

**THE DEWEY ELECTRONICS CORPORATION**  
**FISCAL YEAR 2022 FINANCIALS**  
**SIX MONTHS ENDING DECEMBER 31, 2021**

**BALANCE SHEETS**

<b>ASSETS</b>	<b>DECEMBER 31, 2021</b>	<b>JUNE 30, 2021</b>
Current Assets:		
Cash and cash equivalents	\$ 1,499,150	\$ 2,928,115
Accounts receivable	164,855	565,629
Inventory	2,470,339	4,473,674
Income Tax Receivable	408,662	408,662
Prepaid expenses and other current assets	80,096	173,083
Total current assets	<u>4,623,101</u>	<u>8,549,163</u>
Property and equipment net	501,020	503,100
Assets held for sale, net	104,160	104,160
Intangible assets, net of accumulated amortization	201,652	200,772
Deferred tax asset	198,951	198,951
Security Deposit	31,167	31,167
Total assets	<u>\$ 5,660,050</u>	<u>\$ 9,587,313</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Line of credit	(137,457)	434,814
Trade accounts payable	82,989	306,762
Deferred gain on sale - current portion	165,764	165,764
Customer deposits	13,316	1,394,246
Accrued expenses and other liabilities	1,068,238	1,087,631
Total current liabilities	<u>1,192,850</u>	<u>3,389,217</u>
Long-term debt, net of current maturities:		
Paycheck Protection Program loan - long-term portion	364,403	364,403
Deferred gain on sale of assets, net of current	442,037	524,919
Long-term pension liability	1,016,008	1,046,214
Total liabilities	<u>3,015,298</u>	<u>5,324,753</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 issued and 939,298 shares outstanding at December 31, 2021, and 1,366,731 outstanding at June 30, 2021.	16,934	16,934
Additional paid-in capital	2,883,970	2,883,970
Retained earnings	3,030,307	2,729,226
Accumulated other comprehensive loss	(857,246)	(887,451)
	<u>5,073,966</u>	<u>4,742,679</u>
Less: Treasury stock, 754,099 at December 31, 2021, and 326,666 shares at June 30, 2021 at cost	<u>(2,429,213)</u>	<u>(480,119)</u>
Total stockholders' equity	<u>2,644,752</u>	<u>4,262,560</u>
	<u>\$ 5,660,050</u>	<u>\$ 9,587,313</u>

THE DEWEY ELECTRONICS CORPORATION

Statements of Income

	SIX MONTHS ENDED DECEMBER 31,	
	2021	2020
Revenues	\$ 4,967,435	\$ 2,147,077
Cost of goods sold	3,999,614	1,788,452
Gross profit	967,821	358,625
Selling, general and administrative expenses	876,381	587,171
Earnings (loss) from operations	91,440	(228,546)
Other income (expense)		
Interest expense	(9,762)	(21,699)
Gain on debt forgiveness	--	297,337
Gain on sale of property and equipment	--	2,182,697
Other (expense) income	219,403	84,274
Total other income	209,641	2,542,609
Net income before provision for income taxes	301,081	2,314,063
Provision for income taxes		
Current Income tax expense	0	1,149,388
Deferred income tax (benefit) expense	--	--
Total provision for income tax	0	1,149,388
<b>Net Income</b>	<b>\$ 301,081</b>	<b>\$ 1,164,675</b>

Statements of Comprehensive Income

	SIX MONTHS ENDED DECEMBER 31,	
	2021	2020
Net Income	\$ 301,081	\$ 1,164,675
Amortization of actuarial income	30,206	30,206
Comprehensive income	\$ 331,287	\$ 1,194,881

THE DEWEY ELECTRONICS CORPORATION  
**Statements of Cash Flows**

	<b>SIX MONTHS ENDED DECEMBER 31,</b>	
	<b>2021</b>	<b>2020</b>
<b>Cash flows from operating activities:</b>		
Net Income	301,081	1,164,675
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	75,747	24,236
Gain on debt forgiveness	-	(297,337)
Amortization of deferred gain	(82,882)	(55,255)
Deferred income tax (benefit)/expense	-	518,349
Gain on sale of property and equipment	-	(2,182,697)
(Increase)/Decrease in:		
Accounts receivable	400,774	(1,007,020)
Inventory	2,003,335	(598,176)
Prepaid expenses and other current assets	92,987	(190,930)
Income taxes receivable	-	-
Security Deposits	-	(31,167)
Increase/(decrease) in:		
Accounts payable	(223,773)	(46,248)
Customer Deposits	(1,380,930)	633,045
Accrued expenses and other liabilities	130,606	500,538
Net cash provided by operating activities	<u>1,316,946</u>	<u>(1,567,987)</u>
<b>Cash flows from investing activities:</b>		
Acquisition of business	(150,000)	(150,000)
Payments for purchases of property and equipment	(74,546)	(79,116)
Proceeds from sale of property and equipment	-	3,708,061
Net cash used in investing activities	<u>(224,546)</u>	<u>3,478,945</u>
<b>Cash flows from financing activities:</b>		
Net Proceeds from (payments on) line of credit	(572,271)	(20,080)
Payments for Stock repurchase	(1,949,094)	-
Net cash used in financing activities	<u>(2,521,365)</u>	<u>(20,080)</u>
<b>Net change in cash and cash equivalents</b>	<b>(1,428,965)</b>	<b>1,890,878</b>
Cash and cash equivalents - beginning	<u>2,928,115</u>	<u>1,521,967</u>
<b>Cash and cash equivalents - ending</b>	<b><u>1,499,150</u></b>	<b><u>3,412,845</u></b>
<b>Supplemental disclosure of cash paid:</b>		
Interest	\$ 9,762	\$ 21,699
Income taxes	\$ -	\$ 349,000
<b>Supplemental disclosure of non-cash operating and investing activities</b>		
Inventory, patents, and property and equipment purchased in exchange for future cash and contingent consideration	\$ -	\$ 450,558

### 1. Stock Repurchase

On December 1, 2021, The Company repurchased a total of 427,433 shares of the Company's stock tendered at a final purchase price of \$4.56. The aggregate cost of the tender to repurchase common stock, excluding related fees and expenses, is \$1,949,094. The Company paid for the repurchases with excess cash from the proceeds of a previously reported sale of real estate. The repurchased shares represent approximately 31.27% of outstanding shares.

### 2. 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 an additional \$150,000 was due, and paid September 28, 2021. 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. The company paid royalties to Corbel of \$29,311 for the six months ended December 31, 2021, compared to \$1,704 at December 31, 2020. These accrued royalty costs will be amortized over the next five years. For the period ended December 31, 2021, the company recognized \$33,930, compared to the same period in 2020, with \$15,028, of amortization expense related to the INI purchase.

### 3. Inventories

Inventories consist of:

	<u>DECEMBER 31, 2021</u>	<u>JUNE 30, 2021</u>
Finished Goods	\$ 240,602	\$ 429,622
Work In Progress	554,395	2,156,596
Raw Materials	<u>1,675,342</u>	<u>1,887,456</u>
Total	<u>\$ 2,470,339</u>	<u>\$ 4,473,674</u>

### 4. 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, 2021, the Company recognized \$82,882 compared to \$55,255 at December 31, 2020, 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.

## 5. 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". On July 22, 2021, the Company entered into an agreement to sell the remaining assets held for sale for approximately \$2,250,000. The updated closing date, if additional extensions are not exercised, is June 30, 2022. Management believes the sale of the land is probable, though not assured.

## 6. Accrued Expenses and Other Liabilities

	<u>DECEMBER 31, 2021</u>	<u>JUNE 30, 2021</u>
Accrued pension costs	\$378,851	\$385,838
Accrued audit and accounting	67,600	69,280
Accrued compensation & benefits	216,140	148,690
Accrued royalty	245,062	279,665
Accrued warranty reserve	108,403	43,403
Other accrued expenses	<u>52,182</u>	<u>160,755</u>
Total	<u>\$ 1,068,238</u>	<u>\$ 1,087,631</u>

## 7. Revenues

For the six months ended December 31, 2021, 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 \$2,538,00 or 51% of revenues compared to \$517,000 or 24% of revenues for the six months ended December 31, 2020. Non-power products including replacement parts and other short-term business accounted for \$2,429,000 or 49% of revenues in the six months ended December 31, 2021 and \$1,629,000 or 76% of revenues for the same period in fiscal year 2021.

The aggregate value of the Company's backlog of sales orders was \$2.6 million on December 31, 2021, approximately 65% of this is expected to become revenue in the current fiscal year. The Company's backlog of sales orders was \$6.7 million on December 31, 2020.

## 8. Gross Profit

The Company earned a gross profit of \$967,000 or 20% of revenues for the six months ended December 31, 2021 compared to a gross profit of \$359,000 or 17% of revenues for the same period in fiscal year 2020.

The slight increase in profit rate for the six months ended December 31, 2021 was due to improved efficiencies with the production of power products compared to prior year. The 2021 higher sales level were able to absorb more of the Company's overhead.

## 9. Selling, General and Administrative Expenses

Selling, General and Administrative Expenses for the six months ended December 31, 2021 were \$876,000 or 17% of revenues compared to \$587,000 or 27% of revenues for the six months ended December 31, 2020. The increase is primarily due to support costs associated with an international shipment sold to the US government.

#### 10. Taxes on Income

For the period ended December 31, 2021 and June 30, 2021, The Company has \$408,662 tax receivable related to estimated overpayment for the period ended June 30, 2021. The tax liabilities will be assessed later in the fiscal year.

Please refer to Note J on our June 30, 2021 financial statements for more details.

#### 11. Pension Plan

Please refer to Note K of the June 30<sup>th</sup>, 2021 financials for all Pension Plan details.

#### 12. Credit Facility

See Note L on Dewey Electronics Corporation year end June 30<sup>th</sup>, 2021 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, 2021 are approximately as follows:

2022	\$ 190,000
2023	196,000
2024	201,000
2025	206,000
Thereafter	<u>34,000</u>
Future minimum lease payments	<u>\$ 826,500</u>

#### 14. Paycheck Protection Program Loan

On April 16, 2020, the Company received \$297,337 from the Payroll Protection Program (“PPP”) Loan through Crestmark. The Company applied for debt forgiveness in December of 2020, and on March 29, 2021, the Company received forgiveness of the entire balance of the principal and interest of the loan, which was recorded as debt forgiveness on the statement of income.

On April 16, 2021, the Company received \$364,403 from the PPP Loan through Crestmark. At December 31, 2021 we are beginning the loan forgiveness process, and fully expect the loan to be forgiven. For more information, please see refer to Note L of the June 30<sup>th</sup>, 2021 financials.

### 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, 2021, 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.*