

THE DEWEY ELECTRONICS CORPORATION
FY 2019 FINANCIALS
QUARTER ENDING DECEMBER 31, 2018

BALANCE SHEET

| | DECEMBER 31, | JUNE 30, |
|---|--------------|--------------|
| | 2018 | 2018 |
| ASSETS: | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 157,177 | \$ 573,060 |
| Accounts receivable, less allowance for doubtful accounts of \$11,607 and \$0 | 444,122 | 355,717 |
| Inventory | 2,012,298 | 1,805,462 |
| Prepaid expenses and other current assets | 89,879 | 52,651 |
| TOTAL CURRENT ASSETS | 2,703,476 | 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 | (3,556,316) | (3,548,520) |
| | 786,475 | 794,271 |
| DEFERRED COSTS | 65,095 | 65,095 |
| TOTAL ASSETS | \$ 3,555,045 | \$ 3,646,256 |
| LIABILITIES AND STOCKHOLDERS' EQUITY: | | |
| CURRENT LIABILITIES: | | |
| Notes payable – current portion | \$ 113,814 | \$ 500,000 |
| Trade accounts payable | 32,058 | 38,028 |
| Accrued expenses and other liabilities | 183,818 | 159,800 |
| Accrued compensation and benefits payable | 147,876 | 134,883 |
| Accrued pension costs | 350,336 | 423,618 |
| TOTAL CURRENT LIABILITIES | 827,902 | 1,256,329 |
| LONG-TERM LIABILITIES | | |
| Pension Liability | 583,228 | 613,434 |
| Equipment Finance Portion of Note | 106,250 | - |
| TOTAL LIABILITIES | 1,517,380 | 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 December 31, 2018 and June 30, 2018 | 16,934 | 16,934 |
| Additional paid-in capital | 2,883,970 | 2,883,970 |
| Accumulated (deficit) / gain | 41,346 | (189,619) |
| Accumulated other comprehensive loss | (424,465) | (454,671) |
| | 2,517,785 | 2,256,614 |
| Less: Treasury stock, 326,666 shares at December 31, 2018 and June 30, 2018, at cost | (480,119) | (480,119) |
| TOTAL STOCKHOLDERS' EQUITY | 2,037,666 | 1,776,495 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 3,555,046 | \$ 3,646,258 |

THE DEWEY ELECTRONICS CORPORATION
STATEMENTS OF OPERATIONS

| | THREE-MONTHS ENDED DECEMBER 31, | | SIX-MONTHS ENDED DECEMBER 31, | |
|-------------------------------------|------------------------------------|------------------|----------------------------------|--------------------|
| | <u>2018</u> | <u>2017</u> | <u>2018</u> | <u>2017</u> |
| Revenues | \$1,014,166 | \$1,161,789 | \$1,966,722 | \$1,914,484 |
| Cost of revenues | <u>574,527</u> | <u>849,402</u> | <u>1,289,248</u> | <u>1,546,736</u> |
| Gross profit | 439,639 | 312,387 | 677,474 | 367,748 |
| Selling, general and administrative | <u>238,212</u> | <u>253,838</u> | <u>458,495</u> | <u>484,987</u> |
| Operating Income / (Loss) | 201,427 | 58,549 | 218,979 | (117,239) |
| Interest expense | (2,684) | (6,635) | (8,240) | (11,156) |
| Other Income / (Expense)– net | <u>12,613</u> | <u>6,392</u> | <u>20,227</u> | <u>12,758</u> |
| Net Income/ (Loss) | <u>\$ 211,356</u> | <u>\$ 58,306</u> | <u>\$230,966</u> | <u>\$(115,637)</u> |

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

| | THREE-MONTHS ENDED DECEMBER 31, | | SIX-MONTHS ENDED DECEMBER 31, | |
|---|------------------------------------|-----------------|----------------------------------|-------------------|
| | <u>2018</u> | <u>2017</u> | <u>2018</u> | <u>2017</u> |
| Other comprehensive Income / (Loss) –net of tax | | | | |
| Net Income / (Loss) | \$211,356 | \$58,306 | \$230,966 | \$(115,637) |
| Amortization of actuarial losses | <u>15,103</u> | <u>14,202</u> | <u>30,206</u> | <u>28,404</u> |
| Comprehensive Income / (Loss) | <u>\$ 226,459</u> | <u>\$72,508</u> | <u>\$ 261,172</u> | <u>\$(87,233)</u> |

THE DEWEY ELECTRONICS CORPORATION
STATEMENTS OF CASH FLOW

| | <u>SIX-MONTHS ENDED DECEMBER 31,</u> | |
|--|--------------------------------------|-----------------------|
| | <u>2018</u> | <u>2017</u> |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income/(loss) | <u>\$ 230,966</u> | <u>\$ (115,637)</u> |
| Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities: | | |
| Depreciation | 7,796 | 18,911 |
| (Increase) in accounts receivable | (88,405) | (303,711) |
| (Increase) in inventory | (206,835) | (162,922) |
| (Increase)/Decrease in prepaid expenses and other current assets | (37,228) | 29,478 |
| Increase/(Decrease) in accounts payable | (5,969) | 181,147 |
| Increase in accrued expenses and other liabilities | 24,018 | 115,236 |
| Increase in accrued compensation and benefits payable | 12,993 | 2,628 |
| Increase/(Decrease) in accrued pension costs | <u>(73,283)</u> | <u>35,671</u> |
| Total adjustments | <u>(366,913)</u> | <u>(83,562)</u> |
| Net cash (used in) operating activities | <u>(135,947)</u> | <u>(199,199)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Repayment of Former Short Term Borrowings | (500,000) | -- |
| Proceeds from Current Short Term Borrowings | 113,814 | -- |
| Proceeds from Equipment Finance Portion of Note | <u>106,250</u> | <u>--</u> |
| Net cash provided by financing activities | <u>(279,936)</u> | <u>--</u> |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | (415,883) | (199,199) |
| 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>157,177</u></u> | <u><u>265,971</u></u> |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | | |
| Interest paid | \$ 8,240 | \$ 11,156 |

1. Inventories

Inventories consist of:

| | <u>DECEMBER 31, 2018</u> | <u>JUNE 30, 2018</u> |
|------------------|--------------------------|----------------------|
| Finished Goods | 347,328 | \$495,909 |
| Work In Progress | 913,380 | 707,558 |
| Raw Materials | <u>751,590</u> | <u>601,997</u> |
| Total | <u>\$2,012,298</u> | <u>\$1,805,464</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 \$1,953,000 and \$930,000 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 December 31, 2018 these federal and state net deferred tax assets decreased by approximately \$63,000 and \$11,000 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 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, 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 six months ended December 31, 2018 are as follows:

| | THREE-MONTHS ENDED DECEMBER 31, 2018 | |
|--------------------------------------|---|------------------------------------|
| | 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:

| | THREE-MONTHS ENDED DECEMBER 31, | |
|--|------------------------------------|-----------|
| | 2018 | 2017 |
| Service cost-benefits earned during the period | \$ 12,525 | \$ 25,050 |
| Interest cost on projected benefit obligation | 58,536 | 60,112 |
| Expected return on plan assets | (54,603) | (54,196) |
| Amortization of actuarial loss | 29,305 | 28,404 |
| Net periodic pension cost | \$ 45,763 | \$ 59,370 |

5. Revenues

For the three months ended December 31, 2018, 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 \$83,716 or 29% of revenues compared to \$455,816 or 39% of revenues for the three months ended December 31, 2017. Non-power products including replacement parts and other short-term business accounted for \$930,449 or 71% of revenues in the three months ended December 31, 2018 and \$705,973 or 61% of revenues for the same period in fiscal year 2017.

For the six months ended December 31, 2018, 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 \$570,000 or 29% of revenues compared to \$693,583 or 36% of revenues for the six months ended December 31, 2017. Non-power products including replacement parts and other short-term business accounted for \$1,397,000 or 71% of revenues in the six months ended December 31, 2018 and \$1,220,900 or 64% of revenues for the same period in fiscal year 2017.

The aggregate value of the Company's backlog of sales orders was \$6.4 million on December 31, 2018. The Company's backlog of sales orders was \$2.3 million on December 31, 2017.

6. Gross Profit

The Company earned a gross profit of \$439,639 or 43.4% of revenues for the three months ended December 31, 2018 compared to a gross profit of \$312,387 or 26.9% of revenues for the same period in fiscal year 2017.

The Company earned a gross profit of \$677,474 or 34.5% of revenues for the six months ended December 31, 2018 compared to a gross profit of \$367,748 or 19.2% of revenues for the same period in fiscal year 2017.

The higher gross profit for the six months ended December 31, 2018 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.

7. Selling, General and Administrative Expenses

Selling, General and Administrative Expenses for the three months ended December 31, 2018 were \$238,212 or 23.5% of revenues compared to \$253,838 or 21.8% of revenues for the three months ended December 31, 2017. The most significant changes in expense and the approximate amounts of the changes were decreases in compensation expense \$19,000, pension expense \$5,000, group insurance expense \$4,000 and legal and professional fees \$12,000. These decreases in expenses were offset by an increase in consulting fees of approximately \$6,000 and corporate expenses of approximately \$18,000.

Selling, General and Administrative Expenses for the six months ended December 31, 2018 were \$458,495 or 23.3% of revenues compared to \$484,987 or 25.3% of revenues for the six months ended December 31, 2017. The most significant changes in expense and the approximate amounts of the changes were decreases in compensation expense \$17,000, pension expense \$9,000, group insurance expense \$5,000, legal and professional fees \$11,000, repairs and maintenance expense \$2,000 and IT support \$2,000. These decreases in expenses were offset by increases in consulting fees of approximately \$6,000 and corporate expenses of approximately \$44,000.

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, 2018.

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 December 31, 2018, the company had approximately \$157,000 of cash and cash equivalents on hand with the ability to borrow an additional amount of approximately \$356,000.

As of this filing, the company has \$400,000 of cash and cash equivalents on hand with the ability to borrow an additional amount of approximately \$300,000.

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, 2018, 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.