

THE DEWEY ELECTRONICS CORPORATION
FY 2020 FINANCIALS
QUARTER ENDING SEPTEMBER 30, 2019

Balance Sheets

	<u>September 30,</u>	<u>June 30,</u>
	2019	2019
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 834,767	\$ 823,608
Accounts receivable	312,762	881,096
Inventory	2,584,890	1,846,496
Prepaid expenses and other current assets	<u>190,383</u>	<u>202,153</u>
TOTAL CURRENT ASSETS	<u>3,922,802</u>	<u>3,753,353</u>
PROPERTY, PLANT AND EQUIPMENT:		
Assets held for sale, net	709,174	709,174
Machinery and equipment	3,367,371	3,364,917
Furniture and fixtures	<u>277,211</u>	<u>268,700</u>
	4,353,756	4,342,791
Less: accumulated depreciation	<u>(3,568,010)</u>	<u>(3,564,111)</u>
	<u>785,746</u>	<u>778,680</u>
Deferred tax asset	<u>299,470</u>	<u>299,470</u>
Deferred costs	<u>65,095</u>	<u>65,095</u>
TOTAL ASSETS	<u>\$ 5,073,113</u>	<u>\$4,896,598</u>
LIABILITIES AND STOCKHOLDERS' EQUITY:		
CURRENT LIABILITIES:		
Notes payable – current portion	\$ 288,757	\$ 278,505
Trade accounts payable	198,537	111,427
Accrued expenses and other liabilities	375,192	314,902
Accrued compensation and benefits payable	207,897	153,825
Accrued pension costs	<u>357,256</u>	<u>402,513</u>
TOTAL CURRENT LIABILITIES	<u>1,427,639</u>	<u>1,261,172</u>
LONG-TERM PENSION LIABILITY	<u>1,026,213</u>	<u>1,041,317</u>
TOTAL LIABILITIES	<u>2,453,852</u>	<u>2,302,489</u>
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 September 30, 2019 and June 30, 2019	16,934	16,934
Additional paid-in capital	2,883,970	2,883,970
Retained earnings	1,065,926	1,055,878
Accumulated other comprehensive loss	<u>(867,450)</u>	<u>(882,554)</u>
	3,099,380	3,074,228
Less: Treasury stock, 326,666 shares at September 30, 2019 and June 30, 2019, at cost	<u>(480,119)</u>	<u>(480,119)</u>
TOTAL STOCKHOLDERS' EQUITY	<u>2,619,261</u>	<u>2,594,109</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 5,073,113</u>	<u>\$ 4,896,598</u>

The Dewey Electronics Corporation

Statements of Operations

	<u>Three-Months Ended</u> 2019	<u>September 30,</u> 2018
Revenues	\$ 994,334	\$ 952,556
Cost of revenues	<u>737,387</u>	<u>714,720</u>
Gross profit	256,947	237,836
Selling, general and administrative expenses	<u>241,745</u>	<u>220,283</u>
Operating income	15,202	17,553
Interest expense	(7,765)	(5,556)
Other income – net	<u>612</u>	<u>7,614</u>
NET INCOME	<u>\$ 8,049</u>	<u>\$ 19,611</u>

Statements of Comprehensive Income

	<u>Three-Months Ended</u> 2019	<u>September 30,</u> 2018
Net income	\$ 8,049	\$ 19,611
Amortization of actuarial gains	<u>25,669</u>	<u>15,103</u>
Comprehensive income	<u>\$ 33,718</u>	<u>\$ 34,714</u>

The Dewey Electronics Corporation

Statements of Cash Flows

	Three-Months Ended September 30,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 8,049	\$ 19,611
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Depreciation	3,898	3,898
Decrease/(Increase) in accounts receivable	568,334	(129,687)
(Increase) in inventory	(725,827)	(4,103)
(Decrease) in provision for inventory reserve	(12,566)	--
Decrease in prepaid expenses and other current assets	11,770	9,678
Increase in accounts payable	87,108	97,576
Decrease/(Increase) in accrued expenses and other liabilities	62,291	(11,864)
Increase/(Decrease) in accrued compensation and benefits payable	54,073	(11,204)
(Decrease) in accrued pension costs	(45,257)	(32,260)
Total adjustments and changes in operating assets and liabilities	3,824	(77,966)
Net cash provided by/(used in) operating activities	11,873	(58,355)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures for plant, property and equipment	(10,966)	--
Cash (used in) investing activities	(10,966)	--
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of Short Term Borrowings	--	(200,000)
Net Proceed from line of credit	10,252	--
Net cash provided by (used in) financing activities	10,252	(200,000)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	11,159	(258,355)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	823,608	573,060
CASH AND CASH EQUIVALENTS AT END OF PERIOD	834,767	314,705
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid	\$ 7,765	\$ 5,556

1. Inventories

Inventories consist of:

	<u>September 30, 2019</u>	<u>June 30, 2019</u>
Finished Goods	\$329,384	\$282,302
Work In Progress	1,576,458	1,028,388
Raw Materials	<u>679,048</u>	<u>535,806</u>
Total	<u>\$2,584,890</u>	<u>\$1,846,496</u>

2. Taxes on Income

As of each reporting period, management considers both positive and negative factors that could affect its view of future realization of deferred tax assets. As of September 30, 2019, the Company achieved pretax income. However, management determined that the tax impact on these financial statements was immaterial and therefore is not presented. Federal and state net operating loss carryforwards expire in 2027 through 2037 and 2030 through 2037, respectively. As of June 30, 2019, the Company has approximately \$848,000 of federal net operating losses. The actual tax expense differs from the expected amount of tax based on the federal statutory rate because there is a full valuation allowance against the Company's deferred tax assets at the beginning and end of the year.

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 three months of fiscal 2020 (period ended September 30, 2019) or in the first three months of fiscal 2019 (period ended September 30, 2018). The Company recorded no stock option compensation expense for either of the three month periods ended September 30, 2019 or September 30, 2018.

For the full fiscal year ending June 30, 2020, 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 three months ended September 30, 2019 are as follows:

	THREE-MONTHS ENDED SEPTEMBER 30, 2019	
	Shares	Weighted Average Exercise Price
Beginning balance	12,700	\$1.98
Granted	--	--
Exercised	--	--
Cancelled or expired	--	--
Ending Balance	12,700	\$1.98
Options exercisable at end of period	0	0

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:

	THREE-MONTHS ENDED SEPTEMBER 30,	
	2019	2018
Service cost-benefits earned during the period	\$ 0	\$ 6,262
Interest cost on projected benefit obligation	30,020	29,268
Expected return on plan assets	(26,644)	(27,302)
Amortization of actuarial loss	25,669	14,653
Net periodic pension cost	\$ 29,045	\$ 22,881

5. Revenues

For the three months ended September 30, 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 \$129,000 or 13% of revenues compared to \$280,000 or 29% of revenues for the three months ended September 30, 2018. Non-power products including replacement parts and other short-term business accounted for \$866,000 or 87% of revenues in the three months ended September 30, 2019 and \$673,000 or 71% of revenues for the same three months ended September 30, 2018.

The aggregate value of the Company's backlog of sales orders was \$5.2 million on September 30, 2019. The Company's backlog of sales orders was \$5.5 million on September 30, 2018.

6. Gross Profit

The Company earned a gross profit of \$256,947 or 25.8% of revenues for the three months ended September 30, 2019 compared to a gross profit of \$237,835 or 25.0% of revenues for the same three months ended September 30, 2018.

The slight increase in gross profit for the three months ended September 30, 2019 was primarily due to higher production levels in the first quarter for orders to be shipped in the second quarter, favorably impacted the Company's ability to absorb overhead resulting in lower cost of goods sold in the first quarter.

7. Selling, General and Administrative Expenses

Selling, General and Administrative Expenses for the three months ended September 30, 2019 were \$241,746 or 24.3% of revenues compared to \$220,283 or 23.1% of revenues for the three months ended September 30, 2018. The most significant change was an increase in compensation expense of approximately \$48,000, offset by decreases to legal and professional fees and supplies of approximately \$24,000 and \$3,000 respectively.

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 September 30, 2019.

9. Credit Facility

See Note 10 on Dewey Electronics Corporation year end June 30th, 2019 Annual Financial statements concerning the loan and security agreement entered into between Dewey Electronics and Crestmark Financial.

As of this filing, the outstanding amount borrowed on the Crestmark facility is \$377,583.

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 September 30, 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.