

THE DEWEY ELECTRONICS CORPORATION
FY 2020 FINANCIALS
QUARTER ENDING DECEMBER 31, 2019

BALANCE SHEET

	<u>DECEMBER 31,</u>	<u>JUNE 30,</u>
	2019	2019
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,203,017	\$ 823,608
Accounts receivable	373,349	881,096
Inventory	2,641,778	1,846,496
Prepaid expenses and other current assets	<u>141,552</u>	<u>202,153</u>
TOTAL CURRENT ASSETS	<u>4,359,696</u>	<u>3,753,355</u>
PROPERTY, PLANT AND EQUIPMENT:		
Assets held for sale, net	709,174	709,174
Machinery and equipment	3,369,116	3,364,917
Furniture and fixtures	<u>277,378</u>	<u>268,700</u>
	4,355,668	4,342,791
Less: accumulated depreciation	<u>(3,571,909)</u>	<u>(3,564,111)</u>
	783,759	778,680
DEFERRED TAX ASSET	209,872	299,470
DEFERRED COSTS	<u>65,095</u>	<u>65,095</u>
TOTAL ASSETS	<u>\$ 5,418,422</u>	<u>\$ 4,896,598</u>
LIABILITIES AND STOCKHOLDERS' EQUITY:		
CURRENT LIABILITIES:		
Notes payable – current portion	\$ 360,948	\$ 278,505
Trade accounts payable	203,643	111,427
Accrued expenses and other liabilities	462,276	314,902
Accrued compensation and benefits payable	77,545	153,825
Accrued pension costs	<u>352,889</u>	<u>402,513</u>
TOTAL CURRENT LIABILITIES	<u>1,457,300</u>	<u>1,261,172</u>
LONG-TERM LIABILITIES		
Pension Liability	1,011,110	1,041,316
TOTAL LIABILITIES	<u>2,468,410</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 December 31, 2012 and June 30, 2019	16,934	16,934
Additional paid-in capital	2,883,970	2,883,970
Accumulated gain	1,381,574	1,055,878
Accumulated other comprehensive loss	<u>(852,348)</u>	<u>(882,554)</u>
	3,430,131	3,074,228
Less: Treasury stock, 326,666 shares at December 31, 2019 and June 30, 2019, at cost	<u>(480,119)</u>	<u>(480,119)</u>
TOTAL STOCKHOLDERS' EQUITY	<u>2,950,012</u>	<u>2,594,109</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 5,418,422</u>	<u>\$ 4,896,598</u>

THE DEWEY ELECTRONICS CORPORATION
STATEMENTS OF OPERATIONS

	THREE-MONTHS ENDED DECEMBER 31,		SIX-MONTHS ENDED DECEMBER 31,	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Revenues	\$ 1,735,740	\$ 1,014,166	\$ 2,730,074	\$ 1,966,722
Cost of revenues	<u>983,971</u>	<u>574,527</u>	<u>1,721,359</u>	<u>1,289,248</u>
Gross profit	751,769	439,639	1,008,715	677,474
Selling, general and administrative	<u>317,091</u>	<u>238,212</u>	<u>558,837</u>	<u>458,495</u>
Operating Income	434,679	201,427	449,879	218,979
Interest expense	(7,819)	(2,684)	(15,584)	(8,240)
Other Income – net	7,389	12,613	8,001	20,227
Income Before Taxes	<u>434,248</u>	<u>211,356</u>	<u>442,295</u>	<u>230,966</u>
Income Taxes	118,598	-	118,598	-
Net Income	<u>\$ 315,650</u>	<u>\$ 211,356</u>	<u>\$323,697</u>	<u>\$ 230,966</u>

**CONDENSED STATEMENTS OF COMPREHENSIVE
INCOME**

	THREE-MONTHS ENDED DECEMBER 31,		SIX-MONTHS ENDED DECEMBER 31,	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Other comprehensive Income –net of tax				
Net Income	\$ 315,650	\$ 211,356	\$ 323,697	\$ 230,966
Amortization of actuarial losses	<u>15,103</u>	<u>15,103</u>	<u>30,206</u>	<u>30,206</u>
Comprehensive Income	<u>\$ 330,753</u>	<u>\$ 226,459</u>	<u>\$ 353,903</u>	<u>\$ 261,172</u>

THE DEWEY ELECTRONICS CORPORATION
STATEMENTS OF CASH FLOW

	<u>SIX-MONTHS ENDED DECEMBER 31,</u>	
	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	<u>\$ 323,697</u>	<u>\$ 230,966</u>
Adjustments to reconcile net income to net cash (used in) operating activities:		
Depreciation	7,796	7,796
(Increase)/Decrease in accounts receivable	507,747	(88,405)
Decrease in Deferred income taxes	89,598	-
(Increase) in inventory	(782,716)	(206,835)
(Decrease) in Provision for Inventory Reserve	(12,566)	-
(Increase)/Decrease in prepaid expenses and other current assets	60,601	(37,228)
Increase/(Decrease) in accounts payable	92,214	(5,969)
Increase in accrued expenses and other liabilities	149,376	24,018
Increase/(Decrease) in accrued compensation and benefits payable	(76,280)	12,993
(Decrease) in accrued pension costs	<u>(49,624)</u>	<u>(73,283)</u>
Total adjustments	<u>309,843</u>	<u>(366,913)</u>
Net cash (used in) operating activities	<u>(12,877)</u>	<u>(135,947)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of Former Short Term Borrowings		(500,000)
Proceeds from Current Short Term Borrowings	<u>82,443</u>	<u>220,064</u>
Net cash provided by (used by) financing activities	<u>82,443</u>	<u>(279,936)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	379,409	(415,883)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>823,608</u>	<u>573,060</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>1,203,017</u></u>	<u><u>157,177</u></u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid	\$ 15,584	\$ 8,240

1. Inventories

Inventories consist of:

	<u>DECEMBER 31, 2019</u>	<u>JUNE 30, 2019</u>
Finished Goods	346,167	\$282,302
Work In Progress	1,372,814	1,028,388
Raw Materials	<u>922,797</u>	<u>535,806</u>
Total	<u>\$2,641,778</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 December 31, 2019, the Company achieved pretax income. Management determined that the tax impact on these financial statements was material and therefore has been presented. Federal net operating loss carryforwards expire in 2027 through 2037. . For the six months ended December 31, 2019, the company used approximately \$219,000 of its federal deferred tax asset. As of December 31, 2019, the Company has approximately \$629,000 remaining of federal net operating losses and none at the state level. 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 six months of fiscal 2019 (period ended December 31, 2018) or in the first six months of fiscal 2018 (period ended December 31, 2017). The Company recorded no stock option compensation expense for either of the six month periods ended December 31, 2018 or December 31, 2017.

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 six months ended December 31, 2019 are as follows:

	SIX-MONTHS ENDED DECEMBER 31, 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	12,700	\$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:

	SIX-MONTHS ENDED DECEMBER 31,	
	2019	2018
Service cost-benefits earned during the period	\$ --	\$ 12,525
Interest cost on projected benefit obligation	60,040	58,536
Expected return on plan assets	(53,288)	(54,603)
Amortization of actuarial loss	51,338	29,305
Net periodic pension cost	\$ 58,090	\$ 45,763

5. Revenues

For the three months ended December 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 \$110,198 or 6% of revenues compared to \$83,716 or 9% of revenues for the three months ended December 31, 2018. Non-power products including replacement parts and other short-term business accounted for \$1,625,542 or 94% of revenues in the three months ended December 31, 2018 and \$930,449 or 91% of revenues for the same period in fiscal year 2019.

For the six months ended December 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 \$238,500 or 9% of revenues compared to \$570,000 or 29% of revenues for the six months ended December 31, 2018. Non-power products including replacement parts and other short-term business accounted for \$2,491,500 or 91% of revenues in the six months ended December 31, 2019 and \$1,397,000 or 71% of revenues for the same period in fiscal year 2019.

The aggregate value of the Company's backlog of sales orders was \$4.0 million on December 31, 2019. The Company's backlog of sales orders was \$6.4 million on December 31, 2018.

6. Gross Profit

The Company earned a gross profit of \$751,769 or 43.3% of revenues for the three months ended December 31, 2019 compared to a gross profit of \$439,639 or 43.4% of revenues for the same period in fiscal year 2019.

The Company earned a gross profit of \$1,008,715 or 36.9% of revenues for the six months ended December 31, 2019 compared to a gross profit of \$677,474 or 34.4% of revenues for the same period in fiscal year 2019.

The slightly higher gross profit rate for the six months ended December 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 in both the three months and six months periods favorably impacted the Company's ability to absorb overhead resulting in lower cost of goods sold.

7. Selling, General and Administrative Expenses

Selling, General and Administrative Expenses for the three months ended December 31, 2019 were \$317,091 or 18.3% of revenues compared to \$238,212 or 23.5% of revenues for the three months ended December 31, 2018. The most significant changes in expense and the approximate amounts of the changes were increases in compensation expense \$18,000, legal and professional fees \$10,000, consulting fees \$42,000 and corporate expenses \$9,000.

Selling, General and Administrative Expenses for the six months ended December 31, 2019 were \$558,837 or 20.5% of revenues compared to \$458,495 or 23.3% of revenues for the six months ended December 31, 2018. The most significant changes in expense and the approximate amounts of the changes were increases in compensation expense \$65,000, consulting fees \$46,000, corporate expenses \$8,000 offset by decreases in legal and professional fees \$15,000, telephone expense \$2,000 and general insurance \$2,000.

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 December 31, 2019.

9. Credit Facility

See Note 10 on Dewey Electronics Corporation year end June 30th, 2019 Annual Audited 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 \$277,000.

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 December 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.