long-lived assets during the years ended September 30, 2008 and 2007.

**DYNASIL CORPORATION OF AMERICA AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008 and 2007**

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

Goodwill and Other Intangible Assets

Goodwill consists of the cost in excess of the fair value of the acquired net assets of the Company's subsidiaries. The Company's other intangible assets consist of an acquired customer base of Optometrics, LLC, acquired customer relationships and trade names of RMD Instruments, LLC and acquired backlog and know how of RMD, Inc. Intangible assets are carried at cost less accumulated amortization. Amortization is computed using the straight-line method over the economic life of the respective asset. As of September 30, 2008 and 2007 the Company had approximately \$11,014,240 and \$-0- of goodwill and \$7,807,414 and \$49,475 carrying value related to other intangible assets.

Goodwill and intangible assets which have indefinite lives are subject to annual impairment tests. Impairment tests require the comparison of the fair value and carrying value of reporting units. Measuring fair value of a reporting unit is generally based on valuation techniques using multiples of earnings. The Company assesses the potential impairment of goodwill and other intangible assets annually and on an interim basis whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Upon completion of such annual review, if impairment is found to have occurred, a corresponding charge will be recorded. The Company has determined that it has four reporting units representing its subsidiaries and as a result of the Company's annual test to determine whether goodwill and other intangible assets have been impaired as of September 30, 2008, the Company did not identify any indication of goodwill impairment of its reporting units or intangible assets.

Other Assets

Other assets include deferred financing costs which are amortized on a straight-line basis over the term of the related debt, or five years.

Advertising

The Company expenses all advertising as incurred. Advertising expense for the years ended September 30, 2008 and 2007 was \$161,024 and \$118,713.

Deferred Rent

Deferred rent consists of the excess of the allocable straight line rent expense to date as compared to the total amount of rent due and payable through such period. Deferred rent is amortized as a reduction to rent expense over the term of the lease. Deferred rent was \$15,658 and \$0 as of September 30, 2008 and 2007.

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

**DYNASIL CORPORATION OF AMERICA AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008 and 2007**

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

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.

On October 1, 2007, the Company adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statements No. 109" (FIN 48). There was no impact on the Company's consolidated financial position, results of operations or cash flows at September 30, 2008 and for the year then ended as a result of implementing FIN 48. At the adoption date of October 1, 2007 and at September 30, 2008, the Company did not have any unrecognized tax benefits. The Company's practice is to recognize interest and/or penalties related to income tax matters in income tax expense. As of October 1, 2007 and September 30, 2008, the Company had no accrued interest or penalties related to income taxes. The Company currently has no federal or state tax examinations in progress.

Net Income Per Common Share

Basic net income per common share is computed by dividing the net income applicable to common shares after preferred dividend requirements, if applicable, by the weighted average number of common shares outstanding during each period. Diluted net income per common share adjusts basic net income for the effects of common stock options, common stock warrants, convertible preferred stock and other potential dilutive common shares outstanding during the periods.

For purposes of computing diluted earnings per share, 660,124 and 1,118,843 common share equivalents were assumed to be outstanding for the years ended September 30, 2008 and 2007, respectively. The computation of basic and diluted net income per common share is as follows:

	<u>2008</u>	<u>2007</u>
Net income	\$1,161,967	\$542,010
Less: Preferred stock dividends	\$(203,501)	(101,590)
Income allocable to common shareholders	\$ 958,466	\$ 440,420
Weighted average shares outstanding		
Basic	7,752,809	5,357,285
Effect of dilutive securities		
Stock Options	84,714	67,292
Stock Warrants	-0-	531,199
Convertible Preferred Stock	<u>575,410</u>	<u>520,352</u>
Diluted average shares outstanding	8,412,935	6,479,128

Stock Based Compensation

On October 1, 2006, the Company adopted the fair value recognition provisions of FASB Statement No. 123 (revised 2004), "Share-Based Payment", ("SFAS 123(R)") which requires the measurement and recognition of compensation expense for all stock-based awards made to employees and directors, including employee stock options, based on estimated fair values.

**DYNASIL CORPORATION OF AMERICA AND SUBSIDIARIES**  
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**Note 1 - Summary of Significant Accounting Policies**

We elected to use the modified prospective application transition method as provided by SFAS 123(R). In accordance with the modified prospective transition method, compensation cost is recognized in the consolidated financial statements for all awards granted after the date of adoption.

Financial Instruments

The carrying amount reported in the balance sheets for cash and cash equivalents, accounts receivable and accounts payable approximates fair value because of the immediate or short-term maturity of these financial instruments. The carrying amount for long-term debt approximates fair value because the underlying instruments are primarily at current market rates.

Financial instruments that potentially subject the Company to concentrations of credit risk consists primarily of accounts receivable. In the normal course of business, the Company extends credit to certain customers. Management performs initial and ongoing credit evaluations of their customers and generally does not require collateral.

Concentration of Credit Risk

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, 2008 and 2007, approximately \$1,106,442 and \$261,032 or 44% and 20% of the Company's accounts receivable are due from foreign sales.

The Company maintains cash and cash equivalents at various financial institutions in New Jersey, Massachusetts and New York. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At September 30, 2008, the Company's uninsured bank balances totaled \$4,090,470. The Company has not experienced any significant losses on its cash and cash equivalents.

Recent Accounting Pronouncements

The following is a summary of recent authoritative pronouncements that affect accounting, reporting, and disclosure of financial information by the Company:

In December 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141 (revised 2007), Business Combinations, which replaces SFAS No. 141. The statement retains the purchase method of accounting for acquisitions, but requires a number of changes, including changes in the way assets and liabilities are recognized in the purchase accounting. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. SFAS No. 141R is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Management currently believes that the adoption of this statement may have a material impact on the Company's financial statements when it completes significant acquisitions in the future.

In May 2008, The FASB Issued Statement No. 162, "The Hierarchy of Generally Accepted Accounting Principles" ("SFAS 162"). The new standard is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles (GAAP) for nongovernmental entities. Prior to the issuance of SFAS 162, GAAP hierarchy was defined in the American Institute of Certified Public



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

Accountants (AICPA) Statement on Auditing Standards (SAS) No. 69, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. SFAS 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board Auditing amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. Management currently believes that the adoption of this statement will not have a material impact on the Company's financial statements.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the AICPA, and the SEC did not or are not believed by management to have a material impact on the Company's present or future consolidated financial statements.

Statement of Cash Flows

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

Reclassifications

Certain amounts as previously reported have been reclassified to conform to current year financial statement presentation.

**Note 2 - Inventories**

Inventories at September 30, 2008 and 2007 consisted of the following

	<u>2008</u>	<u>2007</u>
Raw Materials	\$2,110,138	\$1,145,249
Work-in-Process	467,590	336,203
Finished Goods	332,002	351,268
	-----	-----
	2,909,730	\$1,832,720
	=====	=====

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

Property, plant and equipment at September 30, 2008 and 2007 consist of the following:

	<u>2008</u>	<u>2007</u>
Land	\$ 40,450	\$ 40,450
Building and improvements	1,704,492	1,674,702
Machinery and equipment	4,896,556	4,300,534
Office furniture and fixtures	224,025	237,932
Transportation equipment	53,419	53,419
	-----	-----
	6,918,942	6,307,037
Less accumulated depreciation	4,224,652	3,870,520
	-----	-----
	\$2,694,290	\$2,436,517
	=====	=====

Included in the cost of machinery and equipment at September 30, 2008 and 2007 is \$47,984 representing the cost of assets under capitalized lease obligations. Accumulated depreciation at September 30, 2008 and 2007 for the capitalized leases was \$30,985 and \$22,338.

Depreciation expense for the years ended September 30, 2008 and 2007 was \$354,492 and \$352,578 of which \$8,647 and \$8,647 represents depreciation of assets under capitalized lease obligations.

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**Note 4 - Other Assets**

Other assets at September 30, 2008 and 2007 consist of the following:

	<u>2008</u>	<u>2007</u>
Deferred financing costs	\$ 95,306	\$ 64,880
Intangible assets	7,938,414	78,414
Goodwill	11,014,240	-
Other assets	8,360	9,055
	19,056,320	152,349
Less accumulated amortization	145,170	63,651
	\$ 18,911,150	\$ 88,698

Amortization expense for the years ended September 30, 2008 and 2007 was \$150,344 and \$16,193.

**Note 5 - Debt**

On October 2, 2006, in conjunction with the EMF acquisition, EMF entered into Mortgage Note and Line of Credit Note Agreements with Tompkins Trust Company ("TTC") which were guaranteed by Dynasil. The guaranteed loans include (a) a \$1,050,000 principal amount commercial mortgage (the "EMF Mortgage") and (b) a \$215,000 principal amount line of credit facility (the "EMF Line of Credit"). Proceeds of the EMF Mortgage were used to repay certain EMF debts, to pay for part of the acquisition of EMF and for working capital purposes. Proceeds of the EMF Line of Credit were used for general corporate purposes. The applicable borrowing documents were entered into at arms-length between EMF and Dynasil, on the one hand, and TTC, on the other hand, on commercial lending terms and conditions, including acceleration rights, events of default, TTC'S rights and remedies and similar provisions that Dynasil believes are customary for commercial loans of this sort. In connection with the loan transactions, EMF and Dynasil executed and delivered to TTC customary forms of notes, mortgages, security agreements, assignments of leases and rents, and similar documents. The EMF Mortgage requires repayment over a 20 year period at a fixed annual interest rate of 7.80% for the first 5 years, resetting to a fixed annual interest rate of 2.80 percentage points over the Federal Home Loan Bank of New York Advance Rate for five-year maturities at five year intervals. The EMF Mortgage is secured by a first mortgage on EMF's real estate, equipment, and fixtures, as well as Dynasil's guarantee. The EMF Line of Credit has a term running until December 22, 2010 and carries an annual interest rate of one-half percent over the Wall Street Journal's Prime Rate of interest, which is adjusted monthly. It is secured by EMF's real estate, equipment and fixtures, as well as Dynasil's guarantee.

On July 1, 2008, in conjunction with the RMD acquisition, Dynasil entered into a Term Note and Line of Credit Agreement with Susquehanna Bank ("Susquehanna"). The loans include (1) a \$9,000,000 term loan ("Susquehanna Term Loan") and (b) a \$1,000,000 line of credit facility ("Susquehanna Line of Credit"). Proceeds of the Susquehanna Term Loan were used to repay certain debts of Optometrics and Dynasil, to pay for part of the acquisition of the RMD companies and for working capital purposes. The applicable borrowing documents were entered into on commercial lending terms and conditions, including acceleration rights, events of default, Susquehanna's rights and remedies and similar provisions that Dynasil believes are customary for commercial loans of this sort. In connection with the transaction, Dynasil executed and delivered to Susquehanna customary forms of notes, mortgages, security agreements and similar documents. The Susquehanna Term Loan requires repayment over a five year period at a fixed annual interest rate of 6.0%. The Susquehanna Term Loan is secured by a first mortgage on Dynasil's real estate and equipment and fixtures. The Susquehanna Line of Credit has a term running until January 31, 2010 and carries an annual interest rate at the Wall Street Journal's Prime Rate of interest, which is adjusted monthly. It is secured by the Dynasil group companies' assets.

**DYNASIL CORPORATION OF AMERICA AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**Note 5 - Debt (continued)**

On September 30, 2008, Dynasil entered into a note payable to RMD Instruments, LLC in which the former owners of RMD and current officers of RMD have a financial interest. The loan is in the amount of \$2,000,000 and carries interest at the rate of 8.0% per annum. The loan is for working capital. The loan has a balloon payment of all principal which was originally scheduled for March 31, 2009 and on December 19, 2008 the maturity date was amended to be October 1, 2009.

Notes Payable to Bank and other party

Dynasil had a note payable to Susquehanna Bank that represented borrowings under the Line of Credit, which bore interest at a variable rate equal to Susquehanna Bank's prime rate plus 0.5% (8.75% at September 30, 2007). The amount available under this agreement was \$200,000. As of September 30, 2008 and 2007, there were no outstanding balances and this line of credit is was repaid in full and replaced by a new Line of Credit as part of the July 1, 2008 financing with Susquehanna Bank.

Optometrics had a note payable to Citizens Bank that represented borrowings under the Line of Credit, which bore interest at a variable rate equal to Citizens Bank's prime rate plus 0.5% (8.25% at September 30, 2007). The amount available under this agreement was \$400,000. The outstanding balances at September 30, 2008 and 2007 were \$-0- and \$100,000, respectively. The Line of Credit was repaid in full on July 1, 2008 and eliminated as part of the Susquehanna Bank financing.

EMF has a note payable to Tompkins Trust Company that represents borrowings under the EMF Line of Credit which has a term running until December 22, 2010 and carries an annual interest rate of one-half percent over the Wall Street Journal's Prime Rate of interest, which is adjusted monthly (5.0% and 8.25% as of September 30, 2008 and September 30, 2007). The amount available under this agreement is \$215,000. The outstanding balance at September 30, 2008 and 2007 was \$210,070 and \$211,870, respectively. It is secured by EMF's real estate, as well as Dynasil's guarantee.

Effective July 1, 2008, Dynasil has a note payable to Susquehanna Bank that represents borrowings under the Susquehanna Line of Credit, which bears interest at a variable rate equal to Susquehanna Bank's prime rate which is adjusted monthly (5.0% at September 30, 2008). The amount available under this agreement is \$1,000,000. The outstanding balance at September 30, 2008 was \$280,000. It is secured by all of Dynasil and subsidiary assets except for EMF's real estate.

Long-term Debt

Long-term debt at September 30, 2008 and 2007 consisted of the following:

	<u>2008</u>	<u>2007</u>
Note payable to bank in monthly installments of \$3,580 including interest at the rate of 7.25% through February 2011 (after February 2011, the interest rate will adjust to the United States Treasury Average Weekly Yield rate plus 3.0%), final payment of \$305,181 due January 5, 2016, secured by first mortgage on Berlin, New Jersey property and substantially all of the New Jersey assets of the Company, repaid in 2008.	\$ -0-	\$ 431,761

Note payable to bank in monthly installments of \$8,727 including interest of 7.8% through October 2011 (after October 2011, the interest rate will adjust every five years to the Federal Home Loan Bank of NY Advance Rate plus 2.8%), maturing on October 1, 2026, secured by a mortgage on the Ithaca, New York real estate	1,005,344	1,029,306
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**DYNASIL CORPORATION OF AMERICA AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**Note 5 - Debt (continued)**

Note payable to bank in monthly installments of \$5,835 including interest at 6.25%, through March 2010, secured by the assets of Optometrics Corporation with a Corporate guarantee by the Company and a second lien on New Jersey assets other than real estate, repaid in 2008.	-0-	162,233
Note payable to Ithaca Urban Renewal Agency for Lease of land in Ithaca, New York for 99 years with the option to purchase said land for \$26,640 after May 2008	18,535	20,457
Note payable to bank in monthly installments of \$174,359 including interest at 6.0%, through June 2013, secured by the assets of Dynasil, RMD, and Optometrics	8,743,620	-0-
Note payable to a related party in which the former owners of RMD and current officers of RMD have a financial interest	2,000,000	-0-
Note payable to former owner of EMF in connection with EMF acquisition, bears interest at 7.8% with no scheduled date of repayment, unsecured	60,022*	82,460*
	\$11,827,521	1,726,217
Less current portion	1,649,101	99,237
	<u>\$10,178,420</u>	<u>1,626,980</u>

\* Interest expense of \$8,315 and \$4,157 was accrued and included in the outstanding balance as September 30, 2008 and 2007, respectively.

The aggregate maturities of long-term debt, as of September 30, 2008 are as follows:

September 30, 2009	1,793,165
September 30, 2010	3,842,183
September 30, 2011	1,958,094
September 30, 2012	1,733,393
Thereafter	851,585
Total	<u>\$10,178,420</u>

**Note 6 - Income Taxes**

The Company's income tax expense (benefit) for the years ended September 30, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Current		
Federal	\$ 274,300	\$ 98,700
State	98,700	57,140
Utilization of NOL carryforwards	(282,300)	(135,600)
	-----	-----
	\$ 90,700	\$ 20,240
	-----	-----
Deferred		
Federal	28,200	(91,500)
State	(45,143)	(37,200)
	-----	-----
Income tax expense (benefit)	<u>\$ (16,943)</u>	<u>\$ (128,700)</u>
	<u>\$73,757</u>	<u>\$ (108,460)</u>

**DYNASIL CORPORATION OF AMERICA AND SUBSIDIARIES**  
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**Note 6 - Income taxes (continued)**

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, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Taxes at statutory rates applied to income before income taxes	400,400	\$156,800
Increase (reduction) in tax resulting from:		
Depreciation	(115,300)	(35,600)
Accounts receivable	(19,300)	29,300
Inventories	113,400	(21,700)
Vacation pay	(24,200)	( 300)
Unfunded pension liability	12,300	( 6,200)
Deferred compensation	(6,100)	(19,200)
Other	6,900	(4,400)
State income taxes	(129,820)	57,140
Benefit of net operating loss carryforwards	(292,700)	(135,600)
Adjustments to valuation allowance	191,077	(128,700)
Amortization	(62,900)	-0-
	-----	-----
	<u>\$ 73,757</u>	<u>\$ (108,460)</u>

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, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Inventories	\$ 253,000	\$ 122,700
Vacation pay	100,400	10,900
Unfunded pension liability	37,600	23,100
Deferred compensation	-0-	7,100
Accounts receivable	49,800	53,900
Depreciation	(107,300)	74,500
Net operating loss carryforwards	64,000	276,600
Amortization of intangibles and goodwill	(74,500)	-0-
State deferred taxes	20,600	-0-
Less valuation allowance	(110,100)	(352,700)
	-----	-----
	<u>\$233,500</u>	<u>\$ 216,100</u>

In assessing the ultimate realization of deferred tax assets and liabilities, management considers whether it is more likely than not that some or all of them will not be realized. Based on the Company's history of significant fluctuations in net earnings, the Company had established a full valuation allowance due to the uncertainty as to the realization of certain net operating loss carryforwards. With the asset acquisition of Optometrics, LLC in March 2005 and RMD in July, 2008 and operational improvements, the Company now believes that these carryforwards will likely be realized, and has adjusted the valuation allowance accordingly.

At September 30, 2008, the Company has no further net operating loss carryforwards to offset future taxable income for federal tax purposes. In addition, the Company has approximately \$816,720 of net operating loss carryforwards to offset certain future state taxable income, expiring in various years through 2013.

**Note 7 - Stockholders' Equity**

On September 23, 2004, in a privately negotiated transaction, the Company

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**Note 7 - Stockholders' Equity (continued)**

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 acquire, 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 \$.225 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 became the Company's President and Chief Executive Officer. During the year ended September 30, 2007, Mr. Dunham exercised 586,373 warrants at \$.225 per share for \$131,935. During the year ending September 30, 2008, Mr. Dunham exercised the remaining 613,627 warrants at \$.225 per share for \$138,066.

Convertible Preferred Stock

On March 8, 2005, the Company completed a private placement of 700,000 shares of Series A 10% Cumulative Convertible Preferred Stock for cash proceeds of \$700,000. The stock was sold at a price of \$1.00 per share. Total expenses for the stock placement were \$10,000. Each share of preferred stock carried a 10% per annum cumulative dividend payable quarterly and was convertible to 2.2222 shares of common stock at any time by holders, and was callable starting March 9, 2007 by the Company at a redemption price of \$1.00 per share. On March 9, 2007, the Company issued an aggregate of 1,555,540 shares of its Common Stock, \$.0005 par value per share, as a result of the exercise of the conversion rights by holders of 700,000 shares of Dynasil's Series A 10% Cumulative Convertible Preferred Stock (the "Series A Preferred Shares"). Dynasil had previously called all of the Series A Preferred Shares for redemption on March 9, 2007. All of the shares of the Series A Preferred Shares that were called for redemption were converted to shares of common stock.

On October 2, 2006 the Company sold 710,000 shares of a Series B 10% Cumulative Convertible Preferred Stock in a private placement. The stock was sold at a price of \$1.00 per share. Total expenses for the stock placement were \$10,000. No underwriting discounts or commissions were paid in connection with the sale. Each share of preferred stock carries a 10% per annum dividend and is convertible to 1.33 shares of common stock at any time by the holders and is callable after two years by Dynasil at a redemption price of \$1.00 per share. Proceeds of the preferred stock sale were primarily used to acquire the capital stock of EMF and for related acquisition costs.

On July 5, 2008 the Company sold 5,256,000 shares of a Series C 10% Cumulative Convertible Preferred Stock in a private placement. The stock was sold at a price of \$1.00 per share. Total expenses for the stock placement were \$0. No underwriting discounts or commissions were paid in connection with the sale. Each share of preferred stock carries a 10% per annum dividend and is convertible to 0.40 shares of common stock at any time by the holders and is callable after two years by Dynasil at a redemption price of \$1.05 per share. Proceeds of the preferred stock sale were primarily used for the acquisition of RMD, for related acquisition costs, and for general working capital.

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 or higher on the date of grant over a three to five year period currently expiring through 2012.

**DYNASIL CORPORATION OF AMERICA AND SUBSIDIARIES**  
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**Note 7 - Stockholders Equity (continued)**

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 2,250,000 shares, of which 500,920 shares of common stock are available for future purchases under the Plan at September 30, 2008 in addition to outstanding stock options.

A summary of stock option activity for the years ended September 30, 2008 and 2007 is presented below:

	Shares	Exercise Price Per Share
Options outstanding at October 1, 2006	261,459	\$0.40 - \$1.50
Granted in 2007	100,000	\$1.66 - \$2.00
Exercised in 2007	(80,000)	\$0.40
Cancelled in 2007	-0-	
	<u>281,459</u>	
Options outstanding at September 30, 2007	<u>281,459</u>	
Granted in 2008	562,266	\$2.00 - \$4.00
Exercised in 2008	-0-	
Cancelled in 2008	-0-	
	<u>843,725</u>	
Options outstanding at September 30, 2008	<u>843,725</u>	\$0.40 - \$4.00
Options exercisable at September 30, 2008	743,725 =====	\$0.40 - \$4.00

During the year ended September 30, 2008, 562,266 stock options were granted at prices ranging from \$2.00 to \$4.00 per share and -0- options were exercised. Of the options granted in 2008, 100,000 of the granted stock options cannot be exercised until October 15, 2009 or later, and therefore the stock-based compensation expense of \$18,043 will be recognized at that time if they become exercisable. No options were cancelled during the year ended September 30, 2008.

During the year ended September 30, 2007, 100,000 stock options were granted at prices ranging from \$1.66 to \$2.00 per share and 80,000 options were exercised. Of the options granted in 2007, 20,000 of the granted stock options could not be exercised until January 2, 2008, and therefore the stock-based compensation expense was recognized at that time. The 80,000 options exercised had an exercise price of \$0.40 per share with \$32,000 paid in cash. No options were cancelled during the year ended September 30, 2007.

For the year ended September 30, 2008, total stock-based compensation charged to operations for option-based arrangements amounted to \$159,950. At September 30, 2008, there was approximately \$18,043 of total unrecognized compensation expense related to non-exercisable option-based compensation arrangements under the Plan.

For the year ended September 30, 2007, total stock-based compensation charged to operations for option-based arrangements amounted to \$11,366. At September 30, 2007, there was approximately \$9,620 of total unrecognized compensation expense related to non-exercisable option-based compensation arrangements under the Plan.

During the year ended September 30, 2008, the Company issued 7,994 shares of common stock valued at an average of \$1.97 per share to a director in lieu of

**DYNASIL CORPORATION OF AMERICA AND SUBSIDIARIES**  
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**Note 7 - Stockholders Equity (continued)**

Director's fees totaling \$15,750. The Company also issued 4,635 shares of common stock valued between \$2.00 and \$2.15 per share totaling \$9,386 to employees as compensation.

During the year ended September 30, 2007, the Company issued 3,289 shares of common stock valued at an average of \$1.52 per share to a director in lieu of director's fees totaling \$5,000. The Company also issued 2,531 shares of common stock valued at \$1.65 per share totaling \$4,176 to an employee as compensation.

The fair value of the stock options granted and warrants issued were estimated on the date of grant using the Black Scholes option-pricing model. Based on the list of assumptions presented below with numbers shown for the most recent grant, the weighted average fair values of the options granted during the years ended September 30, 2008 and 2007 is \$0.30 and \$0.14 per share, respectively.

	<u>2008</u>	<u>2007</u>
Expected life in years	3	3
Risk-free interest rate	4.47%	4.82%
Expected volatility	32.5%	20.42%
Dividend yield	0.00%	0.00%

The expected volatility was determined with reference to the historical volatility of the Company's stock. The Company uses historical data to estimate option exercise and employee termination within the valuation model. The expected term of options granted represents the period of time that options granted are expected to be outstanding. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury rate in effect at the time of grant.

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 450,000 shares have been reserved for issuance of which 156,159 shares have been issued as of September 30, 2008.

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, 2008 and 2007, 8,759 shares, and 497 shares of common stock were issued under the Plan for aggregate purchase prices of \$16,317, and \$529, respectively.

**Note 8 - Retirement Plans**

401(k) Plans

The Company has savings plans available to substantially all full time employees which are intended to qualify as deferred compensation plans under Section 401(k) of the Internal Revenue Code (the "401k Plans"). Pursuant to the 401k Plans, employees may contribute up to the maximum amount allowed by the 401k Plans or by law. The Company at its sole discretion may from time to time make discretionary matching contributions as it deems advisable. The Company made contributions to the plans during the years ended September 30, 2008 and 2007 of \$64,649 and \$49,330, respectively. The Company has an active project to evaluate and consolidate 401k Plans.



**DYNASIL CORPORATION OF AMERICA AND SUBSIDIARIES**  
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**Note 8 - Retirement Plans (continued)**

Defined Benefit Pension Plan

EMF has a defined benefit pension plan covering hourly employees. The plan provides defined benefits based on years of service and final average salary. As of September 30, 2006, the plan was frozen. Accordingly, accrued benefit costs are classified as a current liability on the consolidated balance sheet. The following relates to the Company's defined pension plan as of September 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Pension benefit obligation as of September 30	\$ 393,554	\$349,493
Fair value of plan assets as of September 30	( 296,761)	(291,644)
Excess of benefit obligation over plan assets	<u>\$ 96,793</u>	<u>\$57,849</u>
Amounts recognized on the balance sheet as:		
Accrued benefit costs (in accrued expenses)	<u>\$ 96,793</u>	<u>\$57,849</u>
Discount rate on the benefit obligation	5.88%	5.79%
Rate of expected return on the plan assets	5.50%	5.50%
Pension expense	\$43,410	\$8,806
Company contributions	\$ 7,202	\$26,946

**Note 9 - Related Party Transactions**

During the years ended September 30, 2008 and 2007, building lease payments of \$114,000 were paid to Optometrics Holdings, LLC in which Laura Lunardo, the Company's Chief Financial Officer has a 50% interest.

During the years ended September 30, 2008 and 2007, building lease payments of \$188,055 and \$0, were paid to Charles River Realty, dba Bachrach, Inc., which is owned by Gerald Entine and family, the Company's President of RMD Research.

On September 30, 2008, a loan for \$2,000,000 was completed with a company in which the Company's President of RMD Research, Dr. Gerald Entine, and Vice-President of RMD Instruments, Mr. Jacob Pastor, have greater than 90% interest. The loan bears interest at 8% and a balloon payment of all principal is due on October 1, 2009.

**Note 10 - Leases**

The Company has non-cancelable operating leases, primarily for property, that expire through 2013. One of the Company's facilities is leased from a company controlled by the former owner of RMD, who is also currently President of the Company's RMD Research subsidiary. This lease expires in June 2013. One of the Company's facilities is leased from a company controlled by the former owners of Optometrics, one of whom is also currently the Company's Chief Financial Officer. This lease expires in June 2013. Rent expense for the years ended September 30, 2008 and 2007 amounted to \$302,055 and \$114,000, respectively. Future non-cancelable minimum lease payments under property leases as of September 30, 2008 are as follows:

Year ended September 30,	
2009	\$873,742
2010	\$904,132
2011	\$935,737
2012	\$968,607
2013	\$768,263

**DYNASIL CORPORATION OF AMERICA AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008 and 2007**

**Note 11 - Vendor Concentration**

The Company purchased \$1,343,291 and \$1,557,846 of its raw materials from one supplier during the years ended September 30, 2008 and 2007. As of September 30, 2008 and 2007, amounts due to that supplier included in accounts payable were \$55,455 and \$379,940.

**Note 12 - Supplemental Disclosure of Cash Flow Information:**

	<u>2008</u>	<u>2007</u>
Cash paid during the year for:		
Interest	\$241,777	\$150,253
	=====	=====
Income taxes	\$ 33,040	\$72,951
	=====	=====

Non-cash investing and financing activities:

**Acquisition of Assets of EMF on October 2, 2006:**

Fair market value of current assets acquired	\$ 468,300	
Property, plant and equipment	1,789,621	
Fair market value of liabilities assumed	<u>(1,063,031)</u>	
Total cost of acquisition	1,194,890	
Debt incurred to pay seller	<u>(520,000)</u>	
Net cash paid for EMF Corporation	<u>\$ 674,890</u>	

To partially fund the acquisition of EMF Corporation, the Company issued 710,000 shares of Series B preferred stock, valued at \$1.00 per share, incurred stock issuance costs of \$10,000 and received net proceeds of \$700,000.

On October 2, 2006, concurrently with the acquisition of EMF Corporation, EMF borrowed \$1,050,000. The proceeds were used as follows: (1) repayment of assumed liabilities of \$338,161 at closing, (2) payment of the balance due seller of \$520,000 directly by the bank at closing, (3) payment of transaction costs of \$17,023 at closing, and (4) remaining balance of \$174,816 was used for working capital purposes.

**Acquisition of Assets of RMD Corporation on July 1, 2008:**

Fair market value of current assets acquired	\$ 1,749,347	
Property, plant and equipment	89,657	
Intangibles and goodwill	18,964,563	
Fair market value of liabilities assumed	<u>(450,316)</u>	
Total cost of acquisition	20,353,251	
Common stock issued to seller	<u>(7,552,100)</u>	
Net cash paid for RMD	<u>\$12,801,151</u>	

To partially fund the acquisition of RMD, the Company issued 5,256,000 shares of Series C preferred stock, valued at \$1.00 per share and received net proceeds of \$5,256,000.

On July 1, 2008, concurrently with the acquisition of RMD, Dynasil borrowed \$10,000,000. The proceeds were used as follows: (1) repayment of existing bank debt of \$894,080, (2) payment of the balance due seller of \$8,500,000 directly by the bank at closing, (3) payment of transaction costs of \$60,967 at closing, and (4) remaining balance of \$544,953 was used for working capital purposes.

**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**

Not Applicable.

ITEM 8A (T). CONTROLS AND PROCEDURES

**Disclosure Controls and Procedures**

As required by Rule 13a-15(e) under the Exchange Act, our Chief Executive Officer and Chief Financial Officer, with the participation of management, carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by the report and have determined that such disclosure controls and procedures are effective.

**Management's Report on Internal Control Over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act). Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Company, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the consolidated financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management, with the participation and supervision of our Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of the Company's internal control over financial reporting as of September 30, 2008. In making this assessment, the Company's management used the criteria set forth by the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission in "Internal Control - Integrated Framework."

Because RMD Research and RMD Instruments were acquired by the Company on July 1, 2008, they were not required to be included in management's assessment of internal control over financial reporting for the year ended September 30, 2008 and therefore, management excluded them from its assessment. Both RMD companies are wholly-owned subsidiaries whose total assets and total revenues represent 79% and 34%, respectively, of the related consolidated financial statement amounts as of and for the year ended September 30, 2008.

Based upon the Company's assessment, management has concluded that, as of September 30, 2008, the Company's internal control over financial reporting is effective based upon those criteria.

This Annual Report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit us to provide only management's report in this Annual Report.

#### **CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING**

There has been no change in our internal control over financial reporting in connection with our evaluation that occurred during our last fiscal quarter ended September 30, 2008 that materially affected, or is reasonably likely to materially affect our internal control over financial reporting except for the acquisition of RMD.

### **PART III**

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

Our directors were elected to serve for a one-year term at our Annual meeting of the shareholders held on February 5, 2008, with the exception of Mr. Peter Sulick, who was added as a director on June 12, 2008. All directors will hold office until their successors are elected at the next annual meeting of the shareholders.

Our executive officers and directors, and their ages at December 15, 2008, are as follows:

Name	Age	Position
-----	---	-----
James Saltzman	65	Chairman of the Board
Craig T. Dunham	52	President, CEO, Director
Cecil Ursprung	64	Director
Peter Sulick	58	Director, Chairman of Audit Committee
Laura Lunardo	56	COO Optometrics, CFO until 11/15/08
Bruce Leonetti	54	Vice President
Paul Schulz	48	President EMF
Gerald Entine	65	President, Radiation Monitoring Devices, Inc
Jack Paster	70	Vice President, RMD Instruments Corp.
Mark Caldwell	42	General Manager, RMD Instruments Corp. starting 10/20/08
Paul Weaver	57	CFO starting 11/15/08

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

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 2008 with the reporting requirements of Section 16(a) of the Securities Exchange Act of 1934 except for two Form 4 filings for Mr. Cecil Ursprung and one Form 4 filing for Mr. Peter Sulick which were late due to administrative oversights and included a total of 6,174 shares paid for Directors compensation.

Craig Dunham, 52, Dynasil President and CEO, invested in Dynasil and then joined the Company in October 2004. Prior to joining Dynasil, 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 Corporation. 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, 65, Chairman, has been a member of the Board since February 1998. Mr. Saltzman has been involved in the investment community since October 1969 where he has invested in both public and private corporations. He helped found several companies which have been purchased by larger corporations, most recently Without-a-Box which was purchased by Amazon.com. He has been a key source of potential acquisitions including Optometrics and RMD. Mr. Saltzman earned a BA degree from Franklin & Marshall College.

Cecil Ursprung, 64, Director, has been a member of the Board since February 1, 2007. Mr. Ursprung is the former Chairman and CEO of Reflexite Corporation in Avon, Connecticut, a manufacturer of reflective products to enhance safety and optical films used to manage light in LCD displays. He has been with Reflexite since 1983 and led the revenue growth of that company from \$2.5 million to approximately \$100 million. He is a frequent speaker on topics such as business strategy development, employee motivation, business ethics, executive compensation, employee ownership and the effective use of outside boards. His education includes a degree in Economics and Finance from Baylor University, an MBA from Washington University in St. Louis, and post-graduate work at the University of Michigan.

Peter Sulick, 58, Director, Audit Committee Chairman, and Financial Expert, joined the Board on June 12, 2008. Mr. Sulick is currently President and CEO of AmeriSite, LLC, a family-owned real estate development and investment company. Mr. Sulick's business background includes the founding of Independence Broadcasting Corporation, PowerFone Inc., SSPCS Corp. and AmeriSite, LLC. Since 1985, Mr. Sulick has founded and led telecommunications companies that were later acquired by Nextel and T-Mobile. In the early part of his career, Mr. Sulick was a principal financial officer for Cablevision Systems and has also held several senior-level financial positions at the Communications Operations Group of ITT. He began his career in the audit department at Arthur Andersen & Co, in New York City following graduate school. He is a certified public accountant who earned his MBA in finance from the University of Massachusetts and a B.S. in Business Administration from The Citadel.

Laura Lunardo, 56, General Manager of Optometrics Corporation and Dynasil CFO until December 15, 2008, has been with Dynasil since the March 2005 acquisition of Optometrics. Previously, she had been a partner in Optometrics LLC with primary responsibilities for Sales & Marketing, Accounting, Finance and Administration, and was the CFO of Optometrics USA, Inc., the predecessor corporation to Optometrics LLC, since 1984. Ms. Lunardo earned her B.S. degree in Business and Accounting from Boston University in 1976.

Paul Schulz, 48, has been President of EMF since November 19, 2007. He had previous General Management experience at Midland Materials and Electro-Tech Machining. He delivered results for a total of 15 years at Morgan AM&T in Pennsylvania as Global Vice President of Operations, Vice President/General Manager of Pure Carbon Company, Plant Manager, and Engineering Manager. Mr. Schulz has a B.S. in Chemical Engineering from Bucknell University.

Dr. Gerald Entine, 65, RMD Research President, is a founder and former majority shareholder of RMD, Inc and RMD Instruments, LLC. He has more than 40 years of experience in optics, nuclear sensors and instrumentations and related physics or biophysics-based technologies, both applied and for basic scientific research. Dr. Entine received his B.SC. in Physics/Biophysics and M.A. in Physics from the University of Pennsylvania. He received his Ph.D. in physics from the University of California at Berkeley under the direction of two Nobel Laureates - Dr. Melvin Calvin and Dr. Owen Chamberlain. Dr. Entine then joined Tyco Laboratories, a high technology research center in Boston, and conducted studies in semiconductor sensors until 1974, when he founded RMD with technology that RMD acquired from Tyco. Dr. Entine continues to be involved in research, and has been the Principal Investigator on numerous research contracts and grants funded both privately and by federal agencies. Dr. Entine is currently an Adjunct Research Assistant Professor in the Department of Neurology at the Bowman Gray School of

Medicine. His publications include works in Physics and Instrumentation (48), Basic Chemistry (22), and Medicine and Biophysics (51).

Jack Paster, 70, Vice President, RMD Instruments, is a founder and former shareholder of RMD. The former Business Manager of Tyco Labs, Mr. Paster has 35+ years of experience in business, marketing, and manufacturing. He has been responsible for commercializing RMD technologies such as the Navigator™ Sentinel Node Mapping System and the Lead Paint Analyzer. Mr. Paster graduated from Rutgers University with a B.S. in Industrial Engineering, and continued his studies under an Air Force scholarship, completing a Master of Engineering program at Texas A&M. Mr. Paster has conducted numerous training classes in lead measurement and has lectured extensively about lead hazards. Mr. Paster taught at the University of South Florida and has written extensively regarding issues within the lead paint inspection community. Mr. Paster was Executive Vice President of one of the first small companies in the solar energy business to become public and, during the Carter Administration, Mr. Paster was the Solar Energy Industry Association's nominee for Deputy Assistant Secretary for Solar & Conservation. Mr. Paster is the former president of the National Lead Assessment and Abatement Council and recipient of the 1998 Lead Star Award for Contribution to Lead Hazard Control Industry.

Paul Weaver, 57, joined the Company on December 15, 2008. Mr. Weaver is the Chief Financial Officer and will coordinate acquisition activities. Most recently, he was employed as a consultant for Thomas Group on a project to improve the readiness process of the U.S. Navy. His corporate experience includes senior financial positions in manufactured consumer products, aviation service, and industrial packaging industries. He spent 22 years with Tyco Toys, Inc. where he was a member of the executive committee which took the company public and grew the business through both organic growth and acquisitions from a \$33 million domestic company to a \$750 multi-national. Mr. Weaver is a CPA and has a B.A. in Accounting from Rutgers University.

Mark Caldwell, 42, became General Manager of RMD Instruments on October 20, 2008. Prior to joining Dynasil, he was CEO of Gefran, Inc. in Winchester, MA, a leading manufacturer of process sensors and instrumentation for machine controls, where he spent fourteen years in various capacities including General Manager, Operations Manager, Engineering Manager, and Quality Assurance Manager. He also worked at Raytheon and Atlantic-Tracy in engineering and sales roles. Mr. Caldwell holds a MMS in Manufacturing Engineering from the University of Massachusetts and a BS in Industrial Technology from the University of Lowell.

**Code of Conduct**

The Company adopted a revised Code of Conduct for all employees on December 23, 2008. 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 Position	Year	Salary(\$)	Bonus(\$)	Stock Awards(\$)	Option Awards(\$)	All Other Compensation(\$)	Total(\$)
Craig Dunham President And CEO	2008	150,000	63,000				213,000
	2007	110,000	86,711				196,711
Laura Lunardo CFO, COO- Optometrics	2008	115,931	41,928			12,492	170,351
	2007	97,693	33,165			14,393	145,251
Paul Schulz President-EMF	2008	99,230	9,704				108,934
Megan Shay Corporate VP	2008	76,676	9,404				86,080
	2007	95,400				25,000	120,400

## Executive Compensation

### Executive Compensation Philosophy

Dynasil's current executive compensation philosophy is outlined below. When companies are acquired, we typically do not immediately change existing salary and benefits so there may be significant differences versus our compensation philosophy for extended periods of time. We prefer employees to be "at will" in general but employment agreements are utilized where the Board sees it as advisable. The Board will deviate from these philosophies when necessary to attract and retain strong people. Here are the key points of our executive compensation philosophy:

- Moderate base pay where the midpoint of the Company's salary is typically set at 90% of the median salary for comparable companies from a national salary survey. National salary survey data is routinely used for annual executive compensation reviews.
- Excellent incentive compensation to offset the moderate base pay and provide strong rewards for strong performance.
- Competitive benefits.
- No perquisites or "perks".

The employment agreement with Craig T. Dunham, President and CEO, commenced on October 1, 2004 for an initial three-year period, after which it automatically renews 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 initial terms of the employment agreement, Mr. Dunham agreed to work for the Company full time and receive an annual base salary of \$110,000 with a performance bonus equal to 20% of the Company's net income above \$100,000 and an additional bonuses or stock options at the discretion of our Board of Directors. The annual performance bonus was paid one third in cash and the other two thirds in stock, with Mr. Dunham having the option to utilize any existing warrants or options to set the share price. The initial agreement also provided for then standard company benefits and a company car (or car allowance). If Dynasil terminates the agreement for any reason other than "cause" (as defined), Mr. Dunham is entitled to receive 30% of his base salary at the time of termination plus continued health care benefits for six months. Effective October 1, 2007, the Board of Directors increased Mr. Dunham's base salary to \$150,000, eliminated the company car benefit and reduced Mr. Dunham's bonus percentage for fiscal 2008 to 49% of a "Core Bonus" pool comprised of 15% of Dynasil's net profits before taxes after subtracting an amount equal to an 8% annual return on Dynasil's stockholders' equity. Effective October 1, 2008 due to the significant growth of the company, the Board of Directors increased Mr. Dunham's base salary to \$175,000, which the Board believed was equivalent to 90% of the median salary for chief executive officers of comparably sized entities. At the date of this 10K-SB report, the Board of Directors is still finalizing the bonus formula for fiscal year 2009.

An employment agreement with Laura Lunardo, Chief Financial Officer of the Company through December 15, 2008 and Chief Operating Officer of its Optometrics Corporation subsidiary ("Optometrics"), commenced on March 9, 2005 and ended on March 10, 2008 when she became an "at will" employee consistent with the Company's current executive compensation philosophy. On March 10, 2008, Ms. Lunardo's salary was increased from \$100,000 to \$125,000 and her individual bonus remained at 5% of Optometrics' net profits before taxes. In order to be consistent with the Company's executive compensation philosophy, perquisites that were previously provided to Ms. Lunardo are being phased out. In accordance with that philosophy, a 6% extra contribution to Ms. Lunardo's 401(k) pension plan and health club benefit were eliminated effective March 2008 and her company car benefit will be eliminated when the car lease ends in April 2009. Otherwise, Ms. Lunardo has standard Optometrics benefits. For fiscal year 2008, the Board of Directors awarded Ms. Lunardo an additional \$10,000 cash bonus for her contributions as its interim Chief Financial Officer and role in implementing the Company's management controls project pursuant to the Sarbanes-Oxley Act of 2002.

Mr. Paul Schulz, President of the Company's Evaporated Metal Films Corporation ("EMF") subsidiary, joined the Company on November 19, 2007. Mr. Schulz' base salary is \$120,000 per year with a bonus of 10% on the first \$400,000 of EMF net profit before taxes, and a fiscal year 2008 supplemental bonus of up to \$15,000 based on a formula for performance goals. Mr. Schulz also receives standard EMF company benefits.

An employment agreement with Megan Shay, former EMF President and former Corporate Vice President, ended on October 2, 2007, at which time, she became an "at will" employee as per Company philosophy. During this time frame, she received an annual base salary of \$95,400 as well as an additional \$25,000 for the Full Time Extension Period of April 1, 2007 to September 30, 2007. For fiscal year 2008, she received a pro-rated portion of a bonus equal to 17.5% of a "Core Bonus" pool comprised of 15% of Dynasil's net profits before taxes after subtracting an amount equal to an 8% annual return on Dynasil's shareholders' equity. Effective July 21, 2008, Ms. Shay shifted to consultant status.

As part of the Company's acquisition of RMD, employment agreements were entered into with RMD's former owners that maintained their compensation at then current levels. Dr. Gerald Entine's Former Owner Work Continuation Agreement provides for Dr. Entine's employment as RMD's President for a period of 18 months starting July 1, 2008, extendible by mutual agreement for an additional 6 months thereafter. Under that agreement, Dr. Entine receives a base salary of \$325,000 per year, business expense reimbursements (including reimbursement for home office expenses) and customary employee benefits. The agreement also requires Dr. Entine to maintain confidentiality and not compete with Dynasil or RMD for a five year period. If Dynasil or RMD terminates the agreement for any reason other than "cause" (as defined), Dr. Entine is entitled to receive 20% of his base salary at the time of termination. The terms of the agreement are similar to Dr. Entine's pre-transaction compensation package, although it is not consistent with Dynasil's current executive compensation philosophy.

Mr. Jacob Paster's Former Owner Work Continuation Agreement provides for Mr. Paster's employment as Vice President of RMD Instruments for a period of 24 months starting July 1, 2008. Under that agreement, Mr. Paster receives a base salary of \$250,000 per year, vested options exercisable for a 3 year period starting July 1, 2008 to acquire 100,000 shares of Dynasil common stock at an exercise price of 33% above market price, options exercisable for a 3 year period starting July 1, 2008 to acquire an additional 20,000 shares of Dynasil's common stock at an exercise price of 33% above market price that will vest on October 15, 2009 if RMD Instruments meets a certain revenue objective, customary business expense reimbursements, reimbursement for apartment rental expense of \$2,625 per month through October 2008 and customary employee benefits. The agreement also requires Mr. Paster to maintain confidentiality and not compete with Dynasil or RMD for a five year period. If Dynasil or RMD terminates the agreement for any reason other than "cause" (as defined), Mr. Paster will be entitled to receive the greater of the remaining balance of the first twelve (12) months of base pay or 20% of his annual base pay at the time of termination. The base compensation in the agreement is similar to Mr. Paster's pre-transaction compensation package, although it is not consistent with Dynasil's current executive compensation philosophy.

#### **Directors' Compensation.**

From October 1, 2007 until June 30, 2008, compensation paid for serving on the Board was: Chairman of the Board, \$1,500 per month and all other non-employee directors, \$1,250 per month. Outside directors have the option to split their compensation between shares of the Company's common stock and cash.

Effective July 2008, the Company increased Directors' compensation to \$36,000 per year for each Director, with at least 50% of that amount to be paid in the form of stock options. In addition, in view of their additional responsibilities and obligations, the Chairman receives an additional payment of \$9,000 per year and the Audit Committee Chairman/ Financial Expert receives an additional payment of \$5,000 per year. This change was initiated to provide competitive Directors' compensation with the expected tripling of Dynasil's revenues resulting from the July 1, 2008 acquisition of RMD. During multiple board meetings, Dynasil's Directors reviewed directors' compensation data from the National Association of Corporate Directors ("NACD") and Silicon Valley companies and engaged in extensive discussions regarding future Directors' compensation. This data was used to revise the Directors' compensation to a level that Dynasil's Directors believed was comparable to that paid by similar companies. One of the best practices recommended by the NACD data was to pay at least half of directors' compensation in stock or stock options; accordingly, the Dynasil Directors revised their board compensation package to pay 50% of Directors' fees in stock options which will be issued on an annual basis following the election of Directors at the annual meeting. For the remaining 50% of Directors' fees, each Director has the choice to be paid in any combination of monthly cash payments, quarterly stock payments at the quarter's ending market price and/or



annual stock options. The terms for the stock options generally include a three year exercise period from the initial issue date, an exercise price set at a 33% premium to the market price at the time of issue and the value is determined based on Black-Shoales methodology. In addition, all reasonable expenses incurred in attending meetings are reimbursed by the Company and Directors are eligible for other stock options and grants. With advance Board approval, when a director is asked to spend time or exert efforts on Company activities that significantly exceed normal Director expectations, the director may receive additional compensation in the form of a consulting fee at the discretion of the other members of Dynasil's Board of Directors. In fiscal 2008, Mr. Saltzman received such additional compensation for his efforts relating to the RMD acquisition. Additional details of the comparable company data used to revise Director's compensation as well as additional details regarding the plan is available in the Company's Periodic Report on Form 8-K dated July 15, 2008. These fees are in addition to fees paid or stock or option awards that may be paid or granted to induce an individual to join Dynasil's Board of Directors.

Directors' Compensation For Fiscal Year Ending September 30, 2008

Name	Fees earned or Paid in Cash(\$)	Stock awards(\$)	Option awards(\$)	All other compensation(\$)	Total(\$)
James Saltzman(3)(4)	16,875		7,875	60,246	84,996
Cecil Ursprung (1)(4)		15,750	4,500		18,000
Peter Sulick (2)(4)		2,875	40,175		52,467

(1) Mr. Ursprung elected to receive 100% of his discretionary Directors' fees in Dynasil common stock which was issued at each quarter ending market price which ranged from \$1.65 to \$2.39 per share. A total of 7,994 shares of common stock were issued with an aggregate market value of \$15,750 at time of issue and for an average price per share of \$1.97 per share.

(2) Mr. Sulick was issued 80,000 stock options on June 11, 2008 which is currently a standard part of Director compensation for new Directors. At that time, the most recent market price was \$2.05 per share, the option exercise price was \$3.08 per share, the options granted had a three year exercise period, and were valued at \$32,800.

(3) Mr. Saltzman elected to receive 100% of his Directors' fees in cash from October 1, 2007 until June 30, 2008. On July 1, 2008, he elected to split his discretionary Directors' fees between stock options and cash. The other Directors approved a payment totaling \$60,246 to Mr. Saltzman for the time and efforts above and beyond normal Director expectations that Mr. Saltzman expended on the RMD acquisition. This payment included \$30,000 in cash and stock options valued at \$30,246. The stock options were issued on July 7, 2008 to purchase an aggregate of 144,648 shares of common stock at an exercise price of \$4 per share, which was 70% above the then current market price of \$2.35 per share.

(4) On July 14, 2008, stock options were issued to all three outside Directors to cover their standard stock option portion of Directors' fees plus the portion of their discretionary fees which they elected to receive in stock options through February 2009. These options were issued at \$3.06 per share, which was 33% above the market price of \$2.30 per share with a three year term. A total of 137,618 options were issued with a total Black-Scholes value of \$52,667.

**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, 2008 by each person who was known by the Company to beneficially own more than 5% of the common stock, by each director and required executive officers who owns shares of common stock and by all directors and executive officers as a group:

Title of Class	Name and Address of Beneficial Owner	No. of Shares and nature of Beneficial Ownership(1)	Percent of Class
Common	Craig Dunham (1) (4) 385 Cooper Road West Berlin, NJ 08091	3,115,194	26.9%
Common	Gerald Entine (9) 44 Hunt Street Watertown, MA 02472	4,363,098	38.5%
Common	James Saltzman (1) (2) (3) 257 Stanford Place Newtown, PA 18940	571,883	4.9%
Common	Laura Lunardo 8 Nemco Way Ayer, MA 01432	156,391	1.4%
Common	Cecil Ursprung (1) (5) 27 Walbridge Road West Hartford, CT 06119	244,514	2.1%
Common	Peter Sulick (1) (6) (7) 3295 Ft. Charles Dr. Naples, FL 34102	471,080	4.0%
Common	Paul Schulz (1) (8) 239 Cherry Street Ithaca, NY 14850	30,000	0.3%
All Officers and Directors as a Group (1)		9,218,795	72.7%

(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 December 8, 2008 was 11,348,635.

(2)James Saltzman disclaims beneficial ownership of the 243,206 shares owned by Saltzman Partners.

(3)Includes options to purchase 90,000 shares of the Company's common stock at \$1.50 per share, 40,000 shares of the Company's common stock at \$0.40 per share, 144,648 shares of the Company's common stock at \$4.00 per share, 54,873 shares of the Company's common stock at \$3.06 per share, shares of Series B Preferred Stock that are convertible into 19,950 shares of common stock, and shares of Series C Preferred Stock that are convertible into 40,400 shares of common stock.

(4)Includes shares of Series B Preferred Stock that are convertible to 230,755 shares of common stock and Series C Preferred Stock that are convertible to 20,000 shares of common stock. Also includes 1,000,000 shares of common stock held in the Dunham Family Limited Liability Company of which Mr. Dunham is the sole managing member and over which he has sole dispositive and voting power.

(5) Includes options to purchase 80,000 shares of the Company's common stock at \$2.00 per share 31,356 shares of the Company's common stock at \$3.06 per share.

(6) Includes options to purchase 80,000 shares of the Company's common stock at \$3.08 per share and 51,389 shares of the Company's common stock at \$3.06 per share, shares of Series B Preferred Stock that are convertible to 86,450 shares of common stock and shares of Series C Preferred Stock that are convertible into 124,000 shares of common stock. Also includes shares held in the names of his children.

(7) Includes a total of 300,000 shares of common stock held in the names of his children.

(8) Includes options to purchase 30,000 shares of the Company's common stock at \$2.00 per share.

(9) Includes shares held in the names of his family and childrens trusts.

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

Financial Note 9 of this 10KSB is hereby incorporated by reference.

#### **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

- 2.01\* Asset Purchase Agreement, dated January 18, 2008 between Precision Optics Corporation and Optometrics Corporation, filed on form 8-K dated January 22, 2008.
- 2.02\* Asset Purchase Agreement, dated July 1, 2008 by and between Dynasil Corporation of America, RMD Instruments Corp, RMD Instruments LLC, Gerald Entine 1988 Family Trust, Fritz Wald and Doris Wald, and Jacob H. Paster, filed on Form 8-K dated July 7, 2008.
- 2.03\* Plan of Merger, dated July 1, 2008 by and among Dynasil Corporation of America, RMD Acquisition Sub, Inc., Radiation Monitoring Devices, Inc., Gerald Entine 1988 Family Trust, Fritz Wald and Doris Wald, and Jacob H. Paster, filed on Form 8-K dated July 7, 2008.
- 2.04\* Lease Agreement, dated July 1, 2008 between RMD Instruments, Inc and Charles River Realty, filed on Form 8-K on July 7, 2008.
- 2.05\* Lease Agreement, dated July 1, 2008 between Radiation Monitoring Devices, Inc. and Charles River Realty, filed on Form 8-K on July 7, 2008.
- 3.01 Amendment to the Audit Committee Charter, dated December 23, 2008.
- 10.01\* Amendment to Craig T. Dunham employment agreement, filed on Form 8-K dated November 13, 2007.
- 10.02\* Letter of intent to purchase privately-owned instruments company, filed on Form 8K dated December 26, 2007.
- 10.03\* Employment agreement of Gerald Entine, filed on Form 8-K dated July 7, 2008.
- 10.04\* Employment agreement of Jacob H. Paster, filed on Form 8-K dated July 7, 2008.

- 10.05\* Loan agreement dated July 1, 2008 with Susquehanna Bank for a \$9,000,000 term loan and a \$1,000,000 line of credit, filed on Form 8-K dated July 7, 2008.
- 10.06\* Loan agreement dated September 30, 2008 with RMD Instruments, LLC for \$2,000,000, filed on Form 8K on October 6, 2008.
- 10.07 Amendment dated December 19, 2008 to \$2,000,000 note with RMD Instruments, LLC which extends the maturity date by six months.
- 14.01 Code of Conduct revised and approved on December 23, 2008.
- 99.01 Press release, dated December 30, 2008, issued by Dynasil Corporation of America announcing its financial results for the fourth quarter ending September 30, 2008.

\* Incorporated herein by reference

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

- On July 7, 2008, a current report for items covering the RMD acquisition and related financing and contracts.
- On July 15, 2008, a current report covering revised Directors compensation.
- On September 15, 2008, an amendment to the July 15, 2008 current report covering the RMD acquisition and related financing and contracts which added financial exhibits.

#### **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, 2008 and 2007 and the reviews of the financial statements included in the Company's Forms 10-QSB during those fiscal years are \$93,750 and \$67,750, respectively.

##### **(b) Audit Related Fees**

The aggregate fees billed or to be billed for professional services rendered by the Company's principal accountant for audit related fees for the fiscal years ended September 30, 2008 and 2007 were \$63,220 and \$-0-, respectively. The fiscal year 2008 fees related to due diligence fees of \$28,220 for the RMD acquisition and RMD audit fees of \$35,000.

##### **(c) Tax Fees**

The Company incurred fees of \$12,000 and \$6,500 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 fees of \$1,800 for Sarbanes Oxley consultations during fiscal year 2008 and no other fees during fiscal year 2007 for products and services 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  
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Craig Dunham, President, CEO

DATED: December 30, 2008  
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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 ----- James Saltzman	Chairman of the Board of Directors	December 30, 2008 -----
BY: /s/ Cecil Ursprung ----- Cecil Ursprung	Director	December 30, 2008 -----
BY: /s/ Peter Sulick ----- Peter Sulick	Director, Chairman of the Audit Committee	December 30, 2008 -----
BY: /s/ Craig T. Dunham ----- Craig T. Dunham	President and CEO	December 30, 2008 -----
BY: /s/ Laura Lunardo ----- Laura Lunardo	CFO and Principal Accounting Officer	December 30, 2008 -----

EXHIBIT 31.1 (a)  
CERTIFICATION PURSUANT TO RULE 13a-14(a)/15D-14(a) and  
SECTION 302 OF THE SARBANES-OXLEY ACT

I, Craig Dunham, certify that:

1. I have reviewed this Form 10-KSB of Dynasil Corporation of America;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer(s) 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 small business issuer 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 small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):

DYNASIL CORPORATION OF AMERICA

- 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 small business issuer'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 small business issuer's internal control over financial reporting.

Date: December 30, 2008  
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/s/ Craig T Dunham  
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Craig T Dunham  
President and Chief Executive Officer

CERTIFICATION PURSUANT TO RULE 13a-14(a)/15D-14(a) and  
SECTION 302 OF THE SARBANES-OXLEY ACT

I, Laura Lunardo, certify that:

1. I have reviewed this Form 10-KSB of Dynasil Corporation of America;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer(s) 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 small business issuer 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 small business issuer', including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the 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 small business issuer'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 small business issuer's internal control over financial reporting.

Date: December 30, 2008

/s/ Laura S. Lunardo

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Laura S. Lunardo  
Chief Financial Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906 OF THE  
SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of DYNASIL CORPORATION OF AMERICA (the "Company") on Form 10KSB for the period ended September 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Craig T Dunham, President and Chief Executive Officer of the Company and Laura S. Lunardo, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) 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 result of operations of the Company.

/s/ Craig T Dunham

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Craig T Dunham  
President and Chief Executive Officer

/s/ Laura S. Lunardo

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Laura S. Lunardo  
Chief Financial Officer

December 30, 2008