THE DEWEY ELECTRONICS CORPORATION
FY 2017 FINANCIALS
QUARTER ENDING MARCH 31, 2017

BALANCE SHEET	MARCH 31, 2017	JUNE 30, 2016
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	$ 344,608	$ 539,742
Accounts receivable	211,888	497,862
Inventories	2,127,712	1,889,908
Prepaid expenses and other current assets	110,861	106,047
TOTAL CURRENT ASSETS	2,795,069	3,033,559
PLANT, PROPERTY AND EQUIPMENT:		
Land and improvements	651,015	651,015
Building and improvements	1,963,939	1,957,815
Machinery and equipment	3,349,393	3,342,690
Furniture and fixtures	268,700	268,700
	6,233,047	6,220,220
Less: accumulated depreciation	(5,415,021)	(5,386,655)
	818,026	833,565
DEFERRED COSTS	65,095	65,095
TOTAL ASSETS	$3,678,190	$3,932,219
LIABILITIES AND STOCKHOLDERS' EQUITY:		
CURRENT LIABILITIES:		
Note payable – current portion	$500,000	$ --
Trade accounts payable	131,413	123,495
Accrued expenses and other liabilities	265,442	236,665
Accrued compensation and benefits payable	128,374	152,573
Accrued pension costs	386,746	301,229
TOTAL CURRENT LIABILITIES	1,411,975	813,962
LONG-TERM PENSION LIABILITY	920,912	1,012,005
TOTAL LIABILITIES	2,332,887	1,825,967
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 and 1,362,031 shares outstanding at March 31, 2017 and June 30, 2016, respectively	16,934	16,934
Additional paid-in capital	2,883,970	2,882,842
Retained earnings	(313,333)	546,747
Accumulated other comprehensive loss	(762,149)	(853,243)
	1,825,422	2,593,280
Less: Treasury stock of 326,666 shares and 331,366 shares at March 31, 2016 and June 30, 2016, respectively, at cost	(480,119)	(487,028)
TOTAL STOCKHOLDERS' EQUITY	1,345,303	2,106,252
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$3,678,190	$3,932,219

See accompanying notes to condensed financial statements

THE DEWEY ELECTRONICS CORPORATION
STATEMENTS OF OPERATIONS

	THREE-MONTHS ENDED MARCH 31,		NINE-MONTHS ENDED MARCH 31,	
	2017	2016	2017	2016
Revenues	$776,543	$819,549	$2,200,968	$3,703,224
Cost of revenues	740,706	623,323	2,028,746	2,684,925
Gross profit	35,837	196,226	172,222	1,018,299
Selling, general and administrative	326,610	442,303	1,039,593	1,378,866
Operating loss	(290,773)	(246,077)	(867,371)	(360,567)
Interest expense	(5,312)	(5,646)	(8,506)	(14,618)
Other income/(expense)- net	3,167	51,940	15,797	49,935
Loss before income taxes	(292,918)	(199,783)	(860,080)	(325,250)
Provision for income tax	--	--	--	--
Net loss	$(292,918)	$(199,783)	$(860,080)	$(325,250)
Net loss per common share-Basic	$ (0.21)	$ (0.15)	$ (0.63)	$ (0.24)
Net loss per common share-Diluted	$ (0.21)	$ (0.15)	$ (0.63)	$ (0.24)
Weighted average number of shares outstanding:				
Basic	1,366,731	1,362,031	1,366,731	1,362,031
Diluted	1,366,731	1,362,031	1,366,731	1,362,031

STATEMENTS OF COMPREHENSIVE LOSS

	THREE-MONTHS ENDED MARCH 31,		NINE-MONTHS ENDED MARCH 31,	
	2017	2016	2017	2016
Other comprehensive loss – net of tax				
Net loss	$(292,918)	$(199,783)	$(860,080)	$(325,250)
Amortization of actuarial losses	30,365	33,566	91,095	100,698
Comprehensive loss	$(262,553)	$(166,217)	$ (768,985)	$(224,552)

THE DEWEY ELECTRONICS CORPORATION
STATEMENTS OF CASH FLOWS

	NINE-MONTHS ENDED MARCH 31, 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$(860,080)	$(325,250)
Adjustments to reconcile net loss to		
Net cash (used in)/provided by operating activities:		
Depreciation	28,366	27,434
Decrease in accounts receivable	285,974	1,099,026
Increase in inventories	(328,686)	(508,894)
Provision for inventory reserve	90,882	7,190
Increase in prepaid expenses and other current assets	(4,813)	(34,529)
Increase/(Decrease)in trade accounts payable	7,918	(173,766)
Increase/(Decrease)in accrued expenses and other liabilities	28,778	(106,123)
Decrease in accrued compensation and benefits payable	(24,200)	(28,567)
Increase in accrued pension costs	85,517	65,346
Total adjustments	169,736	347,117
NET CASH USED IN BY OPERATING ACTIVITIES	(690,344)	21,867
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures for plant, property and equipment	(12,827)	(22,681)
NET CASH USED IN INVESTING ACTIVITIES	(12,827)	(22,681)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from short-term borrowings	500,000	--
Proceeds from exercise of stock options	8,037	--
NET CASH PROVIDED BY FINANCING ACTIVITIES	508,037	--
NET DECREASE IN CASH AND CASH EQUIVALENTS	(195,134)	(814)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	539,742	347,598
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 344,608	$ 346,784
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	$ 8,506	$ 14,618

THE DEWEY ELECTRONICS CORPORATION
NARRATIVE TO FINANCIAL STATEMENTS

1. Inventories

Inventories consist of:

	March 31, 2017	June 30, 2016
Finished Goods	$ 405,278	$66,652
Work In Progress	1,026,964	944,267
Raw Materials	695,470	878,989
Total	$2,127,712	$1,889,908

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 $1,290,000 and $170,000 of federal and state net deferred tax assets, respectively, primarily arising from net operating loss carry-forwards, expiring beginning in 2017. In the nine month period ended March 31, 2017 these federal and state net deferred tax assets increased by approximately $293,000 and $35,000, 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 nine months of fiscal 2017 (period ended March 31, 2017) or in the first nine months of fiscal 2016 (period ended March 31, 2016). The Company recorded no stock option compensation expense for either of the nine month periods ended March 31, 2017 or March 31, 2016.

For the full fiscal year ending June 30, 2017, 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 and nine months ended March 31, 2017 are as follows:

	March 31, 2017			
	Three Months		Nine Months	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Beginning balance	16,000	$1.97	20,700	$1.92
Granted	--	--	--	--
Exercised	--	--	(4,700)	1.71
Cancelled or expired	(1,000)	$2.24	(1,000)	2.24
			--	
Ending balance	15,000	$1.97	15,000	$1.97
Options exercisable at end of period	15,000	$1.97	15,000	$1.97

4. Notes Payable

The Company maintains a line of credit (the "Line of Credit") with TD Bank, NA (the "Bank") for $500,000. On November 4, 2016, the Bank notified the Company that it has extended the Line of Credit, which was due to expire on November 30, 2016, for an additional year ending November 30, 2017. No other terms of the Company's revolving term note to the Bank were changed.

The Line of Credit provides among other things for an annual interest rate on borrowings equal to the Bank's prime rate plus 1.00% and is subject to customary representations, covenants, and default provisions in favor of the Bank. Any loans drawn under the Line of Credit are secured by a first lien on all of the Company's accounts receivable, machinery, equipment, other personal property and Commercial Mortgages on the Company's real property. The rate applicable to the Line of Credit at March 31, 2017 was approximately 4.75%. The Company has previously utilized the Line of Credit during periods of increased production requirements and anticipates that it will continue to utilize this credit facility during future periods of peak production activity. As of March 31, 2017, the Company had $500,000 of outstanding borrowings against the Line of Credit.

5. 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 MARCH 31, 2017	THREE-MONTHS ENDED MARCH 31, 2016
Service cost-benefits earned during the period	$ 13,894	$ 12,024
Interest cost on projected benefit obligation	29,745	32,297
Expected return on plan assets	(26,623)	(26,855)
Amortization of actuarial loss	30,365	33,566
Net periodic pension cost	$ 47,381	$ 51,032

	NINE-MONTHS ENDED MARCH 31, 2017	NINE-MONTHS ENDED MARCH 31, 2016
Service cost-benefits earned during the period	$ 41,682	$ 36,072
Interest cost on projected benefit obligation	89,235	96,891
Expected return on plan assets	(79,869)	(80,565)
Amortization of actuarial loss	91,095	100,698
Net periodic pension cost	$ 142,143	$ 153,096

6. Revenues

For the three months ended March 31, 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 $300,617 or 39% of revenues compared to $203,419 or 25% of revenues for the three months ended March 31, 2016. Non-power products including replacement parts and other short-term business accounted for $475,927 or 61% of revenues in the three months ended March 31, 2017 and $616,134 or 75% of revenues for the same period in fiscal year 2016.

For the nine month period ended March 31, 2017 revenues related to power products were $1,177,110 or 53% of revenues compared to $1,705,334 or 45% of revenues for the same period in fiscal 2016 (nine months ended March 31, 2016). Non-power products for the nine months ended March 31, 2017 were $1,023,860 or 47% of revenues compared to $1,997,938 or 54% of revenues for the nine months ended March 31, 2016.

Overall, revenues for the nine month period ended March 31, 2017 were approximately $1,502,000 lower when compared to the nine month period ended March 31, 2016.

The aggregate value of the Company’s backlog of sales orders was $2.1 million on March 31, 2017. The Company’s backlog of sales orders was $3.0 million on March 31, 2016.

7. Gross Profit

The Company earned a gross profit of $35,837 or 5% of revenues for the three months ended March 31, 2017 compared to a gross profit of $196,227 or 24% of revenues for the same period in fiscal year 2016.

The Company earned a gross profit of $172,222 or 8% of revenues for the nine months ended March 31, 2017 compared to a gross profit of $1,018,299 or 27% of revenues for the same period in fiscal 2016.

The lower gross profit for both the three and nine months ended March 31, 2017 was primarily due to a decrease in overall sales of both power and non-power products resulting in production levels which were below those necessary to absorb overhead. This resulted in unallocated overhead being expensed in the nine months ended March 31, 2017.

8. Selling, General and Administrative Expenses

Selling, General and Administrative Expenses for the three months ended March 31, 2017 were $326,610 or 42% of revenues compared to $442,302 or 54% of revenues for the three months ended March 31, 2016. The most significant changes in expense and the approximate amounts of the changes were decreases in consulting expense ($50,000), legal & professional expense ($25,000), compensation ($23,000), outside services ($6,000),general corporate expense ($4,000), travel ($4,000) and repairs & maintenance ($4,000).

Selling, General and Administrative Expenses for the nine months ended March 31, 2017 were $1,039,593 or 47% of revenues compared to $1,378,865 or 37% of revenues for the nine months ended March 31, 2016. The most significant changes in expense and the approximate amounts of the changes were decreases in consulting expense ($203,000), compensation expense ($62,000), recruiting expense ($23,000), shows and meetings ($13,000), outside services ($14,000), repairs and maintenance ($10,000),real estate taxes ($5,000), corporate expense ($5,000) and travel ($4,000).

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 March 31, 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.