

**THE DEWEY ELECTRONICS CORPORATION**  
**FY 2019 FINANCIALS**  
**QUARTER ENDING SEPTEMBER 30, 2018**

**Balance Sheets**

	<u>September 30,</u> 2018	<u>June 30,</u> 2018
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 314,705	\$ 573,060
Accounts receivable, less allowance for doubtful accounts of \$11,607 and \$0	485,404	355,717
Inventory	1,809,565	1,805,462
Prepaid expenses and other current assets	<u>42,973</u>	<u>52,651</u>
TOTAL CURRENT ASSETS	<u>2,652,647</u>	<u>2,786,892</u>
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	<u>268,700</u>	<u>268,700</u>
	4,342,791	4,342,791
Less: accumulated depreciation	<u>(3,552,418)</u>	<u>(3,548,520)</u>
	<u>790,373</u>	<u>794,271</u>
DEFERRED COSTS	<u>65,095</u>	<u>65,095</u>
TOTAL ASSETS	<u>\$ 3,508,115</u>	<u>\$ 3,646,258</u>
LIABILITIES AND STOCKHOLDERS' EQUITY:		
CURRENT LIABILITIES:		
Notes payable – current portion	\$ 300,000	\$ 500,000
Trade accounts payable	135,604	38,028
Accrued expenses and other liabilities	147,936	159,800
Accrued compensation and benefits payable	123,679	134,883
Accrued pension costs	<u>391,358</u>	<u>423,618</u>
TOTAL CURRENT LIABILITIES	<u>1,098,578</u>	<u>1,256,329</u>
LONG-TERM PENSION LIABILITY	<u>598,331</u>	<u>613,434</u>
TOTAL LIABILITIES	<u>1,696,908</u>	<u>1,869,763</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, 2018 and June 30, 2018	16,934	16,934
Additional paid-in capital	2,883,970	2,883,970
Accumulated deficit	(170,010)	(189,619)
Accumulated other comprehensive loss	<u>(439,568)</u>	<u>(454,671)</u>
	2,291,326	2,256,614
Less: Treasury stock, 326,666 shares at September 30, 2018 and June 30, 2018, at cost	<u>(480,119)</u>	<u>(480,119)</u>
TOTAL STOCKHOLDERS' EQUITY	<u>1,811,207</u>	<u>1,776,495</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 3,508,115</u>	<u>\$ 3,646,258</u>

**The Dewey Electronics Corporation**

**Statements of Operations**

	<u>Three-Months Ended</u> <u>2018</u>	<u>September 30,</u> <u>2017</u>
Revenues	\$ 952,556	\$ 752,695
Cost of revenues	<u>714,721</u>	<u>697,334</u>
Gross profit	237,835	55,361
Selling, general and administrative expenses	<u>220,283</u>	<u>231,149</u>
Operating income/(loss)	17,552	(175,788)
Interest expense	(5,556)	(4,521)
Other income – net	<u>7,614</u>	<u>6,366</u>
NET INCOME/(LOSS)	<u>\$ 19,611</u>	<u>\$ (173,943)</u>

**Statements of Comprehensive Income/(Loss)**

	<u>Three-Months Ended</u> <u>2018</u>	<u>September 30,</u> <u>2017</u>
Net income/(loss)	\$ 19,611	\$ (173,943)
Amortization of actuarial gains	<u>15,103</u>	<u>14,202</u>
Comprehensive income/(loss)	<u>\$ 34,714</u>	<u>\$ (159,741)</u>

## The Dewey Electronics Corporation

### Statements of Cash Flows

	Three-Months Ended September 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income/(loss)	\$ 19,611	\$ (173,943)
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:		
Depreciation	3,898	9,455
Decrease in accounts receivable	(129,687)	(35,679)
Decrease in inventory	(4,103)	(25,257)
(Increase)/Decrease in prepaid expenses and other current assets	9,678	(12,457)
(Decrease) in accounts payable	97,576	46,520
(Increase)/Decrease in accrued expenses and other liabilities	(11,864)	138,209
Increase/(Decrease) in accrued compensation and benefits payable	(11,204)	(11,834)
Increase/(Decrease) in accrued pension costs	(32,260)	18,826
Total adjustments and changes in operating assets and liabilities	(77,965)	127,783
Net cash provided by/(used in) operating activities	(58,355)	(46,160)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash provided by/(used in) investing activities	--	--
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of Short Term Borrowings	(200,000)	--
Net cash provided by financing activities	(200,000)	--
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(258,355)	(46,160)
CASH AND CASH EQUIVALENTS	573,060	465,170
CASH AND CASH EQUIVALENTS	314,705	419,010
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid	\$ 5,556	\$ 4,521

### 1. Inventories

Inventories consist of:

	<u>September 30, 2018</u>	<u>June 30, 2018</u>
Finished Goods	\$271,015	\$495,909
Work In Progress	940,647	707,558
Raw Materials	<u>597,903</u>	<u>601,997</u>
Total	<u>\$1,809,565</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 \$1,890,000 and \$919,000 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, 2018 these federal and state net deferred tax assets decreased by approximately \$7,000 and \$1,000 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 three months of fiscal 2019 (period ended September 30, 2018) or in the first three months of fiscal 2018 (period ended September 30, 2017). The Company recorded no stock option compensation expense for either of the three month periods ended September 30, 2018 or September 30, 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 three months ended September 30, 2018 are as follows:

	THREE-MONTHS ENDED SEPTEMBER 30, 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		

#### 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,	
	2018	2017
Service cost-benefits earned during the period	\$ 6,262	\$ 12,525
Interest cost on projected benefit obligation	29,268	30,056
Expected return on plan assets	(27,302)	(27,098)
Amortization of actuarial loss	14,653	14,202
Net periodic pension cost	\$ 22,881	\$ 29,685

#### 5. Revenues

For the three months ended September 30, 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 \$280,000 or 29% of revenues compared to \$335,000 or 45% of revenues for the three months ended September 30, 2017. Non-power products including replacement parts and other short-term business accounted for \$673,000 or 71% of revenues in the three months ended September 30, 2018 and \$417,000 or 55% of revenues for the same period in fiscal year 2017.

The aggregate value of the Company's backlog of sales orders was \$5.5 million on September 30, 2018. The Company's backlog of sales orders was \$2.3 million on September 30, 2017.

#### 6. Gross Profit

The Company earned a gross profit of \$237,835 or 25.0% of revenues for the three months ended September 30, 2018 compared to a gross profit of \$55,361 or 7.4% of revenues for the same period in fiscal year 2017.

The higher gross profit for the three months ended September 30, 2018 was primarily due to an increase in overall sales of non-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 September 30, 2018 were \$220,283 or 23.1% of revenues compared to \$231,149 or 30.7% of revenues for the three months ended September 30, 2017. The most significant change was a decrease in compensation expense of approximately \$10,000.

### 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 September 30, 2018.

### 9. Subsequent Events

See Note 10 on Dewey Electronics Corporation year end June 30<sup>th</sup>, 2018 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 \$416,846.

*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, 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.*