

**THE DEWEY ELECTRONICS CORPORATION**  
**FY 2021 FINANCIALS**  
**QUARTER ENDING DECEMBER 31, 2020**

**BALANCE SHEET**

	DECEMBER 31, 2020	JUNE 30, 2020
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 3,412,845	\$ 1,521,967
Accounts receivable	1,128,306	121,286
Inventory	3,197,917	2,488,514
Prepaid expenses and other current assets	281,363	90,433
TOTAL CURRENT ASSETS	8,020,431	4,222,200
PROPERTY, PLANT AND EQUIPMENT:		
Machinery and equipment	2,482,022	3,339,267
Patents and trademarks	266,048	29,849
Furniture and fixtures	316,868	277,378
	3,064,938	3,646,494
Less: accumulated depreciation	(2,599,998)	(3,575,762)
	464,940	70,732
OTHER ASSETS		
Assets held for sale, net	104,160	735,609
Deferred tax asset	177,656	177,656
Security deposits	31,167	-
Deferred Costs	-	65,095
TOTAL OTHER ASSETS	312,983	978,360
TOTAL ASSETS	\$ 8,798,354	\$ 5,271,292
LIABILITIES AND STOCKHOLDERS' EQUITY:		
CURRENT LIABILITIES:		
Notes payable – current portion	\$ 375,188	\$ 97,931
Paycheck protection program loan – current portion	-	133,855
Trade accounts payable	75,566	121,814
Accrued expenses and other liabilities	1,052,996	149,568
Accrued taxes property sale	518,349	-
Accrued compensation and benefits payable	136,236	142,966
Accrued pension costs	346,084	404,833
TOTAL CURRENT LIABILITIES	2,504,419	1,050,967
LONG-TERM LIABILITIES		
Paycheck protection program – long-term portion	-	163,482
Deferred gain	773,565	-
Accrued royalty	298,854	-
Pension liability	1,154,057	1,184,263
TOTAL LONG-TERM LIABILITIES	2,226,476	1,347,745
TOTAL LIABILITIES	4,730,895	2,398,712
TOTAL STOCKHOLDERS' EQUITY	4,067,459	2,872,580

**THE DEWEY ELECTRONICS CORPORATION**  
**FY 2021 FINANCIALS**  
**QUARTER ENDING DECEMBER 31, 2020**

**BALANCE SHEET (continued)**

	DECEMBER 31	JUNE 30,
	2020	2020
<b>STOCKHOLDERS' EQUITY:</b>		
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, 2020 and June 30, 2020	16,934	16,934
Additional paid-in capital	2,883,970	2,883,970
Accumulated gain	2,641,969	1,477,295
Accumulated other comprehensive loss	(995,295)	(1,025,500)
	4,547,578	3,352,699
Less: Treasury stock, 326,666 shares at December 31, 2020 and June 30, 2020, at cost	(480,119)	(480,119)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>4,067,459</b>	<b>2,872,580</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 8,771,354</b>	<b>\$ 5,271,292</b>

**THE DEWEY ELECTRONICS CORPORATION**  
**STATEMENTS OF OPERATIONS**

	SIX-MONTHS ENDED DECEMBER 31,	
	<u>2020</u>	<u>2019</u>
Revenues	\$ 2,147,077	\$ 2,730,074
Cost of revenues	<u>1,788,452</u>	<u>1,721,359</u>
Gross profit	358,625	1,008,715
Selling, general and administrative	<u>587,171</u>	<u>558,837</u>
Operating Income	(228,546)	449,879
Interest expense	(21,699)	(15,584)
Other Income – net	<u>381,611</u>	<u>8,001</u>
Income before property sale and taxes	131,366	442,295
Gain on sale of property net of taxes	<u>1,033,309</u>	<u>(118,598)</u>
Net Income	<u>\$1,164,675</u>	<u>\$ 323,697</u>

**CONDENSED STATEMENTS OF COMPREHENSIVE  
INCOME**

	SIX-MONTHS ENDED DECEMBER 31,	
	<u>2020</u>	<u>2019</u>
Other comprehensive Income –net of tax		
Net Income	\$ 1,164,675	\$ 323,697
Amortization of actuarial losses	<u>30,206</u>	<u>30,206</u>
Comprehensive Income	<u>\$ 1,194,881</u>	<u>\$ 353,903</u>

**THE DEWEY ELECTRONICS CORPORATION**  
**STATEMENTS OF CASH FLOW**

	<u>SIX-MONTHS ENDED DECEMBER 31,</u>	
	<u>2020</u>	<u>2019</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 1,164,675	\$ 323,697
Adjustments to reconcile net income to net cash (used in)/provided by operating activities:		
Gain on sale of asset	(2,182,697)	-
Depreciation	24,236	7,796
Amortization on gain on asset	(55,255)	-
(Increase)/Decrease in accounts receivable	(1,007,020)	507,747
Decrease in Deferred taxes	518,349	89,598
(Increase) in inventory	(598,176)	(782,716)
(Decrease) in Provision for Inventory Reserve	-	(12,566)
(Increase)/Decrease in prepaid expenses and other current assets	(190,930)	60,601
Increase/(Decrease) in accounts payable	(46,248)	92,214
Increase in accrued expenses and other liabilities	713,827	73,096
(Decrease) in accrued pension costs	(58,749)	(49,624)
<b>Total adjustments</b>	<u>(2,882,663)</u>	<u>(13,854)</u>
<b>Net cash (used in)/provided by operating activities</b>	<u>(1,717,987)</u>	<u>309,843</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Expenditures for property, plant, and equipment	(79,116)	(12,877)
Proceeds from assets held for sale	3,708,061	-
<b>Net cash provided by/(used in) investing activities</b>	<u>3,628,945</u>	<u>(12,877)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Short Term Borrowings	(20,080)	82,443
Proceeds from Current Short Term Borrowings	-	-
<b>Net cash provided by (used by) financing activities</b>	<u>(20,080)</u>	<u>82,443</u>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	1,890,878	379,409
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<u>1,521,967</u>	<u>823,608</u>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<u>\$ 3,412,845</u>	<u>\$ 1,203,017</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Interest paid	\$ 21,699	\$ 15,584
<b>NON-CASH DISCLOSURES</b>		
Inventory purchased through financing	\$ 111,226	
Fixed assets acquired through business combination	339,332	
Scrap fully depreciated assets	1,000,000	
Remove related accumulated depreciation	(1,000,000)	

### 1. INI Power Systems Asset Acquisition

On September 28th, 2020, the Company entered into an agreement with Corbel Structured Capital Equity Partners LP to purchase essentially all of the assets of INI Power Systems. This is being accounted for as a business combination. The Company acquired Inventory valued at \$261,000, assorted Machinery and equipment valued at \$261,000, and Patents and trademarks valued at \$236,000. At the time of the sale INI assets were acquired in exchange for \$150,000 Cash, and additional \$150,000 due September 28, 2021, this liability is recorded with Accrued liabilities. In addition, the Company agreed to pay 15% royalties on INI product sales, and 50% on any proceeds from the sale of INI asset sales, both for 5 years.

For accounting purposes future revenues are conservatively forecasted. The present value of the estimated future royalties is \$300,558. For the period ended December 31, 2020, the company paid \$1,704 royalties to Corbel. These accrued royalty costs will be amortized over the next five years. For the period ended December 31, 2020, the company recognized \$15,028 of amortization expense related to the INI purchase.

### 2. Inventories

Inventories consist of:

	<u>DECEMBER 31, 2020</u>	<u>JUNE 30, 2020</u>
Finished Goods	\$ 340,602	\$ 311,574
Work In Progress	1,395,867	1,362,757
Raw Materials	<u>1,461,448</u>	<u>814,183</u>
Total	<u>\$ 3,197,917</u>	<u>\$ 2,488,514</u>

### 3. Property, Plant, and Equipment

On August 13, 2020, the company entered into a sale and purchase agreement for the sale of the building and associated property for cash consideration of \$4 million dollars. At the time of the sale, the company recorded a gain of \$2.2 million and a deferred gain of \$829,000, which is being amortized over five years. For the six months ended December 31, 2020, the Company recognized \$56,000 of this gain.

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, five to ten years for furniture and fixtures and improvements.

With the INI business combination, we acquired \$104,000 in Machinery and equipment, and \$236,000 in Patents, trademarks and intellectual property. These assets will be depreciated over 5 years.

In the six months period ending December 31, 2020, with the sale of the building, and the consolidations of operations into a smaller footprint within the building, \$1.0 million of fully depreciated fixed assets and the related accumulated depreciation were retired.

### 4. Other Assets

As of June 30, 2020 the Company had assets held for sale of \$735,609 included the building associated property, and "The Hill" property (the undeveloped land and flat ground adjacent to building). As well as related deferred costs relating to the real estate of \$65,095. With the sale of the building and associated property, only the \$104,160 remains in Assets held for sale related to "The Hill". The Company believes, as of this writing; the sale of the land is probable, though not assured.

## 5. Accrued Expenses and Other Liabilities

	<u>DECEMBER 31, 2020</u>	<u>JUNE 30, 2020</u>
Customer deposits	\$ 661,831	\$ 28,786
Accrued audit and accounting	30,500	35,000
Accrued warranty reserve	26,403	26,403
Other accrued expenses	334,262	37,377
Income taxes payable	-	<u>22,002</u>
Total	<u>\$ 1,052,996</u>	<u>\$ 149,568</u>

## 6. Revenues

For the six months ended December 31, 2020, 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 \$517,563 or 24% of revenues compared to \$238,431 or 9% of revenues for the six months ended December 31, 2019. Non-power products including replacement parts and other short-term business accounted for \$1,629,532 or 76% of revenues in the six months ended December 31, 2020 and \$2,491,642 or 91% of revenues for the same period in fiscal year 2020.

The aggregate value of the Company's backlog of sales orders was \$6.7 million on December 31, 2020, approximately 45% of this is expected to become revenue in the current fiscal year. The Company's backlog of sales orders was \$4.0 million on December 31, 2019.

## 7. Gross Profit

The Company earned a gross profit of \$358,625 or 16.7% of revenues for the six months ended December 31, 2020 compared to a gross profit of \$1,008,715 or 36.9% of revenues for the same period in fiscal year 2019.

The lower gross profit rate for the six months ended December 31, 2020 was primarily due to an decrease in sales of non-power products, which typically are spare parts with higher margins as compared to power products. The increase in power products production levels, coupled with an increased generator costs adversely impacted the Company's ability to absorb overhead resulting in higher cost of goods sold.

## 8. Selling, General and Administrative Expenses

Selling, General and Administrative Expenses for the six months ended December 31, 2020 were \$587,171 or 27.3% of revenues compared to \$558,837 or 20.5% of revenues for the six months ended December 31, 2019. The most significant changes are related to start-up costs related to the integration of INI.

## 9. 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, 2020 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 2021 (period ended December 31, 2020) or in the first six months of fiscal 2020 (period ended December 31, 2019). The Company recorded no stock option compensation expense for either of the six month periods ended December 31, 2020 or December 31, 2019.

For the full fiscal year ending June 30, 2021, 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, 2020 are as follows:

	SIX-MONTHS ENDED DECEMBER 31, 2020	
	Shares	Weighted Average Exercise Price
Beginning balance	4,700	\$1.84
Granted	--	--
Exercised	--	--
Cancelled or expired	(3,000)	\$(0.29)
Ending Balance	1,700	\$1.55
Options exercisable at end of period	1,700	\$1.55

#### 10. Taxes on Income

The tax liabilities show the balance sheet and statement of operations show the estimated liabilities and expenses of the real estate transaction referred to in Note 3. These estimates will not be confirmed until our taxes are prepared. Estimates for the Net Operating Loss carryforward from end of fiscal year June 30, 2020 will be updated at year end.

Please refer to Note 6 on our June 30, 2020 financial statements for more details.

#### 11. Pension Plan

Please refer to Note 7 of the June 30<sup>th</sup>, 2020 financials for all Pension Plan details.

#### 12. Credit Facility

See Note 10 on Dewey Electronics Corporation year end June 30<sup>th</sup>, 2020 Annual Reviewed Financial statements concerning the loan and security agreement entered between Dewey Electronics and Crestmark Financial.

### 13. Leasehold Commitments

The Company entered into a five-year sale and leaseback agreement for office and warehouse space beginning September 1, 2020.

Future minimum rental payments under future noncancelable operating lease as of December 31, 2020 are approximately as follows:

2021	\$ 93,500
2022	190,000
2023	196,000
2024	201,000
2025	206,000
Thereafter	<u>34,000</u>
Future minimum lease payments	<u>\$ 920,000</u>

### 14. Paycheck Protection Program Loan

On April 16, 2020, the Company received \$297,337 from the Paycheck protection program through Crestmark. The loan accrues interest at 1% and matures April 16, 2022. The repayment terms are a six-month deferral of payments followed by eighteen monthly payments of \$16,731 beginning October 16, 2020. At June 30, 2020 the Paycheck protection program short term loan balance was \$133,855, and the long term loan balance was \$163,482. At December 31, 2020 the Company was preparing its application for loan forgiveness, and expects the loan to be forgiven, and therefore the liability was moved to Miscellaneous income and expense.

### 15. Covid-19 Business Impact

The extent of the impact and effects of the recent outbreak of Covid-19 on the operations and financial performance of the Company's business will depend on future developments, including, but not limited to, the duration and spread of the outbreak, related travel advisories and restrictions, the recovery time of the disrupted supply chains, the consequential staff shortages, the production delays, the uncertainty with respect to the accessibility of additional liquid or capital markets, all of which are highly uncertain and cannot be predicted. If the demand for the Company's services are impacted by this outbreak for an extended period, the result of its operations and/or liquidity may be materially adversely affected.

The Company is experiencing numerous small delays in its supply chain due to the pandemic, and this has delayed some production and the related sales, moving them into subsequent periods.

Management believes the accumulation of delays will continue and may delay future production and related sales.

*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, 2020, 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.*



