

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10QSB

Optional form for quarterly and transition reports of small business issuers under section 13 or 15(d)

Filing Date: **2004-08-12** | Period of Report: **2004-06-30**  
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### FILER

#### **DYNASIL CORP OF AMERICA**

CIK: **30831** | IRS No.: **221734088** | State of Incorporation: **NJ** | Fiscal Year End: **0930**  
Type: **10QSB** | Act: **34** | File No.: **000-27503** | Film No.: **04969579**  
SIC: **3220** Glass & glassware, pressed or blown

Mailing Address  
385 COOPER RD  
WEST BERLIN NJ 08091

Business Address  
385 COOPER RD  
WEST BERLIN NJ 08091  
8567674600

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-QSB

(Mark One)

XX QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
--- ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2004

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

New Jersey

22-1734088

-----  
(State or other jurisdiction  
of incorporation)

-----  
(IRS Employer Identification No.)

385 Cooper Road, West Berlin, New Jersey, 08091

-----  
(Address of principal executive offices)

(856) 767-4600

-----  
(Registrant's telephone number, including area code)

Check whether the issuer (1) filed all reports required to be filed by  
Section 13 or 15(d) of the Exchange Act during the past 12 months (or for  
such shorter period that the registrant was required to file such reports)  
and (2) has been subject to such filing requirements for the past 90 days

Yes XX No

-----

The Company had 2,240,020 shares of common stock, par value \$.0005 per share,  
outstanding as of July 30, 2004.

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DYNASIL CORPORATION OF AMERICA AND SUBSIDIARIES  
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PART 1. FINANCIAL INFORMATION

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DYNASIL CORPORATION OF AMERICA AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(UNAUDITED)

ASSETS

<TABLE>

<S>

<C>

<C>

June 30  
2004

September 30  
2003

Current assets

Cash and cash equivalents	\$ 89,376	\$ 323,321
Accounts receivable	244,337	242,919
Inventory	375,898	435,820
Other current assets	22,518	38,935

Total current assets	732,129	1,040,995
----------------------	---------	-----------

Property, Plant and Equipment, net	445,904	558,191
------------------------------------	---------	---------

Other Assets	54,173	10,654
	-----	-----
Total Assets	\$1,232,206	\$1,609,840
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities		
Current portion - long-term debt	\$120,000	\$140,925
Accounts payable	115,742	131,518
Accrued expenses	107,024	73,624
	-----	-----
Total current liabilities	342,766	346,067
Long-term Debt, net	568,889	772,781
Stockholders' Equity		
Common Stock, \$.0005 par value, 25,000,000 shares authorized, 3,049,661 and 3,047,857 shares issued 2,239,501 and 2,237,697 shares outstanding	1,525	1,524
Additional paid in capital	1,090,107	1,089,718
Retained earnings	215,261	386,092
	-----	-----
	1,306,893	1,477,334
Less 810,160 shares in treasury - at cost	(986,342)	(986,342)
	-----	-----
Total stockholders' equity	320,551	490,992
	-----	-----
Total Liabilities and Stockholders' Equity	\$1,232,206	\$1,609,840
	=====	=====

</TABLE>

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DYNASIL CORPORATION OF AMERICA AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(UNAUDITED)

<TABLE>

<S>	<C>		<C>	
	Three Months Ended June 30		Nine Months Ended June 30	
	2004	2003	2004	2003
	-----	-----	-----	-----
Sales	\$ 505,504	\$ 618,394	\$1,722,467	\$1,874,242
Cost of Sales	417,299	492,506	1,337,204	1,458,114
	-----	-----	-----	-----
Gross profit	88,205	125,888	385,263	416,128
Selling, general and administrative	173,740	149,694	528,243	498,544
	-----	-----	-----	-----
Loss from Operations	( 85,535)	( 23,806)	(142,980)	( 82,416)
Other income (expense)				
Interest expense net	( 12,391)	( 10,006)	(27,851)	(33,183)
	-----	-----	-----	-----

Loss before Income Taxes	(97,926)	(33,812)	(170,831)	(115,599)
Income Tax	0	0	0	0
Net loss	----- (\$97,926) =====	----- (\$33,812) =====	----- (\$170,831) =====	----- (\$115,599) =====
Net loss per share				
Basic	( \$0.04)	( \$0.02)	( \$0.08)	( \$0.05)
Diluted	( \$0.04)	( \$0.02)	( \$0.08)	( \$0.05)
Weighted average shares outstanding	2,239,412	2,238,160	2,238,832	2,309,809

</TABLE>

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DYNASIL CORPORATION OF AMERICA AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

<TABLE>

<S>

	<C>	<C>
	Nine Months Ended June 30	
	2004	2003
	-----	-----
Cash flows from operating activities:		
Net loss	(\$ 170,831)	(\$115,599)
Adjustments to reconcile net (loss) to net cash provided by operating activities:		
Depreciation	118,125	147,753
Amortization expense	2,556	2,556
(Increase) decrease in:		
Accounts receivable	( 1,418)	11,575
Inventories	59,922	115,359
Prepaid expenses and other current assets	16,417	(10,140)
Other assets	3,925	0
Increase (decrease) in:		
Accounts payable	(15,776)	(47,889)
Accrued expenses	33,400	5,382
Net cash provided by operating activities	----- 46,320 -----	----- 108,997 -----
Cash flows from investing activities:		
Acquisition of property, plant and equipment	( 5,838)	( 7,505)
Increase in restricted cash	(50,000)	0
Net cash used in investing activities	----- (55,838) -----	----- ( 7,505) -----
Cash flows from financing activities:		
Issuance of common stock	390	389
Buyback of common stock	0	( 27,037)
Repayments of long-term debt	(224,817)	(153,365)
Net cash used in financing activities	----- (224,427) -----	----- (180,013) -----

Net (decrease) in cash	(233,945)	( 78,521)
Cash - beginning of period	323,321	172,118
	-----	-----
Cash - end of period	\$ 89,376	\$ 93,597
	=====	=====

</TABLE>

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DYNASIL CORPORATION OF AMERICA  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

1. Basis of Presentation

The consolidated balance sheet as of September 30, 2003 was audited and appears in the Form 10-KSB previously filed by the Company. The consolidated balance sheet as of June 30, 2004 and the consolidated statements of operations and cash flows for the nine months ended June 30, 2004 and 2003, and the related information contained in these notes have been prepared by management without audit. In the opinion of management, all adjustments (which include only normal recurring items) necessary to present fairly the financial position, results of operations and cash flows in conformity with generally accepted accounting principles as of June 30, 2004 and for all periods presented have been made. Interim operating results are not necessarily indicative of operating results for a full year.

Certain information and note disclosures normally included in the Company's annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company's September 30, 2003 Annual Report on Form 10-KSB previously filed by the Company.

2. 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.

Inventories consisted of the following:

	June 30, 2004	September 30, 2003
	-----	-----
Raw Materials	\$150,953	\$182,666
Work-in-Process	109,929	118,836
Finished Goods	115,016	134,318
	-----	-----
	\$375,898	\$435,820
	=====	=====

3. Net Income Per Share

Basic net income per share is computed using the weighted average number of common shares outstanding. The dilutive effects of potential common shares outstanding are included in diluted net earnings per share. Diluted net earnings per share exclude the impact of potential common shares since they would have resulted in an antidilutive effect.

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#### 4. Stock Based Compensation

The Company has adopted the disclosure provisions of SFAS No. 148 effective December 31, 2002 and continues to account for stock-based compensation using the intrinsic value method. Accordingly, no compensation cost has been recognized in the financial statements for stock options issued to employees since the options were granted at the quoted market price on the date of grant. Stock options granted to consultants and other non-employees are reported at fair value in accordance with SFAS No. 123. The pro forma disclosures of net loss and net loss per common share required by SFAS No. 123 are shown below.

	Nine months ended	
	June 30, 2004	June 30, 2003
	-----	-----
Net loss, as reported	( \$170,831)	( \$115,599)
Add: Stock-based employee compensation expense included in reported net income	-0-	-0-
Less: Total stock-based employee compensation expense determined under fair value based method for all options	-0-	-0-
	-----	-----
Pro forma net loss	( \$170,831)	( \$ 115,599)
	=====	=====
Actual net loss per common share	(\$ 0.08)	(\$ 0.05)
Pro forma net loss per common share	(\$ 0.08)	(\$ 0.05)

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

Overview

Revenues continue to decline, as demand has not rebounded to previous levels, as management had hoped. Our attempt to expand our product offerings to our customers, by adding other optical glasses, has fallen short of planned levels. Extremely competitive pricing continues to put downward pressure on margins. Added to this is the additional pressure of our unabsorbed overhead, caused by the low volume.

The high debt, associated with improvements in the furnaces that were subsequently written off, as mentioned in previous filings, continues to be a cash drain on the Company. The added burden of the cost associated with being a publicly traded entity, which can be significant for an organization as small as we are, is also being felt.

Management will be developing a plan, during the next quarter, to drastically reshape the Company. This will necessitate management changes, potential sale of existing facilities along with relocating operations, and addressing the costs related to being public.

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Results of Operations

Revenues for the three months ended June 30, 2004 were \$505,504, a decrease of 18.3% over revenues of \$618,394 for the three months ended June 30, 2003. Revenues for the nine-months ended June 30, 2004 were \$1,722,467 a decrease of 8.1% over revenues of \$1,874,242 for the nine-months ended June 30, 2003. We have not seen any significant recovery in the markets that have been key in previous years. Our entry into "other optical glasses" has been slow to contribute to overall volume in the plant.

Cost of sales for the three months ended June 30, 2004 were \$417,299, or 82.6% of sales, a decrease of \$75,207 over the three months ended June 30, 2003 of \$492,506, or 79.6% of sales. Cost of sales for the nine-months ended June 30, 2004 were \$1,337,204, or 77.6% of sales, a decrease of \$120,910 over the nine-months ended June 30, 2003 of \$1,458,114 or 77.8% of sales. The increase in cost of sales, as a percentage of sales, for the three months ended June 30, 2004 is related to the lower overall sales volume producing higher unabsorbed overhead along with low initial margins needed to "get our foot in the door" on the other optical glass we are adding to our product line.

Gross profit for the three months ended June 30, 2004 was \$88,205, or 17.5% of sales, a decrease of \$37,683 over the three months ended June 30, 2003 of \$125,888, or 20.4% of sales. Gross profit for the nine months ended June 30, 2004 was \$385,263, or 22.4% of sales, a decrease of \$30,865 over the nine months ended June 30, 2003 of \$416,128, or 22.2% of sales.

Selling, general and administrative expenses for the three months ended June 30, 2004 were \$173,740 or 34.4% of sales, an increase of \$24,046 over the three months ended June 30, 2003 of \$149,694, or 24.2% of sales. Selling, general and administrative expenses for the nine months ended June 30, 2004 were \$528,243, or 30.7% of sales, an increase of \$29,699 over the nine months ended June 30, 2003 of \$498,544, or 26.6% of sales.

The primary areas of increased spending were for travel, sales expense



and general insurance. The increased travel was done in conjunction with a new brochure and adding the other optical glasses. Increases in general insurance were related to increased premium expense for directors and officers insurance.

Interest expense for the three months ended June 30, 2004 was \$12,391, an increase of \$2,385 over the three months ended June 30, 2003 of \$10,006. Interest expense for the nine months ended June 30, 2004 was \$27,851, a decrease of \$5,332 over the nine months ended June 30, 2003 of \$33,183. The decrease in interest expense is related to the reduction and restructuring of our debt as mentioned in previous filings. Total overall debt continues to decline and we have incurred no new debt over the past six months. (See Liquidity and Capital Resources.)

Net loss for the three months ended June 30, 2004 was \$97,926, or negative \$.04 in basic loss per share, an increase of \$64,114 over the net loss for the three months ended June 30, 2003 of \$33,812, or \$.02 in basic loss per share. Net loss for the nine months ended June 30, 2004 was \$170,831, or negative \$.08 in basic loss per share, an increase of \$55,232 over the nine months ended June 30, 2003 of net loss of \$115,599, or \$.05 in basic loss per share.

The Company has no provision for income taxes for either period in 2004 or 2003. As of September 30, 2003, we have approximately \$1,200,000 of net operating loss carryforwards to offset future income for federal tax purposes expiring in various years through 2020. In addition, the Company has approximately \$633,000 of net operating loss carryforwards to offset certain future states' taxable income, expiring in various years through 2012.

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#### Liquidity and Capital Resources

Cash decreased by \$233,945 for the nine months ended June 30, 2004. The primary use of cash was to pay down long-term debt of \$224,817.

The Company believes that its current cash and cash equivalent balances, along with the net cash generated by operations, after the changes as discussed in the overview are in effect, will be sufficient to meet its anticipated cash needs for working capital for at least the next 12 months. There are currently no plans for any major capital expenditures in the next six to nine months. Any business expansion will require the Company to seek additional debt or equity financing.

On April 15, 2004, to coincide with the final payment on a term note and the maturity of \$200,000 of certificates of deposit ("CD's") used as corresponding collateral, the Company restructured a remaining mortgage note (the "Note") with a commercial bank. Under terms of the agreement, \$100,000 of the funds from the CD's was used to reduce the balance of Note #1 and the principal payment was increased from \$7,222 to \$10,000 per month. The current maturity date of the Note, for the final payment, was extended from August 2005 to July 2007. The interest rate of the Bank's prime rate plus 0.5% remained the same under the new agreement.

#### Forward-Looking Statements

The statements contained in this Quarterly Report on Form 10-QSB which are not historical facts, including, but not limited to, certain statements

found under the captions "Results of Operations" and "Liquidity and Capital Resources" above, are forward-looking statements that involve a number of risks and uncertainties. The actual results of the future events described in such forward-looking statements could differ materially from those stated in such forward-looking statements. Among the factors that could cause actual results to differ materially are the risks and uncertainties discussed in this Quarterly Report on Form 10-QSB, including, without limitation, the portions of such reports under the captions referenced above, and the uncertainties set forth from time to time in the Company's filings with the Securities and Exchange Commission, and other public statements. Such risks and uncertainties include, without limitation, seasonality, interest in the Company's products, consumer acceptance of new products, general economic conditions, consumer trends, costs and availability of raw materials and management information systems, competition, litigation and the effect of governmental regulation. The Company disclaims any intention or obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

### ITEM 3 CONTROLS AND PROCEDURES

The Company carried out an evaluation, under the supervision and the participation of its principal executive and financial officer, of the effectiveness of its disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the period covered by this report. Based on this evaluation, the Company's principal executive officer and principal financial officer concluded that its disclosure controls and procedures were effective. It should be noted that design of any system controls is based in part upon certain assumptions, and there can be no assurance that any design will succeed in achieving its stated goal.

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

## PART II

### OTHER INFORMATION

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#### ITEM 1 LEGAL PROCEEDINGS

NONE

#### ITEM 2 CHANGES IN SECURITIES

NONE

ITEM 3      DEFAULTS ON SENIOR SECURITIES

NONE

ITEM 4      SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5      OTHER INFORMATION

NONE

ITEM 6      EXHIBITS AND REPORTS ON FORM 8-K

(a)          Exhibits and index of Exhibits

31.1(a) and (b) Rule 13a-14(a)/15d-14(a) Certifications pursuant to  
Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Section 1350 Certification pursuant to Section 906 of the  
Sarbanes-Oxley Act of 2002 (furnished but not filed for purposes of the  
Securities Exchange Act of 1934)

(b) Reports on Form 8-K

None

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#### SIGNATURES

In accordance with the requirements of the 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/ John Kane

DATED:       August 13, 2004

-----  
John Kane,  
President, CEO, Treasurer, Chief Financial  
Officer and Principal Accounting Officer

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

I, John Kane, the President and Chief Executive Officer of Dynasil Corporation of America, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Dynasil Corporation of America;

2. Based on my knowledge, this quarterly 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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

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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: August 13, 2004

/s/ John Kane

-----  
John Kane  
President and Chief Executive Officer

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

I, John Kane, the President and Chief Financial Officer of Dynasil Corporation of America, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Dynasil Corporation of America;

2. Based on my knowledge, this quarterly 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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

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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: August 13, 2004

/s/ John Kane

-----

John Kane  
President and Chief Financial Officer

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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 Quarterly Report of DYNASIL CORPORATION OF AMERICA (the "Company") on Form 10QSB for the period ended June 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John Kane, President, Chief Executive Officer and 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:

(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/ John Kane

-----

John Kane  
President, Chief Executive Officer  
and Chief Financial Officer

August 13, 2004