

THE DEWEY ELECTRONICS CORPORATION
 FY 2018 FINANCIALS
 QUARTER ENDING SEPTEMBER 30, 2017

BALANCE SHEET	SEPT 30, <u>2017</u>	JUNE 30, <u>2017</u>
<u>ASSETS:</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 419,010	\$ 465,170
Accounts receivable	238,757	203,078
Inventories	1,790,744	1,765,487
Prepaid expenses and other current assets	<u>76,646</u>	<u>64,189</u>
TOTAL CURRENT ASSETS	<u>2,525,157</u>	<u>2,497,924</u>
PLANT, PROPERTY AND EQUIPMENT:		
Land and improvements	651,015	651,015
Building and improvements	1,962,815	1,962,815
Machinery and equipment	3,364,917	3,364,917
Furniture and fixtures	<u>268,700</u>	<u>268,700</u>
	6,247,446	6,247,447
Less: accumulated depreciation	<u>(5,436,404)</u>	<u>(5,426,949)</u>
	811,043	820,498
DEFERRED COSTS	<u>65,095</u>	<u>65,095</u>
TOTAL ASSETS	<u>\$3,401,295</u>	<u>\$3,383,517</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY:</u>		
CURRENT LIABILITIES:		
Note payable – current portion	\$500,000	\$ 500,000
Trade accounts payable	69,711	23,192
Accrued expenses and other liabilities	325,022	186,813
Accrued compensation and benefits payable	107,430	119,264
Accrued pension costs	<u>429,391</u>	<u>410,565</u>
TOTAL CURRENT LIABILITIES	<u>1,431,554</u>	<u>1,239,834</u>
LONG-TERM PENSION LIABILITY	<u>640,820</u>	<u>671,184</u>
TOTAL LIABILITIES	<u>2,072,374</u>	<u>1,911,018</u>
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, 2017 and June 30, 2017	16,934	16,934
Additional paid-in capital	2,883,970	2,883,970
Retained earnings	(609,807)	(435,865)
Accumulated other comprehensive loss	<u>(482,057)</u>	<u>(512,421)</u>
	1,809,040	1,952,618
Less: Treasury stock of 326,666 shares at September 30, 2017 and June 30, 2017, at cost	<u>(480,119)</u>	<u>(480,119)</u>
TOTAL STOCKHOLDERS' EQUITY	<u>1,328,921</u>	<u>1,472,499</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$3,401,295</u>	<u>\$3,383,517</u>

See accompanying notes to condensed financial statements

DEWEY ELECTRONICS CORPORATION
STATEMENTS OF OPERATIONS

	THREE-MONTHS ENDED SEPTEMBER 30,	
	<u>2017</u>	<u>2016</u>
Revenues	\$752,695	\$473,225
Cost of revenues	<u>697,334</u>	<u>535,252</u>
Gross profit	55,361	(62,027)
Selling, general and administrative	<u>231,149</u>	<u>317,578</u>
Operating loss	(175,788)	(379,605)
Interest expense	(4,521)	--
Other income/(expense)– net	<u>6,366</u>	<u>4,466</u>
Loss before income taxes	(173,943)	(375,139)
Provision for income tax	---	---
Net loss	<u>\$(173,943)</u>	<u>\$(375,139)</u>
Net loss per common share-Basic	\$ (0.13)	\$ (0.27)
Net loss per common share-Diluted	\$ (0.13)	\$ (0.27)
Weighted average number of shares outstanding:		
Basic	1,366,731	1,366,731
Diluted	1,366,731	1,366,731

STATEMENTS OF COMPREHENSIVE LOSS

	THREE-MONTHS ENDED SEPTEMBER 30,	
	<u>2017</u>	<u>2016</u>
Other comprehensive loss – net of tax		
Net loss	\$(173,943)	\$(375,139)
Amortization of actuarial losses	<u>14,202</u>	<u>30,365</u>
Comprehensive loss	<u>\$(159,741)</u>	<u>\$(344,774)</u>

THE DEWEY ELECTRONICS CORPORATION
STATEMENTS OF CASH FLOWS

THREE-MONTHS ENDED
SEPTEMBER 30,
2017 2016

CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	<u>\$(173,943)</u>	<u>\$(375,139)</u>
Adjustments to reconcile net loss to		
Net cash (used in)/provided by operating activities:		
Depreciation	9,455	9,455
Increase in accounts receivable	(35,679)	298,909
Increase in inventories	(25,257)	(271,154)
Provision for inventory reserve	--	87,448
Decrease in prepaid expenses and		
other current assets	(12,457)	10,089
Increase in trade accounts payable	46,520	(43,018)
Increase in accrued expenses and other liabilities	138,209	(27,672)
Decrease in accrued compensation and benefits payable	(11,834)	48
Increase in accrued pension costs	<u>18,826</u>	<u>9,631</u>
Total adjustments	<u>127,783</u>	<u>73,736</u>
NET CASH USED IN BY OPERATING ACTIVITIES	<u>(46,160)</u>	<u>(301,403)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures for plant, property and equipment	<u>--</u>	<u>--</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>--</u>	<u>--</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from short-term borrowings	--	250,000
Proceeds from exercise of stock options	<u>--</u>	<u>8,037</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>--</u>	<u>258,037</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(46,160)	(43,366)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>465,170</u>	<u>539,742</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 419,010</u>	<u>\$ 496,376</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	<u>\$ 4,521</u>	<u>\$ -</u>

THE DEWEY ELECTRONICS CORPORATION
NARRATIVE TO FINANCIAL STATEMENTS

1. Inventories

Inventories consist of:

	<u>September 30, 2017</u>	<u>June 30, 2017</u>
Finished Goods	\$ 323,366	\$324,150
Work In Progress	761,440	757,442
Raw Materials	<u>705,938</u>	<u>683,895</u>
Total	<u>\$1,790,744</u>	<u>\$1,765,487</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 \$2,324,000 and \$1,313,000 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 September 30, 2017 these federal and state net deferred tax assets increased by approximately \$59,000 and \$10,000 respectively, as a result of a net loss 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 three months of fiscal 2018 (period ended September 30, 2017) or in the first three months of fiscal 2017 (period ended September 30, 2016). The Company recorded no stock option compensation expense for either of the three month periods ended September 30, 2017 or September 30, 2016.

For the full fiscal year ending June 30, 2018, 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, 2017 are as follows:

	<u>September 30, 2017</u>	
	<u>Three Months</u>	
	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
Beginning balance	14,500	\$1.98
Granted	--	--
Exercised	--	--
Cancelled or expired	--	--
Ending balance	<u>14,500</u>	<u>\$1.98</u>
Options exercisable at end of period		

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,	
	<u>2017</u>	<u>2016</u>
Service cost-benefits earned during the period	\$ 12,525	\$ 13,894
Interest cost on projected benefit obligation	30,056	29,745
Expected return on plan assets	(27,098)	(26,623)
Amortization of actuarial loss	<u>14,202</u>	<u>30,365</u>
Net periodic pension cost	<u>\$ 29,685</u>	<u>\$ 47,381</u>

5. Revenues

For the three months ended September 30, 2017, 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 \$335,000 or 45% of revenues compared to \$354,000 or 75% of revenues for the three months ended September 30, 2016. Non-power products including replacement parts and other short-term business accounted for \$417,000 or 55% of revenues in the three months ended September 30, 2017 and \$120,000 or 25% of revenues for the same period in fiscal year 2017.

The aggregate value of the Company's backlog of sales orders was \$2.3 million on September 30, 2017. The Company's backlog of sales orders was \$2.2 million on September 30, 2016.

6. Gross Profit

The Company earned a gross profit of \$55,361 or 7.4% of revenues for the three months ended September 30, 2017 compared to a gross loss of \$(62,027) or (13.1%) of revenues for the same period in fiscal year 2016.

The higher gross profit for the three months ended September, 2017 was primarily due to an increase in overall sales of both power and non-power products. The higher production levels favorably impacted the Company's ability to absorb more overhead resulting in lower cost of goods sold.

7. Selling, General and Administrative Expenses

Selling, General and Administrative Expenses for the three months ended September 30, 2017 were \$231,149 or 31% of revenues compared to \$317,578 or 67% of revenues for the three months ended September 30, 2016. The most significant changes in expense and the approximate amounts of the changes were decreases in compensation expense (\$27,000), consulting expense (\$30,000), corporate expense (\$22,000), and shows and meetings (\$6,000).

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 September 30, 2017, 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.