

THE DEWEY ELECTRONICS CORPORATION
FY 2019 FINANCIALS
QUARTER ENDING MARCH 31, 2019

BALANCE SHEET

	MARCH 31,	JUNE 30,
ASSETS:	2019	2018
CURRENT ASSETS:		
Cash and cash equivalents	\$ 349,228	\$ 573,060
Accounts receivable, less allowance for doubtful accounts of \$11,607 and \$0	512,307	355,717
Inventory	2,132,732	1,805,462
Prepaid expenses and other current assets	144,408	52,651
TOTAL CURRENT ASSETS	3,138,675	2,786,890
PROPERTY, PLANT AND EQUIPMENT:		
Assets held for sale, net	709,174	709,174
Machinery and equipment	3,364,917	3,364,917
Furniture and fixtures	268,700	268,700
	4,342,791	4,342,791
Less: accumulated depreciation	(3,560,215)	(3,548,520)
	782,576	794,271
DEFERRED COSTS	65,095	65,095
TOTAL ASSETS	\$ 3,986,346	\$ 3,646,256
LIABILITIES AND STOCKHOLDERS' EQUITY:		
CURRENT LIABILITIES:		
Notes payable – current portion	\$ 5,972	\$ 500,000
Equipment Finance Note- current portion	49,511	-
Trade accounts payable	85,536	38,028
Accrued expenses and other liabilities	154,973	159,800
Accrued compensation and benefits payable	166,881	134,883
Accrued pension costs	348,014	423,618
TOTAL CURRENT LIABILITIES	810,887	1,256,329
LONG-TERM LIABILITIES		
Pension Liability	568,125	613,434
Equipment Finance Portion of Note- long term portion	84,864	-
TOTAL LIABILITIES	1,463,876	1,869,763
Commitments and contingencies		
STOCKHOLDERS' EQUITY:		
Preferred stock, par value \$1.00; authorized 250,000 shares, issued and outstanding-none	-	-
Common stock, par value \$.01; authorized 3,000,000 shares; 1,693,397 shares issued and 1,366,731 shares outstanding at March 31, 2019 and June 30, 2018	16,934	16,934
Additional paid-in capital	2,883,970	2,883,970
Retained Earnings (Deficit)	511,047	(189,619)
Accumulated other comprehensive loss	(409,362)	(454,671)
	3,002,589	2,256,614
Less: Treasury stock, 326,666 shares at March 31, 2019 and June 30, 2018, at cost	(480,119)	(480,119)
TOTAL STOCKHOLDERS' EQUITY	2,522,470	1,776,495
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 3,986,346	\$ 3,646,258

THE DEWEY ELECTRONICS CORPORATION
STATEMENTS OF OPERATIONS

	THREE-MONTHS ENDED		NINE-MONTHS ENDED	
	MARCH 31,		MARCH 31,	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Revenues	\$1,506,436	\$1,271,028	\$3,473,158	\$3,185,512
Cost of revenues	<u>797,745</u>	<u>703,485</u>	<u>2,086,993</u>	<u>2,250,221</u>
Gross profit	708,691	567,543	1,386,165	935,291
Selling, general and administrative	<u>241,030</u>	<u>284,586</u>	<u>699,525</u>	<u>769,573</u>
Operating Income / (Loss)	467,661	282,957	686,640	165,718
Interest expense	(4,125)	(4,705)	(12,365)	(15,861)
Other Income / (Expense)– net	<u>6,256</u>	<u>6,746</u>	<u>26,483</u>	<u>19,504</u>
Net Income/ (Loss)	<u>\$ 469,792</u>	<u>\$ 284,998</u>	<u>\$700,758</u>	<u>\$169,361</u>

**CONDENSED STATEMENTS OF COMPREHENSIVE
INCOME (LOSS)**

	THREE-MONTHS ENDED		NINE-MONTHS ENDED	
	MARCH 31,		MARCH 31,	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Net Income / (Loss)	\$469,792	\$284,998	\$700,758	\$169,361
Amortization of actuarial losses	<u>15,103</u>	<u>14,202</u>	<u>45,309</u>	<u>42,606</u>
Comprehensive Income / (Loss)	<u>\$ 484,895</u>	<u>\$299,200</u>	<u>\$ 746,067</u>	<u>\$ 211,967</u>

THE DEWEY ELECTRONICS CORPORATION
STATEMENTS OF CASH FLOW

	<u>NINE-MONTHS ENDED MARCH 31,</u>	
	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	<u>\$ 700,667</u>	<u>\$ 169,361</u>
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Depreciation	11,694	28,366
(Increase) in accounts receivable	(156,589)	(205,041)
(Increase) in inventory	(327,269)	(242,221)
(Increase) in prepaid expenses and other current assets	(91,757)	(1,976)
Increase in accounts payable	47,508	61,210
(Decrease) in accrued expenses and other Liabilities	(4,827)	(1,850)
Increase in accrued compensation and benefits payable	31,998	32,234
(Decrease) in accrued pension costs	<u>(75,605)</u>	<u>(3,025)</u>
Total adjustments	<u>(564,847)</u>	<u>(332,213)</u>
Net cash provided by/ (used in) operating activities	<u>135,820</u>	<u>(162,852)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of Former Short Term Borrowings	(500,000)	--
Proceeds from Current Short Term Borrowings	5,972	--
Proceeds from Equipment Finance Portion of Note	<u>134,375</u>	<u>--</u>
Net cash (used in) financing activities	<u>(359,653)</u>	<u>--</u>
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(223,833)	(162,852)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>573,060</u>	<u>465,170</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>349,227</u></u>	<u><u>302,318</u></u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid	\$ 12,365	\$ 15,861

1. Inventories

Inventories consist of:

	<u>MARCH 31, 2019</u>	<u>JUNE 30, 2018</u>
Finished Goods	309,167	\$495,907
Work In Progress	1,192,529	707,558
Raw Materials	<u>631,036</u>	<u>601,997</u>
Total	<u>\$2,132,732</u>	<u>\$1,805,462</u>

2. Taxes on Income

The Company has provided a valuation allowance against its net deferred tax assets as it believes that it is more likely than not that it will not realize these tax attributes. The Company has approximately \$2,120,000 and \$957,000 of federal and state net deferred tax assets, respectively, primarily arising from net operating loss carry-forwards, expiring beginning in 2027. In the three month period ended March 31, 2019 these federal and state net deferred tax assets decreased by approximately \$160,000 and \$28,000 respectively, as a result of income for the period.

3. Stock Option Plan

On September 22, 2011, the Board of Directors of the Company adopted the Company's 2011 Stock Option Plan, which was approved by the shareholders of the Company on December 8, 2011. Under this plan options to purchase a maximum of 133,000 shares of common stock may be granted to any employee of the Company, including officers. Such options may be either incentive stock options or non-qualified options and must be granted with an exercise price no less than the fair market value of the stock on the date of the grant. No stock options have been granted under this plan.

On December 2, 1998, the Company adopted its Stock Option Plan of 1998 which was amended and restated effective December 5, 2001, pursuant to which options to purchase a maximum of 85,000 shares of common stock may be granted to executives and key employees. Incentive stock options have been granted under this plan with an exercise price no less than fair market value of the stock on the date of grant. Outstanding options generally are exercisable for ten years from the date of grant. Outstanding options have expiration dates ranging from December 2, 2018 to September 21, 2021. No additional options may be granted under this plan.

There were no stock options granted in the first nine months of fiscal 2019 (period ended March 31, 2019) or in the first nine months of fiscal 2018 (period ended December 31, 2018). The Company recorded no stock option compensation expense for either of the nine month periods ended March 31, 2019 or March 31, 2018.

For the full fiscal year ending June 30, 2019, the Company does not expect any stock option compensation expense based on stock options already granted and assuming no further option grants during the remainder of the fiscal year. However, our assessment of the compensation expense will be affected by the number of stock options actually granted (if any) during the remainder of the year as well as the number of outstanding options that are forfeited.

Stock option transactions for the Company's employee stock option plans for the nine months ended March 31, 2019 are as follows:

	THREE-MONTHS ENDED MARCH 31, 2019	
	Shares	Weighted Average Exercise Price
Beginning balance	14,500	\$1.98
Granted	--	--
Exercised	--	--
Cancelled or expired	--	--
Ending Balance	14,500	\$1.98
Options exercisable at end of period	14,500	\$1.98

4. Pension Plan

The Company has a non-contributory defined benefit retirement plan covering substantially all its employees. The impact of the plan on operations is as follows:

	NINE-MONTHS ENDED MARCH 31,	
	2019	2018
Service cost-benefits earned during the period	\$ 18,787	\$ 25,050
Interest cost on projected benefit obligation	87,803	88,592
Expected return on plan assets	(81,905)	(81,702)
Amortization of actuarial loss	43,958	43,507
Net periodic pension cost	\$ 68,643	\$ 75,446

5. Revenues

For the three months ended March 31, 2019, production efforts to provide power products to the U.S. Department of Defense, Government contractors, and foreign militaries, which includes diesel operated tactical generator sets and associated equipment, were \$250,250 or 17% of revenues compared to \$866,640 or 66% of revenues for the three months ended March 31, 2018. Non-power products including replacement parts and other short-term business accounted for \$1,256,186 or 83% of revenues in the three months ended March 31, 2019 and \$426,388 or 34% of revenues for the same period in fiscal year 2018.

For the nine months ended March 31, 2019, production efforts to provide power products to the U.S. Department of Defense, Government contractors, and foreign militaries, which includes diesel operated tactical generator sets and associated equipment, were \$820,148 or 24% of revenues compared to \$1,921,711 or 60% of revenues for the nine months ended March 31, 2018. Non-power products including replacement parts and other short-term business accounted for \$2,653,010 or 76% of revenues in the nine months ended March 31, 2019 and \$1,263,800 or 40% of revenues for the same period in fiscal year 2018.

The aggregate value of the Company's backlog of sales orders was \$6.0 million on March 31, 2019. The Company's backlog of sales orders was \$2.1 million on March 31, 2018.

6. Gross Profit

The Company earned a gross profit of \$708,692 or 47% of revenues for the three months ended March 31, 2019 compared to a gross profit of \$567,543 or 45% of revenues for the same period in fiscal year 2018.

The Company earned a gross profit of \$1,386,166 or 40% of revenues for the nine months ended March 31, 2019 compared to a gross profit of \$935,291 or 29% of revenues for the same period in fiscal year 2018.

The higher gross profit for the nine months ended March 31, 2019 was primarily due to an increase in sales of non-power products, which typically have higher margins compared to power products. The higher production levels favorably impacted the Company's ability to absorb overhead resulting in lower cost of goods sold. Additionally, management believes the current and unusually high percent of non-power products will return to traditional levels. The Company believes acquiring additional staff in the next two quarters, and a possible shift in product mix over the next six to eight quarters, may result in margins also approaching lower historical levels.

7. Selling, General and Administrative Expenses

Selling, General and Administrative Expenses for the three months ended March 31, 2019 were \$241,030 or 16% of revenues compared to \$284,586 or 22% of revenues for the three months ended March 31, 2018. The most significant changes in expense and the approximate amounts of the changes were decreases in compensation expense \$26,000, and corporate expenses \$28,000. These decreases in expenses were offset by an increase in pension fees of approximately \$5,000 and consulting fees of approximately \$5,000.

Selling, General and Administrative Expenses for the nine months ended March 31, 2019 were \$699,525 or 20% of revenues compared to \$769,573 or 24% of revenues for the nine months ended March 31, 2018. The most significant changes in expense and the approximate amounts of the changes were decreases in compensation expense \$55,000, pension expense \$4,000, group insurance expense \$6,000, legal and professional fees \$12,000, corporate expense \$10,000 and IT support \$4,000. These decreases in expenses were offset by increases in consulting fees of approximately \$11,000.

8. Property, Plant, and Equipment

Property, plant, and equipment are stated at cost. Allowance for depreciation is provided on a straight-line basis over estimated useful lives of three to ten years for machinery and equipment, ten years for furniture and fixtures, and twenty years for building and improvements.

The Company has been pursuing monetization of its real estate and believes, as of this writing; the sale of the building and land is probable, though not assured, within the next 12 months. This has resulted in the reclassification of land and building improvements, as well as the accumulated depreciation of such assets, to Assets held for sale, net for both periods presented. The carrying value of the Assets held for sale, net were compared to the estimated fair value based on appraisals and offers, less costs to sell, noting no indicators of impairment as of March 31, 2019.

9. Financing, Cash and Cash Equivalents

See Note 10 on Dewey Electronics Corporation year end June 30th, 2018 Annual Audited Financial statements concerning the former and current loan and security agreement entered into between Dewey Electronics and Crestmark Financial.

As of March 31, 2019, the company had approximately \$350,000 of cash and cash equivalents on hand with the ability to borrow an additional amount of approximately \$352,000.

As of this filing, the company has approximately \$830,000 of cash and cash equivalents on hand with the ability to borrow in additional amount of approximately \$500,000.

The Financial Statements have been prepared by the Company in good faith. The Financial Statements fairly present the financial condition and operating results of the Company as of the date, and for the period, indicated in the Financial Statements.

To the Company's knowledge, since March 31, 2019, there has not been any change in the assets, liabilities, financial condition, or operating results of the Company from that reflected in the Financial Statements, except changes in the ordinary course of business that have not been, in the aggregate, materially adverse to the Company.