THE DEWEY ELECTRONICS CORPORATION

27 MULLER ROAD, OAKLAND, NEW JERSEY 07436 • TEL. (201) 337-4700 • FAX: (201) 337-3976

Date: April 5, 2021
From: John Dewey, CEO & President
To: My Fellow Shareholders

I am pleased to provide a special discussion on the results of the six months ending December 31, 2020, the first half of our 2021 Fiscal Year.

I will cover some additional details regarding two significant events as well as some other impacts on results. The first event was the sale of our building with some land immediately around it. The second event was the asset acquisition of INI Power.

On August 13, 2020, the Company entered into a **sale and purchase agreement for the building and immediate property**. The cash consideration was $4 million. At the same time, the Company entered into a five-year leaseback agreement described in the June 30, 2010, Year-End Financial Statements, 'Note 10, Subsequent Events.' Further details are in the more recent December 31, 2010, Six Month Financial Statements. 'Note 3 – Property, Plant and Equipment.' At the time of the sale, the Company recorded a gain net of taxes of $2.2 million. Due to the "leaseback" accounting, the Company recorded an additional deferred gain of $829,000, which will be amortized over the lease's five-year life.

The second significant event occurred on September 28, 2020, when **the Company acquired essentially all of INI Power assets**. For details, please go to the Investor Section of the Company website for the statement on 'The Dewey Electronics Corporation Announces Asset Acquisition of INI Power.' The INI transaction consisted of a down payment at closing, a second payment due at the first anniversary of closing, and five years of royalty payments on sales of INI related products and assets. The five-year period ends in September of 2025. We are required to record the present value estimate of future royalties as a liability and then amortize that over the five-year period. For specifics on the accounting for this transaction, please refer to December 31, 2020, Six Month Financial Statements, 'Note 1 - INI Power Systems Asset Acquisition.' The estimate of future royalties is based on specifically identifiable future sales at the time of acquisition.

Impact of events on Company operating results: Please keep in mind that the real-estate sale was reported separately in the financial statements. However, the effect of the INI acquisition was not broken out. The acquisition was recorded as a 'business combination,' therefore most deal costs are being expensed as incurred, as are integration and operating expenses. Moreover, INI ceased activities approximately nine months before the acquisition, emptying their sales pipeline. Rebuilding that pipeline and restoring revenue is a primary objective, but it will probably take twelve to eighteen months. As a result of these two factors, the Company's operating profits were reduced in the reported six months. This impact will remain until INI revenues are reconstituted.

There are also **long-term shifts in Department of Defense procurement**. As has been predicted over the last two years, government procurement in the ground combat space (Army and USMC) is coming back slowly. The market is notorious for that slowness. Orders and revenue for new generators and power systems continue to climb but are still well below historical levels. Over the same multi-year period, our non-power products benefited from a once-in-a-generation burst of MRO spending (maintenance, repair, and operations.) These products tend to have our best margins. As was also predicted, this rate of MRO orders was unsustainable. The slower increase in power-products revenue only partially offset the decrease in non-power products revenue. Profit margins were down and will remain lower until power-products-related activity increases to historic levels.

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Regarding the larger of the two parcels of remaining real-estate owned by the Company: The potential buyer for the hill property is still pursuing a successful transaction, but their option has expired. They are not prepared to close at this time. If the expired option's renegotiation is not successful, the Company may put the parcel 'back on the market.'

Shortly, the Company intends to provide its plan to return the excess proceeds from the real-estate sale to the shareholders.

The Company will remain on a semi-annual reporting cycle, providing year-end financials reviewed by our accountants along with un-reviewed six-month results.

All statements regarding future events and conditions are estimates and opinions. No assurances are possible as to whether they will transpire or when and to what degree.

As always, and especially in these times of COVID, I wish to thank our shareholders, customers, vendors, and the employees that make it all happen.

Sincerely,

John Dewey
President and CEO