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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

**FORM 10-KSB**

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

For the fiscal year ended **DECEMBER 31, 2005**

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

Commission file number **000-08161**

**DIONICS, INC.**

(Name of Small Business Issuer in Its Charter)

**Delaware**

(State or other jurisdiction  
of incorporation or  
organization)

**11-2166744**  
(I.R.S. Employer  
Identification  
Number)

**65 Rushmore Street  
Westbury, New York**

(Address of principal  
executive offices)

**11590**  
(Zip Code)

Issuer's telephone number, including area code: **(516) 997-7474**

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

Securities registered under Section 12(g) of the Exchange Act: **Common Stock (\$.01 par value)**

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

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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B not contained in this form, and no disclosure will be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

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

State Issuer's revenues for its most recent fiscal year: \$686,100.

As of May 30, 2008, the aggregate market value of the voting and non-voting common equity held by non-affiliates of the Issuer (3,551,627 shares) was approximately \$142,000. The number of shares outstanding of the Common Stock (\$.01 par value) of the Issuer as of the close of business on May 30, 2008 was 9,828,678.

Documents Incorporated by Reference: None

Transitional Small Business Disclosure Format: Yes  No

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# DIONICS, INC.

## TABLE OF CONTENTS

### PART I

	Page
Item 1. Description of Business	3
Item 2. Description of Property	7
Item 3. Legal Proceedings	7
Item 4. Submission of Matters to a Vote of Security Holders	8

### PART II

Item 5. Market for Common Equity and Related Stockholder Matters	8
Item 6. Management's Discussion and Analysis or Plan of Operation	9
Item 7. Financial Statements	13
Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	26
Item 8A. Controls and Procedures	26
Item 8B. Other Information	26

### PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act	26
Item 10. Executive Compensation	28
Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	30
Item 12. Certain Relationships and Related Transactions	31
Item 13. Exhibits	31
Item 14. Principal Accountant Fees and Services	32
Signatures	33

## Forward-Looking Statements

This report contains certain forward-looking statements and information relating to the Company that are based on the beliefs and assumptions made by the Company's management as well as information currently available to the management. When used in this document, the words "anticipate", "believe", "estimate", and "expect" and similar expressions, are intended to identify forward-looking statements. Such statements reflect the current views of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated or expected. Certain of these risks and uncertainties are discussed in this report under the caption "Uncertainties and Risk Factors" in Part I, Item 1 "Description of Business". The Company does not intend to update these forward-looking statements.

## PART I

### Item 1. Description of Business.

#### Business Development

Dionics, Inc. (referred to herein as "Dionics", the "Company", "we", "us" and "our") was incorporated under the laws of the State of Delaware on December 19, 1968 as a general business corporation.

The Company has never been in bankruptcy, receivership or any similar proceeding.

The Company has never been involved in any material reclassification, merger or consolidation.

There have been no material changes in the mode of conducting the business of the Company.

#### Business of the Company

The Company designs, manufactures and sells silicon semi-conductor electronic products, as individual discrete components, as multi-component integrated circuits and as multi-component hybrid circuits.

(i) The individual discrete components are predominantly transistors, diodes and capacitors, intended for use in miniature circuit assemblies called "hybrid micro-circuits". In order to facilitate their being easily assembled into the "hybrid" circuits products by its customers, these products are supplied by the Company in un-wired unencapsulated microscopic chip form. A variety of such components is supplied by the Company, some as "standard" products which it offers to the industry at large, and other as special or custom-tailored products which it manufactures to certain specific electronic requirements of an individual customer.

Due to the rapidly changing needs of the marketplace, there are continual shifts in popularity among the various chip components offered by the Company. Within the year, and from year to year, a largely random variation in the needs of its customers prevents any meaningful comparison among the many devices in this category. Taken as a whole, however, the category of discrete chip components for the hybrid circuit industry is one of the three main classes of products offered by the Company.

A second main class of products offered by the Company is encapsulated, assembled, integrated circuits for use in electronic digital display functions. Due to unusual and proprietary technology, the Company is able to produce high-voltage integrated circuits higher than the average available in the industry. These are designed for specific high-voltage applications involved in digital displays based on gas-discharge or vacuum fluorescence.

For the most part, the Company's sales in this category of product are standard circuits, designed by the Company, and offered to the industry at large. In some instances, customer-designed circuits are produced and sold only to the sponsoring customer, with specific electrical performance needed by that customer.

The third main class of products offered by the Company is a range of hybrid circuits that function as opto-isolated MOSFET drivers and custom Solid State Relays. Both of these incorporate a light emitting diode (LED) as the input and a dielectrically-isolated (DI) array of photo-voltaic diodes which, in response to the infra-red light input, generate a voltage as the output. MOSFET drivers, or ISO-GATES, as the Company has named them, are sold as a packaged combination of the LED and photo-voltaic chips. Custom Solid State Relays also add the MOSFET output devices in the same package along with certain other associated components.

We have also recently developed a fourth main class of products, "Silicon light-chips", that combine certain aspects of other products, along with several unique features of their own. This new product area involves Light Emitting Diodes (LEDs) of different colors being embedded in carefully shaped depressions in a Silicon chip. The main advantages of the combination is to enhance the light-delivery of the LEDs, as well as to keep them cool. These Silicon light-chips may be used in lighting systems that produce white light or mono-colored light.

The percentage of total revenues for each of the four product classes was in excess of fifteen (15%) percent in 2005.

(ii) The Company has not invested any material amount of assets in, nor has it announced, any new major product line in any new industry segment.

(iii) Raw materials essential to the business of the Company are readily available from many sources within the United States.

(iv) The Company has had nine (9) United States patents issued to date. Each patent is for a 17-year duration. The earliest patent was granted in 1971 and the latest in 1990. Therefore, the expiration dates range from 1988 through 2007. As a result, all such patents have expired.

(v) The business of the Company is not seasonal.

(vi) There were no customers to whom, for the fiscal year ended December 31, 2005, sales were made equal to 10% or more of the Company's sales. The two largest customers in 2005 were as follows:

<b>Name</b>	<b>Approximate Percentage of Business</b>
Customer "A"	8.5%
Customer "B"	7.5%

The actual names of the customers above referred to are not set forth since the identity of such substantial customers is a trade secret of the Company and deemed confidential. Disclosure of such names would be detrimental to the best interests of the Company and its investors and would adversely affect the Company's competitive position.

The loss of any of the above customers would have a material adverse affect on the business of the Company.

(vii) Almost all of the orders for the Company's products are by their terms cancelable, or their delivery dates may be extended by a customer without penalty. There can be no assurance that any of the orders will become consummated sales. Accordingly, none of the orders that the Company has can be designated as backlog. With respect to orders that are believed to be firm, but are nonetheless subject to cancellation, such backlog was at December 31, 2004 approximately \$144,805 and at December 31, 2005 approximately \$74,875.

(viii) No material portion of the Company's business is subject to renegotiation of profits or termination of contracts or subcontracts at the election of the Government.

(ix) The Company competes with numerous other companies which design, manufacture and sell similar products. Some of these competitors have broader industry recognition, have financial resources substantially greater than the Company and have far more extensive facilities, larger sales forces and more established customer and supplier relationships than those which are available to the Company.

Competition in the industry is principally based upon product performance and price. The Company's competitive position is based upon its evaluation of its products' superior performance and its general pricing structure which Management believes is favorable in its industry although the Company may suffer from price competition from larger competitors whose facilities and volume base enable them to produce a competitive product at a lower price

(x) Compliance with Federal, State and local provisions which have been enacted or adopted regulating the discharge of materials into the environment or otherwise relating to the protection of the environment has had no material effect upon the Company's capital expenditures, earnings or competitive position.

(xi) The number of persons employed by the Company at December 31, 2005 was 14. The Company's employees are not represented by unions and/or collective bargaining agreements.

### **Other Information - Loans**

#### *D.A.N. Joint Venture*

In July 2001, the Company entered into an agreement (the "July 2001 Agreement") with D.A.N. Joint Venture, a Limited Partnership, an affiliate of the Cadle Company ("D.A.N. Joint Venture"), with regard to certain matters involving Term Loan A and Term Loan C, the only remaining loans due to D.A.N. Joint Venture under a certain Restructuring Agreement entered into as of January 31, 1994 with Apple Bank for Savings (the "Bank"). D.A.N. Joint Venture is the assignee of the Bank with respect all of the Bank's rights under the Restructuring Agreement which restructured certain previous loans made by the Bank to the Company.

Pursuant to July 2001 Agreement, D.A.N. Joint Venture agreed to accept the sum of \$57,500 in full and complete settlement of the total unpaid accrued interest of \$86,096.13 on Term Loan A and Term Loan C. In addition, pursuant to the July 2001 Agreement, the parties agreed that the principal balance due on Term Loan A and Term Loan C shall be paid in 32 consecutive monthly installments commencing August 1, 2001 and interest on both loans shall be paid monthly in arrears commencing August 1, 2001. As of the date of the July 2001 Agreement, the principal balance owing on Term Loan A was in the amount of \$151,386.76 and the principal balance owing on Term Loan C was in the amount of \$89,335.20. All of the Company's assets, other than the Westbury Property (as defined in Item 2 below), have been pledged to the foregoing remaining loans due to D.A.N. Joint Venture.

In September 2002, due to its severely negative cash flow, the Company became unable to make payments of principal and interest under Term Loan A and Term Loan C. Attempts to negotiate a payment moratorium with D.A.N. Joint Venture were unsuccessful and, in December 2002, D.A.N. Joint Venture commenced an action against the Company in the Supreme Court of the State of New York, County of New York. Subsequently, D.A.N. Joint Venture and the Company agreed to resolve such issues, the action was discontinued and an amendatory agreement was entered into between the parties. Pursuant to an Amendatory Agreement dated January 2, 2003 between D.A.N. Joint Venture and the Company, the parties agreed that (i) as of December 31, 2002 the principal balance on Term Loan A was \$90,064 and on Term Loan C was \$53,146; (ii) Term Loan A principal shall be repaid with interest at the rate of 10.25% per annum in 15 equal consecutive monthly payments of \$6,423 each commencing January 1, 2003 and ending March 1, 2004; (iii) Term Loan C principal shall be repaid with interest at the rate of 10.25% per annum in 15 equal consecutive monthly payments of \$3,790 each commencing January 1, 2003 and ending March 1, 2004; and (iv) total past due interest as of December 31, 2002 on Term Loan A and Term Loan C was in the aggregate amount of \$5,440 and that all payments on Term Loan A and Term Loan C will be applied first to any accrued and unpaid interest, then to principal, in accordance with D.A.N. Joint Venture's accounting system.

The Company has paid the monthly installments since the execution of the Amendatory Agreement and, in early March 2004, the Company made the final payments due under Term Loan A and Term Loan C. As a result, all amounts due have been paid and there are no remaining loans due D.A.N. Joint Venture.

#### *Wachovia Mortgage Loan and SBA Loan*

As of December 31, 1998, and pursuant to a loan agreement, the Company obtained a 30 year mortgage loan in the principal amount of \$384,685 (the "Mortgage Loan"). The Mortgage Loan was held by Wachovia Small Business Capital ("Wachovia") (formerly First Union Small Business Capital and, prior thereto, The Money Store Commercial Mortgage, Inc.). Of such amount, \$358,232 was used to satisfy in full the balance due on a previously obtained mortgage loan which at the time was held by D.A.N. Joint Venture. Interest on the Mortgage Loan is calculated on the unpaid principal balance at an initial rate of 8.23% per annum. The interest rate on the loan is variable depending on an independent index related to the yield of United States Treasury Notes. This rate change will occur once every 60 months. The Mortgage Loan is secured by a first mortgage on the Company's Westbury Property.

In October 2002, the Company was approved for a disaster loan (the "SBA Loan") from the U.S. Small Business Administration ("SBA") in the amount of \$305,800. The Company received all of the proceeds therefrom during the fourth quarter of 2002 and the first quarter of 2003. Interest will accrue at the rate of 4.0% per annum. The original terms of the SBA Loan provided for installment payments, including principal and interest, of \$5,632 being paid monthly beginning 25 months from the date of the promissory note, with a final payment date of seven years from the date of the promissory note. In November 2003, the SBA amended the repayments terms so that the installment payments beginning November 26, 2004 (25 months from the date of the promissory note) shall be in the amount, including principal and interest, of \$1,570 with a maturity date being extended to 30 years from the date of the promissory note. The SBA Loan is

secured by a second mortgage on the Westbury Property subordinate only to the mortgage held by Wachovia. See, also, Part III, Item 10, "Deferred Compensation and Other Arrangements" for information on the Standby Agreement entered into by Bernard Kravitz and the SBA.

On April 20, 2005 a property sales and lease back agreement was made between the Company and 65 Rushmore Realty. Dionics sold its land and building located at 65 Rushmore Street, Westbury, New York for \$990,000. On July 27, 2005, Dionics used proceeds of the sale to pay back the SBA Loan in the amount of \$307,200 and the Mortgage Loan of \$361,900.

### **Uncertainties and Risk Factors**

In addition to other information and financial data set forth elsewhere in this report, the following risk factors should be considered carefully in evaluating the Company.

**OUR OPERATING RESULTS MAY FLUCTUATE.** Our operating results may fluctuate because of a number of factors, many of which are beyond our control. Some of these factors that affect our results but which are difficult to control or predict are: the reduction, rescheduling or cancellation of orders by customers whether as a result of slowing demand for our products, stockpiling of our products or otherwise; fluctuations in the timing and amount of customer requests for product shipments; fluctuations in product life cycles; changes in the mix of products that our customers buy; competitive pressures on selling prices; the ability of our customers to obtain components from their other suppliers; and general economic conditions.

**REDUCED SALES; NET LOSSES.** We have experienced reduced sales and have suffered net losses since the end of fiscal 2000. For the year ended December 31, 2000, the Company had sales of approximately \$2,434,000. Since then, we have had sales of approximately \$1,734,000 in 2001, \$628,000 in 2002, \$861,000 in 2003, \$1,081,000 in 2004 and \$686,100 in 2005. For the year ended December 31, 2000, we had net income of approximately \$259,000. Since then, we had a net loss of approximately \$297,000 for the year ended December 31, 2001, \$618,000 for the year ended December 31, 2002, \$275,000 for the year ended December 31, 2003, \$109,000 for the year ended December 31, 2004 and net income of \$414,700 for the year ended December 31, 2005. Although we had a net loss from operation of \$392,300 in 2005, we had net income in 2005 due to the gain on sale of real estate of \$829,000. There can be no assurances that operations will improve in the future.

**LOSS OF KEY CUSTOMERS.** Our customers are concentrated, so the loss of one or more key customers could significantly reduce our revenues. In 2005, approximately 23.5% of our revenues were from three customers. The loss of any of these customers could have a material adverse effect on the Company.

**RAPID TECHNOLOGICAL CHANGE.** Our markets are subject to rapid technological change, so our success depends heavily on our ability to develop and introduce new products.

**COMPETITION.** The markets in which we compete are highly competitive and subject to rapid technological change and pricing pressures.

**DEPENDENT ON KEY PERSONNEL.** Our success is dependent upon the continued service of our key personnel including our current chief executive officer. While, to our knowledge, none of such persons has any definitive plans to retire or leave our company in the near future, any of such persons could decide to leave us at any time to pursue other opportunities. The loss of services of Mr. Kravitz or any of our other key personnel could have a material adverse effect on the Company. Due to the specialized nature of our business, our success depends in part upon attracting and retaining the services of qualified managerial and technical personnel.

**MARKET FOR COMMON STOCK; VOLATILITY OF THE STOCK PRICE.** Our stock price experiences significant volatility. The market price of the Common Stock, which currently is quoted in the "pink sheets", has, in the past, fluctuated substantially over time and may in the future be highly volatile. In addition, the Company believes that relatively few market makers make a market in the Company's Common Stock. The actions of any of these market makers could substantially impact the volatility of the Company's Common Stock.

**ABSENCE OF DIVIDENDS.** We have never declared or paid any cash dividends on our common stock and we do not intend to pay cash dividends on our common stock in the foreseeable future.

**OUR COMMON STOCK IS A PENNY STOCK.** Our Common stock is classified as a penny stock, which is quoted in the "pink sheets". As a result, an investor may find it more difficult to dispose of or obtain accurate quotations as to the price of the shares of the Common stock. In addition, the "penny stock" rules adopted by the Securities and

Exchange Commission subject the sale of the shares of the Common stock to certain regulations which impose sales practice requirements on broker-dealers. For example, broker-dealers selling such securities must, prior to effecting the transaction, provide their customers with a document that discloses the risks of investing in such securities. Furthermore, if the person purchasing the securities is someone other than an accredited investor or an established customer of the broker-dealer, the broker-dealer must also approve the potential customer's account by obtaining information concerning the customer's financial situation, investment experience and investment objectives. The broker-dealer must also make a determination whether the transaction is suitable for the customer and whether the customer has sufficient knowledge and experience in financial matters to be reasonably expected to be capable of evaluating the risk of transactions in such securities. Accordingly, the Commission's rules may result in the limitation of the number of potential purchasers of the shares of the Common stock. In addition, the additional burdens imposed upon broker-dealers by such requirements may discourage broker-dealers from effecting transactions in the Common stock, which could severely limit the market of our Common stock.

**LIMITATIONS OF THE PINK SHEETS CAN HINDER COMPLETION OF TRADES.** Trades and quotations on the "pink sheets" involve a manual process that may delay order processing. Price fluctuations during a delay can result in the failure of a limit order to execute or cause execution of a market order at a price significantly different from the price prevailing when an order was entered. Consequently, in the event a trading market develops, one may be unable to trade in our Common stock at optimum prices.

**THE PINK SHEETS IS VULNERABLE TO MARKET FRAUD.** Securities reported in the "Pink Sheets" are frequent targets of fraud or market manipulation, both because of their generally low prices and because reporting requirements are less stringent than those of the stock exchanges or NASDAQ.

**INCREASED DEALER COMPENSATION COULD ADVERSELY AFFECT STOCK PRICE.** "Pink Sheets" dealers' spreads (the difference between the bid and ask prices) may be large, causing higher purchase prices and less sale proceeds for investors.

Except as required by the Federal Securities Law, we do not undertake any obligation to release publicly any revisions to any forward-looking statements to reflect events or circumstances after the date of this Form 10-KSB or for any other reason.

## **Item 2. Description of Property.**

The Company's executive offices are located at 65 Rushmore Street, Westbury, New York, which until July 2005 was owned by the Company (sometimes herein referred to as the "Westbury Property").

On April 20, 2005, the Company entered into an Acquisition Agreement with 65 Rushmore Realty, LLC (the "Purchaser") pursuant to which the Purchaser agreed to purchase the Westbury Property for the sum of \$990,000. The closing was subject to certain conditions including but not limited to an environmental inspection of the Westbury Property and the Company entering into a seven year lease to continue to occupy the Westbury Property after closing. On July 27, 2005, the Company completed the sale of the Westbury Property.

Contemporaneously with the sale of the Westbury Property, on July 27, 2005, the Company entered into a lease agreement (the "Lease") with the Purchaser pursuant to which the Company has agreed to lease the Westbury Property for the term of seven years at a base monthly rental of \$6,940.50. Commencing August 1, 2009, the base rent shall be increased annually in accordance with the changes in the Consumer Price Index. The Company shall also pay all costs, fees, expenses and obligations of every kind and nature (including real estate taxes) relating to the Westbury Property during the term of the Lease. The Company has the right to terminate the Lease prior to the expiration date upon 120 days notice to the Purchaser.

The Company fully utilizes 65 Rushmore Street which presently houses all of the Company's manufacturing facilities, as well as all of its research, sales and management activities.

The Company believes that its present facilities at 65 Rushmore Street are adequate for current operations.

## **Item 3. Legal Proceedings.**

There are no material pending legal proceedings to which the Company is a party or to which any of its property is subject.

**Item 4. Submission of Matters to a Vote of Security-Holders.**

No matter was submitted during the fourth quarter of the fiscal year covered by this report to a vote of security holders.

**PART II****Item 5. Market for Common Equity and Related Stockholder Matters.****Market Information**

Our common stock is traded in the over-the-counter market and is currently quoted in the “pink sheets” promulgated by the Pink Sheets LLC under the symbol “DION”. For the periods indicated, the following table sets forth the high and low sales prices per share of common stock. These prices represent inter-dealer quotations without retail markup, markdown, or commission and may not necessarily represent actual transactions.

<u>Period</u>	<u>High</u>	<u>Low</u>
Year ended December 31, 2004:		
Jan. 1, 2004 to March 31, 2004	\$0.17	\$0.05
April 1, 2004 to June 30, 2004	\$0.51	\$0.07
July 1, 2004 to Sept. 30, 2004	\$0.56	\$0.36
Oct. 1, 2004 to Dec. 31, 2004	\$0.65	\$0.15
Year ended December 31, 2005:		
Jan. 1, 2005 to March 31, 2005	\$0.25	\$0.11
April 1, 2005 to June 30, 2005	\$0.11	\$0.06
July 1, 2005 to Sept. 30, 2005	\$0.10	\$0.06
Oct. 1, 2005 to Dec. 31, 2005	\$0.07	\$0.07
Year ended December 31, 2006:		
Jan. 1, 2006 to March 31, 2006	\$0.08	\$0.06
April 1, 2006 to June 30, 2006	\$0.08	\$0.06
July 1, 2006 to Sept. 30, 2006	\$0.06	\$0.03
Oct. 1, 2006 to Dec. 31, 2006	\$0.04	\$0.03
Year ended December 31, 2007:		
Jan. 1, 2007 to March 31, 2007	\$0.38	\$0.03
April 1, 2007 to June 30, 2007	\$0.11	\$0.04
July 1, 2007 to Sept. 30, 2007	\$0.06	\$0.04
Oct. 1, 2007 to Dec. 31, 2007	\$0.06	\$0.04

**Holdings**

As of May 30, 2008, there are approximately 330 record holders of the Company’s Common Stock.

**Dividends**

During 2004 and 2005, no cash dividends have been declared or paid on the Company’s Common Stock. In addition, no cash dividends have been declared or paid since then.

**Recent Sales of Unregistered Securities**

We sold the following equity securities during the year ended December 31, 2005 that were not registered under the Securities Act of 1933, as amended (the “Securities Act”).

In connection with the sale of the Westbury Property which occurred in July 2005, Bernard Kravitz and the Company entered into a Discharge of Mortgage Agreement on July 27, 2005 in which Mr. Kravitz agreed to discharge the mortgage held by him. As partial consideration for the discharge of the mortgage, the Company agreed as of July 27, 2005 (i) to issue 1,000,000 shares of restricted common stock of the Company to Mr. Kravitz and (ii) to re-price the 1,000,000 warrants issued to him in 2004 (exercisable for 1,000,000 shares) such that the exercise price shall be \$.001 per share, which warrants Mr. Kravitz exercised in full on such date.

All of the foregoing securities were issued in reliance upon the exemption from registration pursuant to Section 4(2) of the Securities Act, for "transactions by the issuer not involving any public offering".

## **Item 6. Management's Discussion and Analysis or Plan of Operation.**

The following discussion should be read in conjunction with the audited financial statements and the notes thereto appearing elsewhere in this report and is qualified in its entirety by the foregoing.

### **Introduction**

This report is being filed in 2008, following an SEC reporting lapse. In January 2005 (nine months after we filed our 10-KSB for the year ended December 31, 2003), we were notified that our then-current auditing firm had failed to register with the newly created PCAOB. As soon as their oversight was pointed out, they immediately tried to register but were denied. The Company was then required to engage the services of another independent auditor, already registered with the PCAOB. This new auditor, for a fee, re-audited the financial statements for the year ended December 31, 2003. The re-audited financial statements were included in our Form 10KSB/A for the year ended December 31, 2003, which amendment was filed in April 2005. Until August 2005, however, and due primarily to financial constraints, we were not able to engage such new auditing firm to audit our financial statements for the year ended December 31, 2004.

There then ensued a series of most unlikely, tragic events within that auditor's firm. The senior partner of the firm, and one other partner, both became ill and died within months of each other, which delayed any progress on our reports. Many months later, we were advised verbally by such firm that as a result of a recent PCAOB review of their firm, they were instructed to reduce the number of clients they had, because of staff limitations. As a result, effective December 31, 2006, such firm resigned as our principal independent accountants. The firm indicated in a letter addressed to the Company that it was terminating its professional relationship with the Company due to the stringent requirements of the Sarbanes-Oxley Act. At the time, the firm was in the final stages of completing its audited report for the year ended December 31, 2004 and indicated it would soon issue the report to us. This has recently been accomplished and allowed us to file our 2004 report. We have now engaged the services of yet another PCAOB-registered auditor to help prepare filings for 2005, 2006 and 2007, with the intent of becoming current again in our SEC reporting obligations. This report for the year ended December 31, 2005 is the first of that series.

### **Liquidity and Capital Resources**

The single most significant financial event in 2005 was the sale-and-leaseback of the Company's real estate property. Having been owned for many years, the property had been heavily depreciated on the Company's Balance Sheet, while in the "real world," its market-value had grown substantially. As a result, when the Company sold the property, including its factory building, it realized a gain of \$730,000, less direct expenses of the sale. A substantial portion of the proceeds from the sale were then used to retire outstanding mortgage loans and to pay off many other debts and obligations of the Company. The net result was to put the Company's greatly reduced debt structure in a much more manageable condition. The Company was also able to negotiate a favorable seven-year lease on the building it previously owned, with comfortable terms and conditions.

It can be argued that without the sale-leaseback of its building, the Company probably could not have survived through to the end of 2005. Sales of its standard products had dropped off so severely from the 2004 level, causing an operating loss so high that the Company probably would have been forced to close its doors. Therefore, not only was the sale-leaseback of its property a very favorable event in its own right, it also more than offset the Company's terrible operating losses for the year.

### **Results of Operations**

Operating results for the year ended December 31, 2005 showed a decrease in Sales volume of almost 37 percent from the level reached in the year ended December 31, 2004. Actual sales levels were \$686,100 in 2005 versus \$1,080,700 in 2004, much of the \$394,600 reduction being explained by the absence in 2005 of to a single, "special" high-

volume customer who had purchased large dollar amounts in 2004. Even after accounting for that special condition, sales in 2005 fell off further, based on reduced demand for our standard products.

Gross Operating Results showed a Loss of (\$22,900) in 2005, versus a Gain of \$331,300 in 2004. Total operating expenses dropped approximately 11 percent in 2005, falling to \$369,400 as compared to \$417,400 in 2004. This was explained by lower sales volume in 2005.

Losses from Operations in 2005 increased to (\$392,300) as compared to Losses from Operations of (\$86,100) in 2004. After factoring in the gain from the sale of real estate property, plus a few other relatively minor items offset by Interest Expense, Net Income/(Losses) Before Income Taxes in 2005 showed a Gain of \$316,400 versus a Loss of (\$108,000) in 2004. Finally, the After Tax Net Income in 2005 reached \$315,700 as compared to a Loss of (\$108,600) in 2004. The large Gain in 2005 was, of course, attributable to the sale-leaseback of the Company's real estate property.

## **Summary**

As explained in the earlier Introduction section, this material is being written in 2008 approximately two and one-half years after the end of the 2005 calendar year. Reviewing events and performance during the period beginning in January 2005 and ending recently in December 2007, we see the continuing tell-tale signs of a struggling, under-financed company. As reported herein, 2005 was operationally worse than 2004, with sharply reduced sales volume and increased operational losses, although with the benefit of the profitable sale of our building, the net result was converted to a profit for the year. The Company was probably able to survive only because it successfully closed on a sale-leaseback transaction covering its real estate property. A substantial portion of the proceeds of the sale were applied against outstanding mortgage loans, as well as numerous existing and past-due debts and other obligations of the Company. This left the Company's debt structure in an improved, more manageable condition. The Company's sales volume improved moderately in 2006 and continued to show improvement through yearend 2007.

Although working with extremely limited funds, Management continues to pursue a two-pronged strategy of a) survival and b) new product introduction. It is hoped that new product acceptance will lead to meaningful increases in sales volume, and eventually to profits. In the Company's present condition, however, visibility is quite constrained and optimism is admittedly more the off-spring of hope and determination than of hard facts. Still, optimism is our stock-in-trade and should not be totally discounted.

## **Off-Balance Sheet Arrangements**

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

## **Significant Accounting Policies**

Our discussion and analysis of the Company's financial condition and results of operations are based upon our consolidated financial statements which have been prepared in conformity with U.S. generally accepted accounting principles. Our significant accounting policies are described in Note 1 to the financial statements included elsewhere herein. The application of our critical accounting policies is particularly important to the portrayal of our financial position and results of operations. These critical accounting policies require us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We believe the following critical accounting policies reflect the more significant judgments and estimates used in the preparation of the consolidated financial statements.

*Sales* - Revenue is recognized in the financial statements (and the customer billed) either when materials are shipped from stock or when the vendor bills the Company for the order. Net sales are arrived at by deducting discounts, freight, and sales tax from gross sales.

*Accounts Receivable* - Accounts for which no payments have been received for three consecutive months are considered delinquent and a reserve is setup for them. Customary collection efforts are initiated and an allowance for uncollectible accounts is set up and the related expense is charged to operations.

*Inventories* - Inventories are stated at the lower of cost or market. The cost of raw materials and finished goods are accounted for on a first-in, first-out basis. Finished goods and work-in-process inventories include material, labor, and overhead costs. Labor cost is determined principally on the average cost method. Factory overhead costs are allocated to inventory manufactured in-house based upon cost of labor.

*Notes Payable* - The Company accounts for all note liabilities that are due and payable in one year as short-term notes.

*Long-Lived Assets- Property, Plant and Equipment* - These assets are recorded at cost less depreciation and amortization. Depreciation and amortization are accounted for on the straight-line method based on estimated useful lives. The amortization of leasehold improvements is based on the shorter of the lease term or the life of the improvement. Betterments and large renewals, which extend the life of the asset, are capitalized whereas maintenance, repairs and small renewals are expenses, as incurred. The estimated useful lives are: machinery and equipment, 7-15 years; buildings, 30 years; and leasehold improvements, 10-20 years.

*Deferred Compensation Plan* - Future payments required under a plan of deferred compensation adopted in 1987, and revised in 2000, as well as interest accrued thereon have been charged to operations over the period of expected service.

*Income Taxes* - Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

*Stock Based Compensation* - Stock-based compensation represents the cost related to stock-based awards granted to employees. The company measures stock-based compensation cost at grant date, based on the estimated fair value of the award and recognizes the cost as expense on a straight-line basis (net of estimated forfeitures) over the employee requisite service period. The company estimates the fair value of stock options using a Black-Scholes valuation model. The options granted and vested immediately are recognized as expense and additional paid in capital, upon the grant.

#### **Recently Issued Accounting Standards**

In December 2003, the SEC issued Staff Accounting Bulletin (“SAB”) No. 104, “Revenue Recognition,” which supercedes SAB No. 101, “Revenue Recognition in Financial Statements.” SAB No. 104 rescinds accounting guidance in SAB No. 101 related to multiple element arrangements, which was previously superceded by EITF 00-21 (see above). The adoption of SAB No. 104 did not have a material impact on the Company’s results of operations or financial position.

In November 2004, the FASB issued SFAS No. 151, “Inventory Costs – An Amendment of ARB Opinion No. 43, Chapter 4” (“SFAS 151”). SFAS 151 amends the guidance in ARB No. 43, Chapter 4, “Inventory Pricing,” to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Among other provisions, the new rule requires that items such as idle facility expense, excessive spoilage, double freight, and rehandling costs be recognized as current period charges regardless of whether they meet the criterion of “so abnormal” as stated in ARB No. 43. Additionally, SFAS 151 requires that the allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS 151 is effective for fiscal years beginning after June 15, 2005. We have considered SFAS 151 and have determined that this pronouncement will not materially impact our consolidated results of operations.

In November 2004, the FASB issued SFAS No. 152, “Accounting for Real Estate Time-Sharing Transactions - An amendment of SFAS No. 66 and 67”. This statement amends SFAS No. 66, “Accounting for Sales of Real Estate, to reference the financial accounting and reporting guidance for real estate time-sharing transactions which is provided in AICPA Statement of Position (“SOP”) 04-2, “Accounting for Real Estate Time-Sharing Transactions.” This statement also amends SFAS No. 67, “Accounting for Costs and Initial Rental Operations of Real Estate Projects,” to state the guidance for (a) incidental costs and (b) costs incurred to sell real estate projects does not apply to real estate time-sharing transactions. The accounting for those costs is subject to guidance in SOP 04-2. SFAS 152 is effective for fiscal years beginning after June 15, 2005. We have considered SFAS 152 and have determined that this pronouncement is not applicable to our current operations.

In December 2004, the Financial Accounting Standards Board (FASB) issued a revision to Statement No. 123, Share-Based Payment. This revision supersedes Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and its related implementation guidance. This revision requires companies to recognize the cost of stock options based on the grant-date fair value pursuant to their employee stock option plans over the period during which the recipient is required to provide services in exchange for the options, typically the vesting period. Pursuant to the requirements of the Statement, the Company plans to adopt the provisions of the standard during the third

quarter of 2005 using the modified-retrospective transition method provided in the Statement. Under this method, the Company will restate all prior periods presented on a consistent basis. The Company does not believe the adoption of this Statement will have a material impact on the trend of net earnings or net earnings per share.

In December 2004, the FASB issued Staff Position (“FSP”) No. 109-2, “Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004” (“FSP 109-2”). This position provides guidance under FASB Statement No. 109 (“SFAS 109”), “Accounting for Income Taxes”, with respect to recording the potential impact of the repatriation provisions of the American Jobs Creation Act of 2004 (the “Jobs Act”) on enterprises’ income tax expense and deferred tax liability. The Jobs Act was enacted on October 22, 2004. FSP 109-2 states that an enterprise is allowed time beyond the financial reporting period of enactment to evaluate the effect of the Jobs Act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying SFAS 109. We have considered SFAS 153 and have determined that this pronouncement is not applicable to our current operations.

In December 2004, the FASB issued SFAS No. 153, “Exchanges of Non-monetary Assets - An Amendment of APB Opinion No. 29, Accounting for Non-monetary Transactions” (“SFAS 153”). SFAS 153 eliminates the exception from fair value measurement for non-monetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No.29, “Accounting for Non-monetary transactions,” and replaces it with an exception for exchanges that do not have commercial substance. SFAS 153 specifies that a non-monetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 is effective for fiscal periods beginning after June 15, 2005. We have considered SFAS 153 and have determined that this pronouncement is not applicable to our current operations.

**Item 7. Financial Statements.**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANT**

To the Board of Directors and Shareholders of Dionics, Inc.:

I have audited the balance sheet of Dionics, Inc. as of December 31, 2005, and the related income statement, stockholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit. The financial statements of Dionics, Inc. for the year ended December 31, 2004, were audited by other auditors whose report thereon, dated December 21, 2006, expressed an unqualified opinion.

I conducted my audit in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that I 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 consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Dionics, Inc., as of December 31, 2005, and the results of their operations and their cash flows for the year then ended, in conformity with U. S. generally accepted accounting principles.

The company is not required to have, nor was I engaged to perform, an audit of its internal control over financial reporting. My audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the Company's internal control over financial reporting. Accordingly, I express no such opinion.

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/s/ **Michael F. Albanese, CPA**

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**Michael F. Albanese, CPA**

**Parsippany, New Jersey  
June 14, 2008**

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MEMBER OF AMERICAN  
INSTITUTE OF CERTIFIED  
PUBLIC ACCOUNTANTS

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors and Shareholders  
Dionics, Inc  
Westbury, NY

We have audited the accompanying balance sheet of Dionics, Inc. as of December 31, 2004, and the related statements of operations, stockholders' equity, and cash flows for the each of the two years in the period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company 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 financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2004, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

/s/ Bloom & Co., LLP

Hempstead, NY  
December 21, 2006

DIONICS, INC.  
BALANCE SHEET  
FOR THE YEAR ENDED DECEMBER 31, 2005

ASSETS

Current Assets:	
Cash and cash equivalents	\$ 5,700
Accounts receivables - net of allowance of \$7,300 in 2005 - (Notes 1 and 2)	80,700
Inventory - Note 1	200,300
Prepaid Expenses	10,300
Total Current Assets	297,000
Property, plant And other equipment, net of accumulated depreciation of \$1,417,300 in 2005 - (Notes 1 and 3)	5,500
Other assets	21,100
	\$ 323,600

LIABILITIES AND STOCKHOLDERS DEFICIT

Current Liabilities:	
Accounts payable	\$ 87,900
Accrued expenses	36,800
Due to shareholder	21,400
Total current liabilities	146,100
Deferred compensation - (Note 4)	301,000
Total liabilities	447,100
Stockholder's equity (deficiency)	
Common stock / \$.01 par value, 51,000,000 shares authorized, 9,420,722 shares in 2005 issued and outstanding	\$ 94,200
Additional paid-in capital	1,957,100
Accumulated deficit	(1,954,200)
	97,100
Less: Treasury Stock at Cost (164,544 Shares)	(220,600)
Total stockholders' deficit	(123,500)
	\$ 323,600

The accompanying notes are an integral part of the financial statements

DIONICS, INC.  
STATEMENT OF OPERATIONS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	YEAR ENDED DECEMBER 31,	
	2005	2004
Net sales	\$ 686,100	\$ 1,080,700
Cost of sales	709,000	749,400
Gross profit	(22,900)	331,300
Selling, general and administrative expenses	369,400	417,400
Earnings/ (loss) from operations	(392,300)	(86,100)
Other income and (expense):		
Dividends and other income	500	1,000
Gain on sale of building and property less direct expenses of sale	730,000	0
Interest expense	(21,800)	(22,900)
Net income/(loss) before income taxes	316,400	(108,000)
Income taxes/benefit (note 8)	700	600
Net income/(loss)	315,700	(108,600)
Gain/(Loss) per share	\$ 0.04	\$ (0.02)
Weighted average number of shares outstanding	8,089,512	5,049,693

The accompanying notes are an integral part of the financial statements

DIONICS, INC.  
STATEMENT OF SHAREHOLDERS-EQUITY

	Common Stock		Additional Paid In Capital	Deficit	Treasury Stock		Total
	Number of Shares	Value			Number of Shares	Cost	
Balance as of December 31, 2003	3,848,222	\$ 38,400	\$ 1,522,800	\$ (2,161,300)	164,544	\$ (220,600)	\$ (820,700)
Shares Issued	3,400,000	34,100	135,900				170,000
Shares Issued-Exercise of Options	172,500	1,700	10,500				12,200
Shareholders' Forgiveness Of Debt			200,000				200,000
Issuance of Options			7,900				7,900
Loss for Period				(108,600)			(108,600)
Balance as of December 31, 2004	<u>7,420,722</u>	<u>74,200</u>	<u>1,877,100</u>	<u>(2,269,900)</u>	<u>164,544</u>	<u>(220,600)</u>	<u>(539,200)</u>
Gain for Period				315,700			315,700
Shares Issued - Mortgage Release	1,000,000	10,000	40,000				50,000
Shares Issued - Exercise of Warrants	1,000,000	10,000	40,000				50,000
Balance as of December 31, 2005	<u>9,420,722</u>	<u>\$ 94,200</u>	<u>\$ 1,957,100</u>	<u>\$ (1,954,200)</u>	<u>164,544</u>	<u>\$ (220,600)</u>	<u>\$ (123,500)</u>

The accompanying notes are an integral part of the financial statements

DIONICS, INC.  
STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	Increase (Decrease) in Cash and Cash Equivalents Twelve Months Ended December 31	
	2005	2004
Cash flows from operating activities:		
Net income / (loss)	\$ 315,700	\$ (108,600)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,000	14,000
Gain on sale of building and land	(849,100)	-
Issuance of stock options and warrants	-	7,900
Change in operating assets and liabilities:		
Assets - (increase) decrease:		
Accounts receivable	(8,600)	(17,700)
Prepaid expenses	(200)	14,200
Inventory	128,100	40,100
Other assets	11,500	3,800
Liabilities - increase (decrease):		
Accounts Payable	30,600	(80,100)
Accrued Expenses	(1,100)	1,600
Net cash provided by operating activities	(364,100)	(124,800)
Cash flows used in investing activities:		
Increase in fixed assets	-	(500)
Net cash used in investing activities	-	(500)
Cash flows used in (provided by) financing activities:		
Repayment of debt	(665,100)	(45,700)
Equipment leasing obligation	(2,000)	-
Shareholder loan	21,400	-
Proceeds from sale of common stock	1,000	170,000
Exercise of options and purchase shares	-	12,200
Proceeds from sale of building and land	990,000	-
Net cash used in financing activities	345,300	136,500
Net increase (decrease) in cash	(18,800)	11,200
Cash at beginning of year	24,500	13,300
Cash at end of year	\$ 5,700	\$ 24,500

The accompanying notes are an integral part of the financial statements

**DIONICS, INC**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31,2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**Business**

The Company designs, manufactures and sells silicon semiconductor electronic products, as individual discrete components, as multicomponent integrated circuits and as multicomponent hybrid circuits.

**Use of Estimates in the Preparation of Financial Statements**

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

**Cash and Cash Equivalents**

Holdings of highly liquid investments with maturities of three months or less, when purchased, are considered to be cash equivalents. The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair values. The amount of federally insured cash deposits was \$ 5,700 as of December 31, 2005 and \$ 24,500 as of December 31, 2004.

**Fair Values of Financial Instruments.**

The carrying amount of trade accounts receivable, accounts payable, prepaid and accrued expenses, bonds and notes payable, and amounts due to shareholders, as presented in the balance sheet, approximates fair value.

**Accounts Receivable**

Accounts for which no payments have been received for three consecutive months are considered delinquent and a reserve is setup for them. Customary collection efforts are initiated and an allowance for uncollectible amounts is set up and the related expense is charged to operations.

**Merchandise Inventory**

Inventories are stated at the lower of cost (which represents cost of materials and manufacturing costs on a first-in, first-out basis) or market. Cost is determined principally on the average actual cost method. Finished goods and work-in-process inventories include material, labor, and overhead costs. Factory overhead costs are allocated to inventory manufactured in-house based upon cost of materials. The Company monitors usage reports to determine if the carrying value of any items should be adjusted down due to lack of demand for the item. The Company adjusts down the inventory for estimated obsolescence or unmarketable inventory equal to difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management an additional inventory write-down may be required.

Inventories at December 31, 2005 and 2004 was as follows:

	<u>2005</u>	<u>2004</u>
Raw materials (net of reserves)	\$ 35,100	\$ 81,500
Work in process	112,300	175,200
Finished goods	52,900	71,700
	<u>\$ 200,300</u>	<u>\$ 328,400</u>

**DIONICS, INC**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31,2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

**Long-Lived Assets- Property, Plant and Equipment**

These assets are recorded at cost less depreciation and amortization. Depreciation and Amortization are accounted for on the straight-line methods based on estimated useful lives. The amortization of leasehold improvements is based on the shorter of the lease term or the life of the improvement. Betterments and large renewals, which extend the life of the asset, are capitalized whereas maintenance and repairs and small renewals are expenses, as incurred. The estimated useful lives are: machinery and equipment, 7-15 years; buildings, 30 years; and leasehold improvements, 10-20 years. On April 20, 2005 a property sales and lease back agreement was made between The Company and 65 Rushmore Realty ("the Buyer"). The Company sold its land and building located at 65 Rushmore Street, Westbury, NY for \$990,000. On July 27, 2005, the Company used the proceeds of the sale to pay back its debt of \$669,100. In addition, a cash disbursement of \$25,000 from the proceeds was made to an officer of the Company to purchase a third mortgage he held on the property being sold. The Company netted \$168,200 from the proceeds of the sale of property. The remainder of the proceeds was used to pay the expenses related to the sale.

The lease agreement is a triple net lease and is for a period of seven years with a base annual rent of \$83,300 to be paid in monthly installments of \$6,900. This annual rent is subject to annual increases based on the Consumer Price Index for All Urban Consumers of the United States Department of Labor Bureau of Labor Statistics in effect for New York and Northern New Jersey starting on August 1, 2009.

**Notes Payable**

The Company accounts for all notes liabilities that are due and payable in one year as short term notes.

**Bad Debt**

The Company maintained an allowance for doubtful accounts of \$7,300 at December 31, 2005 and 2004.

**Deferred Mortgage Costs**

Costs related to the new mortgage and prior costs related to the paid off mortgage are being amortized over ten years as follows:

	December 31 <u>2005</u>	December 31 <u>2004</u>
Cost	\$ 52,000	\$ 52,000
Accumulated Amortization	<u>(52,000)</u>	<u>(19,700)</u>
	<u>\$ -</u>	<u>\$ 32,300</u>

Due to the sale of the 65 Rushmore Street building in 2005, the remaining deferred mortgage expense was amortized in 2005. Amortization for the 12 months ended December 31, 2005 was \$32,300 and for the 12 months ended December 31, 2004 was \$3,300.

**DIONICS, INC**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31,2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

**Major Customers**

For the year ended December 31, 2005, approximately 24% of total sales were to the 3 largest customers.

**Net Gain/Loss Per Common share**

Basic earnings per share ("EPS") are computed based on the weighted average number of common shares outstanding for the period. Diluted EPS gives effect to all dilutive potential shares outstanding (i.e., options and warrants) during the period.

For the 12 Months Ended Dec. 31, 2005, basic gain per share of Dionics, Inc. was \$ .04 per share.

For the 12 Months Ended Dec. 31, 2004, basic (loss) per share of Dionics, Inc. was \$( .02) per share.

**Income Taxes**

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. There were no deferred taxes for the period ending December 31, 2005 and December 31, 2004, respectively.

**Recently Issued Accounting Standards**

Recently Issued Accounting Standards In November 2004, the FASB issued SFAS No. 151, "Inventory Costs - An Amendment of ARB Opinion No. 43, Chapter 4" ("SFAS 151"). SFAS 151 amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Among other provisions, the new rule requires that items such as idle facility expense, excessive spoilage, double freight, and rehandling costs be recognized as current period charges regardless of whether they meet the criterion of "so abnormal" as stated in ARB No. 43. Additionally, SFAS 151 requires that the allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS 151 is effective for fiscal years beginning after June 15, 2005. We have considered SFAS 151 and have determined that this pronouncement will not materially impact our consolidated results of operations.

In December 2004, the FASB issued SFAS No.123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), which replaces SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123") and supercedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." "SFAS 123R requires that all share-based payments to employees, including grants of employee stock options, be recognized in the financial statements based on their fair values, beginning with the first interim or annual period after June 15, 2005, with early adoption encouraged. The pro forma disclosures previously permitted under SFAS 123, no longer will be an alternative to financial statement recognition. We are required to adopt SFAS 123R in the third quarter of 2005. Under SFAS 123R, we must determine the appropriate fair value model to be used in valuing share-based payments, the amortization method for compensation cost and the transition method to be used at the date of adoption. Upon adoption, we may choose from two transition methods: the modified-prospective transition approach or the modified-retroactive transition approach. Under the modified-prospective transition approach we would be required to recognize compensation cost for awards that were granted prior to, but not vested as of the date of adoption. Prior periods remain unchanged and pro forma disclosures previously required by SFAS No. 123 continue to be required.

**DIONICS, INC**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31,2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

Under the modified-retrospective transition method, we would be required to restate prior periods by recognizing compensation cost in the amounts previously reported in the pro forma disclosure under SFAS No. 123. Under this method, we would be permitted to apply this presentation to all periods presented or to the start of the fiscal year in which SFAS No. 123R is adopted. We would also be required to follow the same guidelines as in the modified-prospective transition method for awards granted subsequent to adoption and those that were granted and not yet vested. We are currently evaluating the requirements of SFAS 123R and its impact on our consolidated results of operations and earnings per share. We have not yet determined the method of adoption or the effect of adopting SFAS 123R and it has not been determined whether the adoption will result in amounts similar to the current pro forma disclosures under SFAS 123.

**NOTE 2 - TRADE ACCOUNTS RECEIVABLE**

Trade accounts receivable were as follows:

	December 31 <u>2005</u>	December 31 <u>2004</u>
Trade accounts receivable	\$ 88,000	\$ 79,400
Less: allowance for doubtful accounts	7,300	7,300
	<u>\$ 80,700</u>	<u>\$ 72,100</u>

There was no bad debt expense for the periods ended December 31, 2005.

**NOTE 3 - PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment consisted of the following:

	December 31 <u>2005</u>	December 31 <u>2004</u>
Equipment	\$ 1,189,500	\$ 1,200,200
Building	-	122,000
Furniture and Fixtures	233,300	233,400
Leasehold Improvements	-	169,400
Land	-	40,000
	<u>\$ 1,422,800</u>	<u>\$ 1,765,000</u>
Less: accumulated depreciation	<u>(1,417,300)</u>	<u>(1,704,400)</u>
Net property, plant and equipment	<u>\$ 5,500</u>	<u>\$ 60,600</u>

On April 20, 2005 a property sales and lease back agreement was made between the Company, and 65 Rushmore Realty ("the Buyer"). The Company sold its land and building located at 65 Rushmore Street, Westbury, NY for \$990,000 on July 27, 2005. The Company used the proceeds of the sale to repay in full its debt of \$669,100. A cash disbursement of \$25,000 from the proceeds was made to an officer of the Company to purchase a third mortgage he held on the property being sold. The Company netted \$168,200 from the proceeds of the sale of property. The remainder of the proceeds were used to pay the expenses related to the sale.

The lease agreement is a triple net lease and is for a period of seven years with a base annual rent of \$83,300 to be paid in monthly installments of \$6,900. This annual rent is subject to annual increases based on the Consumer Price Index for All Urban Consumers of the United States Department of Labor Bureau of Labor Statistics in effect for New York and Northern New Jersey starting on August 1, 2009.

Depreciation expense for the year ended December 31, 2005 and 2004 was \$ 9,000 and \$10,600 respectively.

**DIONICS, INC**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31,2005**

**NOTE 4 - DEFERRED COMPENSATION PAYABLE:**

In 1987 we entered into an agreement, amended in 1997 and 1999, which provides for a 72-month schedule of payments to our chief executive officer.

An investment agreement was entered into with the Company on May 18, 2004. Pursuant to this agreement the executive officer forgave \$200,000 of amounts due to him under the compensation agreement. The executive officer also agreed to postpone any and all remaining payments due him under the deferred compensation agreement for a period of 5 years starting May 18, 2004.

**NOTE 5 - Long-Term Debt:**

As of December 31, 2005 and December 31, 2004, our long-term debt includes a mortgage and notes payable as follows:

	December 31 <u>2005</u>	December 31 <u>2004</u>
Mortgages Payable	\$ -	\$ 665,100
Less: current maturities	-	(63,600)
	<u>\$ -</u>	<u>\$ 601,500</u>

In August 2005, the mortgages payable were both paid off from the proceeds of the sale of the Rushmore building.

**Mortgage Payable**

In 1998, a loan agreement was entered into for \$384,700 which requires 360 monthly self-liquidating payments in the amount of \$2,900. Interest is calculated on the unpaid principal balance at an initial rate of 8.23% per annum. The interest rate on the loan is variable depending on an independent index related to the yield of United States Treasury Notes. This rate change will occur once every 60 months. This loan was paid off with the proceeds from the sale of the building and land at 65 Rushmore Street during the third quarter of 2005.

Term loans agreements dated in 1999, were restructured and replaced by a new term loan in the principal amount of \$283,900, ("Term Loan A") structured over two five-year periods. During the first five-year period ended March 31, 1999 the Company paid interest only. During the second five-year period commencing April 1, 1999, the balance due was to be repaid over 60 equal monthly installments, plus interest at prime plus two percent on the unpaid balance. The monthly payments are \$6,423. This loan was paid off in 2004.

**Small Business Administration Loan**

On October 20, 2002, the Company obtained a loan in the amount of \$305,800 with interest at the rate of 4% per annum. This loan was paid off with the proceeds from the sale of the building and land at 65 Rushmore Street during the third quarter of 2005.

**DIONICS, INC**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31,2005**

**NOTE 6. STOCK OPTION PLAN**

The Company has an employee incentive compensation plan (the "Plan") pursuant to which the Company's board of directors may grant stock options to officers and key employees. In September 1997, the Board of Directors of the Company adopted the 1997 Incentive Stock Option Plan (The "1997 Plan") for employees of the Company to purchase up to 250,000 shares of common stock of the Company. Options granted under the 1997 plan are "incentive stock options" as defined in Section 422 of the Internal Revenue Code. Any stock options granted under the 1997 Plan shall be granted at no less than 100% of the fair market value of the Common Stock of the Company at the time of the grant. As of May 2004, options to acquire 20,000 shares had lapsed under the 1997 Plan. In May 2004, the Company issued 172,500 shares to 15 employees equal to the number of options held by such employees which shares were issued in place of and in cancellation for the outstanding options previously issued under the 1997 Plan. As of December 31, 2005 and December 31, 2004 respectively, there were no outstanding options under the 1997 Plan

**NOTE 7. TAXES AND NET OPERATING LOSS CARRYFORWARDS:**

As of December 31, 2005, the components of deferred tax assets were as follows:

Accounts receivable allowance	\$ 2,500
Net operating loss carry-forward	<u>395,300</u>
Total gross deferred tax assets (at 34% statutory rate)	397,800
Less: Valuation allowance	<u>(397,800)</u>
Net deferred tax assets	<u><u>-</u></u>

Under the provisions of SFAS 109, NOLs represent temporary differences that enter into the calculation of deferred tax assets. Realization of deferred tax assets associated with the NOL is dependent upon generating sufficient taxable income prior to their expiration.

Management believes that there is a risk that certain of these NOLs may expire unused and, accordingly, has established a valuation allowance against them. Although realization is not assured for the remaining deferred tax assets, based on the historical trend in our sales and profitability, sales backlog, and budgeted sales management believes it is likely that they may not be totally realized through future taxable earnings. In addition, the net deferred tax assets could be reduced in the near term if management's estimates of taxable income during the carryforward period are significantly reduced.

The Company believe it is possible that the benefit of these additional assets may not be realized in the future.

**NOTE 8. COMMITMENTS AND CONTINGENCIES**

The Company has an agreement with its chief executive officer to pay to his widow or estate for a period of five (5) years following his death an amount per year equal to the annual salary being earned by him at the time of his death, provided that he was an employee of the Company at the time of his death. Such arrangements had previously been funded by life insurance policies owned by the Company on his life; however, the policy remains unfunded as of December 31, 2005 and December 31, 2004 respectively.

**DIONICS, INC**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31,2005**

**NOTE 9. RETIREMENT PLANS**

On February 15, 2002 the Company repurchased 76,347 shares of Dionics, Inc. common stock from the Company's 401(k) plan. These shares had been contributed by the Company's 401(k) Plan during 1993. The amount paid on February 22, 2002 was \$3,800 or \$.05 per share which management determined to be the fair purchase price. The proceeds from the repurchase were placed into the respective 401(k) accounts of the employees in proportion to the 401(k) plan shares, which had been attributed to each of them. In addition, the Company then issued the same number of shares as a bonus to the same eleven employees. The employees may not dispose of these shares in less than one year, as these were unregistered shares. There are no more shares of the Company remaining in the Company's 401(k) plan. The outlay of \$3,800 has been charged as an expense to the various departments of the Company. Such 76,347 shares issued in February 2002 were distributed under the Company 2002 Stock Compensation Plan ("the 2002 Plan") which was adopted by the Company in February 2002. The Company may issue up to 500,000 shares under the 2002 Plan. In May 2004, the Company issued, under the 2002 Plan, 172,500 restricted shares of Common Stock to 15 employees equal to the number of options held by such employees which shares were issued in place of and in cancellation for all of the Outstanding Options. As of December 31, 2005 and December 31, 2004 respectively, there are no outstanding options under the 1997 Plan.

**NOTE 10. SUBSEQUENT EVENTS**

**Auditors**

Due primarily to financial constraints, the Company was not able to engage a new auditing firm until August 2005 which engagement became necessary after the Company was notified in January 2005 that its then-current auditing firm had failed to register with the PCAOB. Thereafter, the newly engaged firm encountered a variety of internal issues regarding its ability to continue as the Company's public accountant. Effective December 31, 2006, such firm resigned as the Company's principal independent accountants. At the time, the firm was in the final stages of completing its audited report for the year ended December 31, 2004 and indicated it would soon issue the report to the Company. Following the filing on October 1, 2007 of the Company's Form 10-KSB for the year ended December 31, 2004, the Company engaged Michael F. Albanese, CPA on October 3, 2007 as its principal independent accountant

**Grant of Shares**

On May 16, 2008, the Company granted an aggregate of 472,500 shares of common stock to certain employees and 100,000 shares of common stock to a director of the Company for services rendered to the Company.

**Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

Reference is made to the Company's Current Report on Form 8-K filed on October 9, 2007, and in particular Item 4.01 thereof, the full contents of which are incorporated by reference herein, for information on the engagement, effective as of October 3, 2007, of Michael F. Albanese, CPA, 18 Lisa Court, Parsippany, New Jersey 07054, as the Company's principal independent accountant to audit the financial statements of the Company. Effective as of December 31, 2006, Bloom & Co., LLP had resigned as the principal independent accountants for the Company.

**Item 8A. Controls and Procedures.**

Under the supervision and with the participation of our management, including the Principal Executive Officer and Principal Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, our Principal Executive Officer and Principal Financial Officer have concluded that, as of December 31, 2005, these disclosure controls and procedures were effective to ensure that all information required to be disclosed by us in the reports that we file or submit under the Exchange Act is: (i) recorded, processed, summarized and reported, within the time periods specified in the Commission's rule and forms; and (ii) accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There have been no significant changes in our internal controls over financial reporting that occurred during the fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Item 8B. Other Information.**

Not applicable.

**PART III**

**Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act.**

**Identity of Directors**

<u>Name</u>	<u>Age</u>	<u>Position and Offices with Company</u>	<u>Director Since</u>
Bernard Kravitz	74	President, Secretary, Treasurer	1969
David M. Kaye	53	None <sup>(1)</sup>	2000

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(1) A partner of Kaye Cooper Fiore Kay & Rosenberg, LLP, which firm provides certain legal services to the Company.

The term of office for each director is until the next annual meeting of stockholders. There are no arrangements or understandings between any of the directors and any other persons pursuant to which he was selected as director.

From May 2004 through August 2005, Kenneth Levy was also a Director of the Company. Mr. Levy resigned from the Board as of August 26, 2005.

## Identity of Executive Officers

<u>Name</u>	<u>Age</u>	<u>Position and Offices with Company</u>	<u>Director Since</u>
Bernard Kravitz	74	President, Secretary, Treasurer	1969

The term of office for each officer is until the next annual meeting of directors. There are no arrangements or understandings between the Company's sole officer and any other persons pursuant to which he was selected as an officer.

### Family Relationships

None.

### Business Experience

(i) Bernard Kravitz has been President and a Director of the Company since 1969 and Secretary and Treasurer since 1992.

(ii) David M. Kaye has been a Director of the Company since December 2000. Mr. Kaye is an attorney and has been a partner in the law firm of Kaye Cooper Fiore Kay & Rosenberg, LLP (and its predecessors) located in Florham Park, New Jersey since February 1996. Such firm provides certain legal services to the Company. Since 1980, Mr. Kaye has been a practicing attorney in the New York City metropolitan area specializing in corporate and securities matters. He is also currently a director of Digicorp, Inc.

During 2005, fees of \$21,048 were billed by such firm for legal services rendered.

### Involvement in Certain Legal Proceedings

None.

### Promoters and Control Persons

N/A

### Compliance with Section 16(a) of the Exchange Act

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors and executive officers, and persons who own more than ten percent of the Company's Common Stock, to file with the Securities and Exchange Commission initial reports of ownership and reports of changes of ownership of Common Stock of the Company. Officers, directors and greater than ten percent stockholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file.

To the Company's knowledge, with respect to the year ended December 31, 2005, all Section 16(a) filing requirements applicable to each person who, at any time during the fiscal year ended December 31, 2005, was an officer, director and greater than ten percent beneficial owner, were complied with.

### Code of Ethics

The Board of Directors has adopted a Code of Ethics applicable to its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, which is designed to promote honest and ethical conduct; full, fair, accurate, timely and understandable disclosure; and compliance with applicable laws, rules and regulations. A copy of the Code of Ethics will be provided to any person without charge upon written request to the Company at its executive offices, 65 Rushmore Street, Westbury, New York 11590.

## Item 10. Executive Compensation.

### Summary Compensation Table

The following summary compensation table sets forth information concerning the annual and long-term compensation for services in all capacities to the Company for the years ended December 31, 2005, 2004 and 2003, of those persons who were, (i) serving as the chief executive officer of the Company or acting in a similar capacity during the year ended December 31, 2005 and (ii) the other most highly compensated executive officers of the Company, whose annual base salary and bonus compensation was in excess of \$100,000 (the named executive officers):

### Summary Compensation Table

<u>Name and Principal Position</u>	<u>Fiscal Year</u>	<u>Annual Compensation</u> <sup>(1)</sup>		<u>Long-Term Compensation</u>	<u>Shares Underlying Options</u>
		<u>Salary</u>	<u>Bonus</u>	<u>Restricted Stock Awards</u>	
Bernard Kravitz, President	2005	\$ 81,617	\$0	\$0 <sup>(2)</sup>	0
	2004	\$ 74,827	\$0	\$0	0
	2003	\$ 70,800	\$0	\$0	0

(1) Does not include matching contributions paid by the Company for Mr. Kravitz during 2003, 2004 and 2005 of \$2,831, \$2,993 and \$3,430, respectively, pursuant to the Company's Savings and Investment Plan under section 401(k) of the Internal Revenue Code.

(2) Does not include 1,000,000 shares of restricted common stock of the Company issued to Mr. Kravitz and the re-pricing of 1,000,000 warrants issued to him in 2004 (exercisable for 1,000,000 shares) such that the exercise price shall be \$.001 per share, which warrants Mr. Kravitz exercised in full on such date, all of which was effected as partial consideration for the discharge of mortgage provided by Mr. Kravitz on July 27, 2005 in which Mr. Kravitz agreed to discharge the mortgage held by him.

### Deferred Compensation and Other Arrangements

The Company has an agreement with Bernard Kravitz, the sole officer and a Director of the Company, to pay to his widow or estate for a period of five (5) years following his death an amount per year equal to the annual salary being earned by Mr. Kravitz at the time of his death, provided that he was in the employ of the Company at the time of his death. Such arrangements had previously been funded by life insurance policies owned by the Company on Mr. Kravitz's life, but currently remains unfunded.

In 1987, the Company entered into a salary continuation agreement, amended in 1997 and 1998, which provides for a 72 month schedule of payments to Bernard Kravitz (the "deferred compensation agreement"). In connection with the refinancing of the Company's mortgage loan and as required by the lender (see Part I, Item 1, "Other Information - Loans"), a modified deferred compensation payment schedule commencing January 1, 1999 was agreed to by the Company and Mr. Kravitz. The new 72 month schedule consists of a 24 month period of reduced consecutive monthly payments, to be followed by an 18-month period of no payments except for monthly interest. At the end of the 42<sup>nd</sup> month, the total of the delayed payments becomes due followed by 30 months of principal and interest payments. Notwithstanding the above schedule for payments, other than a life insurance policy to cover death benefits, the Company has not specifically designated funds with which to meet these payment requirements. In view of its continuing total indebtedness as well as its need for operating capital, there can be no assurance that the Company will be able to satisfy the terms of the deferred compensation agreement in full or in part. Should such unfavorable circumstances occur, the terms of the agreement may have to again be renegotiated to better match the Company's then-current financial circumstances.

Pursuant to a Standby Agreement entered into with the SBA (see "Part I, Item 1, "Other Information - Loans"), Mr. Kravitz had agreed to take no action under the deferred compensation agreement to collect any amounts due to him thereunder so long as the SBA Loan was outstanding, unless authorized by the SBA. In connection with the refinancing of the Company's mortgage loan, the Company executed a mortgage subordinate to the new first mortgage secured by the Company's Westbury Property in favor of Mr. Kravitz to insure amounts due him under the deferred compensation agreement.

In May 2004, and as required under the investment made by Alan Gelband, Mr. Kravitz agreed to forgive \$200,000 of amounts due to him under the deferred compensation agreement and postpone any and all remaining

payments due him under the deferred compensation agreement for a period of five years starting May 18, 2004. Mr. Kravitz also agreed to forgive at a future date, in such amounts as hereinafter calculated, any remaining amounts due to him under the deferred compensation agreement, equal to any sales proceeds received by him pursuant to any sales of shares of Common Stock made by him during the three (3) year period commencing from May 18, 2004 provided the per share price of the sales proceeds for such shares sold equals or exceeds \$1.00 per share (as adjusted for any stock splits, stock dividends or similar transactions which may occur after the date hereof).

In connection with the sale of the Westbury Property which occurred in July 2005, Mr. Kravitz and the Company entered into a Discharge of Mortgage Agreement on July 27, 2005 in which Mr. Kravitz agreed to discharge the mortgage held by him. In consideration for the discharge of the mortgage, the Company agreed as of July 27, 2005 to (i) issue 1,000,000 shares of restricted common stock of the Company to Mr. Kravitz, (ii) re-price the 1,000,000 warrants issued to him in 2004 (exercisable for 1,000,000 shares) such that the exercise price shall be \$.001 per share, which warrants Mr. Kravitz exercised in full on such date, and (iii) pay Mr. Kravitz \$25,000 in cash and repay various loans then outstanding which had been made by Mr. Kravitz.

### **Compensation pursuant to plans**

On July 1, 1985, the Company adopted a Savings and Investment Plan intended to qualify as a defined contribution plan under section 401(k) of the Internal Revenue Code. Internal Revenue approval was granted in 1986. The plan, as amended, provides that a member (an eligible employee of the Company) may elect to save no less than 1% and no more than 15% of that portion of his compensation attributable to each pay period (subject to certain limitations). The Company shall contribute (matching contributions) 100% of the first 3% of the member's contribution and 50% of the next 2% of the member's contribution. In addition, the Company shall contribute such amount as it may determine for each plan year (regular contributions) pro rata allocated to each member subject to certain limitations.

Any employee with one year of service may become a member of the plan excluding employees covered by a collective bargaining unit.

Upon eligibility for retirement, disability (as defined in the plan), or death, a member is 100% vested in his account. Upon termination of employment for any other reason, a member is 100% vested in that portion of his account which he contributed and vested in the balance of his account dependent upon years of service as follows:

<u>Years</u>	<u>Percentage</u>
Less than 2	0%
2	25%
3	50%
4	75%
5 or more	100%

See subsection "Summary Compensation Table" elsewhere herein under Item 10 for information on matching contributions paid by the Company for Mr. Kravitz during 2003, 2004 and 2005.

### **Compensation of Directors**

During the year ended December 31, 2005, no compensation was paid to the Company's one non-employee incumbent director for his services as such.

### **Stock Option Plan**

In September 1997, the Board of Directors of the Company adopted the 1997 Incentive Stock Option Plan (the "1997 Plan") for employees of the Company to purchase up to 250,000 shares of Common Stock of the Company. Options granted under the 1997 Plan are "incentive stock options" as defined in Section 422 of the Internal Revenue Code. Any stock options granted under the 1997 Plan shall be granted at no less than 100% of the fair market value of the Common Stock of the Company at the time of the grant. As of December 31, 2003, options to acquire 192,500 shares of Common Stock had been granted under the 1997 Plan which included (i) 120,000 options originally granted on September 11, 1997 and repriced on February 21, 2002 in order to reduce the exercise price from \$.38 to \$.10 per share, (ii) 68,500 additional options granted on February 21, 2002 with an exercise price of \$.10 per share, and (iii) 4,000 additional options granted on April 8, 2002 with an exercise price of \$.20 per share. As of December 31, 2003, 57,500 options were available for future grant. The 1997 Plan was subject to obtaining stockholder approval within twelve months of the adoption of the 1997 Plan which approval was obtained in September 1998. None of the options granted under the 1997 Plan were granted to the executive officer named in the Summary Compensation Table (Mr. Kravitz). As of May 2004,

options to acquire 20,000 shares had lapsed under the 1997 Plan, leaving options to acquire 172,500 shares outstanding. In May 2004, the Company issued 172,500 shares to 15 employees equal to the number of options held by such employees which shares were issued in place of and in cancellation for the outstanding options previously issued under the 1997 Plan. As of December 31, 2005, there were no outstanding options under the 1997 Plan.

### 2002 Stock Compensation Plan

In February 2002, the Board of Directors of the Company adopted the 2002 Stock Compensation Plan (the “2002 Plan”) which permitted up to 150,000 shares of Common Stock to be awarded to employees, officers, directors or consultants of the Company. In May 2004, the number of shares reserved for issuance under the 2002 Plan was increased to 500,000 shares.

Contemporaneously with the adoption of the 2002 Plan, the Company repurchased 76,347 shares of Common Stock from the Company’s 401(k) Plan, which were the only remaining shares of Common Stock of the Company in the 401 (k) Plan. These shares had been contributed by the Company to the 401(k) Plan during 1993. The amount paid in February 2002 was \$3,817 or \$.05 per share which management determined to be the fair purchase price. The proceeds from the repurchase were placed into the respective 401(k) accounts of the employees in proportion to the 401(k) Plan shares which had been attributed to each of them. In addition, the Company then issued under the 2002 Plan the same number of shares as a bonus to the same 11 employees. As described under “Stock Option Plan” above, in May 2004, the Company issued 172,500 shares to 15 employees which shares were issued under the 2002 Plan. No other shares have been granted under the 2002 Plan. As a result, as of December 31, 2005, 248,847 shares have been granted under the 2002 Plan, leaving 251,153 shares available for future grant.

### Termination of Employment and Change of Control Arrangements

None.

### Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The following table sets forth certain information regarding the beneficial ownership of the Company’s Common Stock as of May 30, 2008, by (i) each person who is known by the Company to own beneficially more than 5% of the Company’s outstanding Common Stock; (ii) each of the Company’s directors; and (iii) directors and officers of the Company as a group:

<u>Name and Address</u>	<u>Shares Owned</u>	<u>Percent<sup>(1)</sup> of Class</u>
Bernard Kravitz 65 Rushmore Street Westbury, NY	3,054,551 <sup>(2)</sup>	31.1%
Alan Gelband 30 Lincoln Plaza New York, NY	2,200,000 <sup>(3)</sup>	22.4%
Keith Kravitz 110-11 Queens Blvd. Forest Hills, NY	974,105	9.9%
David M. Kaye 30A Vreeland Road Florham Park, NJ	100,000	1.0%
All Directors & Officers as a Group (2 persons)	3,154,551	32.1%

(1) Based upon issued and outstanding shares computed as follows: 9,993,222 issued shares less 164,544 treasury shares resulting in 9,828,678 issued and outstanding shares.

(2) Includes 3,037,036 shares of record and 17,515 shares owned by Mrs. Phyllis Kravitz, Mr. Bernard Kravitz’ wife. Does not include 974,105 shares owned by Keith Kravitz, adult son of Bernard Kravitz. Bernard Kravitz disclaims any beneficial ownership with respect to any shares owned by Keith Kravitz.

(3) Includes 2,000,000 shares of record, 100,000 shares owned by Mr. Gelband’s wife and 100,000 shares held by Mr. Gelband as custodian for his children.

## **Item 12. Certain Relationships and Related Transactions.**

Information with respect to certain relationships and related transactions is provided below with respect to the two year period ended December 31, 2005.

In May 2004, the Company entered into an Investment Agreement with Alan Gelband (“Gelband”) pursuant to which up to 2,200,000 shares of Common Stock would be issued in consideration for an investment of \$110,000 (the “Gelband Agreement”). Pursuant to the terms thereof, the Company received from Gelband the initial installment of \$55,000 in May 2004 and delivered to Gelband 1,100,000 shares and, in June 2004, received the balance of \$55,000 pursuant to which convertible promissory notes (the “Gelband Notes”) were issued which would automatically convert into 1,100,000 shares upon the Company effecting an increase in the number of its authorized shares of Common Stock (the “Capitalization Amendment”). Pursuant to and as required by the Gelband Agreement, the Company entered into an Investment Agreement with Bernard Kravitz, the Company’s President, pursuant to which Bernard Kravitz agreed to make an investment of \$50,000 in the Company in consideration for which he would receive 1,000,000 shares and a three-year warrant to acquire an additional 1,000,000 shares exercisable at \$.05 per share. Pursuant to the terms thereof, in June 2004, the Company received the investment from Mr. Kravitz of \$50,000 and issued a convertible promissory note (the “Kravitz Note”) which would automatically convert into 1,000,000 shares upon the Company effecting the Capitalization Amendment. In addition, contemporaneously with the execution of the foregoing agreements, and as required by the Gelband Agreement, Kenneth Levy became a director of the Company and executed an Investment Agreement pursuant to which Levy would be entitled to acquire 200,000 shares of Common Stock for \$10,000 upon the Company effecting the Capitalization Amendment.

Mr. Kravitz also agreed to forgive \$200,000 of amounts due to him under the deferred compensation agreement and postpone any and all remaining payments due him under the deferred compensation agreement for a period of five years starting May 18, 2004.

As a result of the Company effecting the Capitalization Amendment as of August 30, 2004, each of the Gelband Notes and Kravitz Note automatically converted into shares of Common Stock as described above, and Levy acquired 200,000 shares as described above.

In connection with the sale of the Westbury Property which occurred in July 2005, Mr. Kravitz and the Company entered into a Discharge of Mortgage Agreement on July 27, 2005 in which Mr. Kravitz agreed to discharge the mortgage held by him. In consideration for the discharge of the mortgage, the Company agreed as of July 27, 2005 to (i) issue 1,000,000 shares of restricted common stock of the Company to Mr. Kravitz, (ii) re-price the 1,000,000 warrants issued to him in 2004 (exercisable for 1,000,000 shares) such that the exercise price shall be \$.001 per share, which warrants Mr. Kravitz exercised in full on such date, and (iii) pay Mr. Kravitz \$25,000 in cash and repay various loans then outstanding which had been made by Mr. Kravitz.

See Part III, Item 10, “Deferred Compensation and Other Arrangements” for information on certain other arrangements entered into with Mr. Kravitz.

## **Item 13. Exhibits.**

- 3.1 Company’s certificate of incorporation, as amended<sup>(1)</sup>
- 3.2 Company’s by-laws<sup>(1)</sup>
- 4.1 Specimen of common stock certificate<sup>(1)</sup>
- 10.1 Restructuring Agreement between Dionics, Inc. and Apple Bank for Savings dated as of January 31, 1994<sup>(1)</sup>
- 10.2 Agreement dated as of July 11, 2001 between Dionics, Inc. and D.A.N. Joint Venture, a Limited Partnership<sup>(1)</sup>
- 10.3 Amendatory Agreement dated as of January 2, 2003 between Dionics, Inc. and D.A.N. Joint Venture, a Limited Partnership<sup>(1)</sup>
- 10.4 Acquisition Agreement dated as of April 20, 2005 between Dionics, Inc. and 65 Rushmore Realty, LLC<sup>(1)</sup>
- 10.5 Lease Agreement dated as of July 27, 2005 between Dionics, Inc. and 65 Rushmore Realty, LLC<sup>(1)</sup>
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rules 13a-14 and 15d-14 of the Exchange Act)
- 31.2 Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rules 13a-14 and 15d-14 of the Exchange Act)
- 32.2 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)

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(1) Previously filed and incorporated herein by reference.

**Item 14. Principal Accountant Fees and Services.**

The following is a summary of the fees billed to us by the principal accountants to the Company for professional services rendered for the fiscal years ended December 31, 2005 and 2004:

<u>Fee Category</u>	<u>Fiscal 2005 Fees</u>	<u>Fiscal 2004 Fees</u>
Audit Fees	\$ 12,000	\$ 6,000
Audit Related Fees	0	0
Tax Fees	0	0
All Other Fees	<u>0</u>	<u>0</u>
Total Fees	<u>\$ 12,000</u>	<u>\$ 6,000</u>

Audit Fees. Consists of fees billed for professional services rendered for the audit of our financial statements and review of interim consolidated financial statements included in quarterly reports and services that are normally provided by the principal accountants in connection with statutory and regulatory filings or engagements.

Audit Related Fees. Consists of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our consolidated financial statements and are not reported under "Audit Fees".

Tax Fees. Consists of fees billed for professional services for tax compliance, tax advice and tax planning. These services include preparation of federal and state income tax returns.

All Other Fees. Consists of fees for product and services other than the services reported above.

**Pre-Approval Policies and Procedures**

Prior to engaging its accountants to perform a particular service, the Company's Board of Directors obtains an estimate for the service to be performed. All of the services described above were approved by the Board of Directors in accordance with its procedures.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DIONICS, INC.  
(Registrant)

By: /s/ Bernard Kravitz  
Bernard Kravitz, President

Dated: July 14, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant, and in the capacities and on the dates indicated:

<b>Signature</b>	<b>Title</b>	<b>Date</b>
<u>/s/ Bernard Kravitz</u> Bernard Kravitz	President, Secretary, Treasurer, Director (Principal Executive Officer and Principal Financial Officer)	<u>July 14, 2008</u>
<u>/s/ David M. Kaye</u> David M. Kaye	Director	<u>July 14, 2008</u>

**CERTIFICATION**

I, Bernard Kravitz, certify that:

1. I have reviewed this annual report on Form 10-KSB of Dionics, Inc.;
2. Based on my knowledge, this report does not contain any untrue statements 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 registrant as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officers 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) 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
  - (c) 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 reasonable 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.

Dated: July 14, 2008  
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By: /s/ Bernard Kravitz  
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Bernard Kravitz,  
President and Chief Executive Officer  
(Principal Executive Officer)

**CERTIFICATION**

I, Bernard Kravitz certify that:

1. I have reviewed this annual report on Form 10-KSB of Dionics, Inc.;
2. Based on my knowledge, this report does not contain any untrue statements 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 registrant as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officers 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) 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
  - (c) 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) (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable 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.

Dated: July 14, 2008 \_\_\_\_\_

By: /s/ Bernard Kravitz  
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Bernard Kravitz,  
Principal 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 Dionics, Inc. (the "Company") on Form 10-KSB for the period ended December 31, 2005, as filed with the Securities and Exchange Commission (the "Report"), the undersigned certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of the undersigned's knowledge, 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 results of operations of the Company.

Dated: July 14, 2008  
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By: /s/ Bernard Kravitz  
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Bernard Kravitz,  
President and Chief Executive Officer  
(Principal Executive Officer)

Dated: July 14, 2008  
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By: /s/ Bernard Kravitz  
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Bernard Kravitz,  
Principal Financial Officer