

EISNERAMPER

**THE DEWEY ELECTRONICS
CORPORATION**

FINANCIAL STATEMENTS

JUNE 30, 2022 and 2021



THE DEWEY ELECTRONICS CORPORATION

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Directors and Stockholders of
The Dewey Electronics Corporation

We have reviewed the accompanying financial statements of The Dewey Electronics Corporation (the "Company"), which comprise the balance sheets as of June 30, 2022 and 2021, and the related statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

Accountants' Responsibility

Our responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

We are required to be independent of The Dewey Electronics Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our reviews.

Accountants' Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.



EISNERAMPER LLP
Iselin, New Jersey
November 15, 2022



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THE DEWEY ELECTRONICS CORPORATION

Balance Sheets

(See independent accountants' review report and notes to financial statements)

	June 30,	
	2022	2021
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,978,490	\$ 2,928,115
Accounts receivable	268,876	565,629
Grant receivable	211,059	-
Inventory	2,972,039	4,473,674
Income tax receivable	44,996	408,662
Prepaid expenses and other current assets	89,269	173,083
	<u>6,564,729</u>	<u>8,549,163</u>
Total current assets		
Property and equipment, net	486,066	503,100
Land held for sale	-	104,160
Intangible assets, net	190,195	200,772
Deferred tax assets	205,785	198,951
Security deposits	31,167	31,167
	<u>7,477,942</u>	<u>9,587,313</u>
Total assets		
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Line of credit	\$ 308,883	\$ 434,814
Trade accounts payable	43,672	306,762
Deferred gain on sale of assets - current portion	165,764	165,764
Customer deposits	277,800	1,394,246
Accrued expenses and other liabilities	1,188,167	1,087,631
	<u>1,984,286</u>	<u>3,389,217</u>
Total current liabilities		
Long-term debt, net of current maturities:		
Paycheck Protection Program loan - long-term portion	-	364,403
Deferred gain on sale of assets, net of current	359,155	524,919
Long-term pension liability	330,681	1,046,214
	<u>2,674,122</u>	<u>5,324,753</u>
Total liabilities		
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; issued 1,693,397 shares; outstanding - 939,298 and 1,366,731 shares at June 30, 2022 and 2021, respectively	16,934	16,934
Additional paid-in-capital	2,883,970	2,883,970
Retained earnings	4,631,840	2,729,226
Accumulated other comprehensive loss	(171,918)	(887,451)
	<u>7,360,826</u>	<u>4,742,679</u>
Less: Treasury stock, 754,099 shares and 326,666 shares at cost at June 30, 2022 and 2021	(2,557,006)	(480,119)
	<u>4,803,820</u>	<u>4,262,560</u>
Total stockholders' equity		
	<u>\$ 7,477,942</u>	<u>\$ 9,587,313</u>

THE DEWEY ELECTRONICS CORPORATION

Statements of Income

(See independent accountants' review report and notes to financial statements)

	Year Ended June 30,	
	2022	2021
Net sales	\$ 6,581,223	\$ 4,764,201
Cost of goods sold	5,478,564	4,237,366
Gross profit	1,102,659	526,835
Selling, general and administrative expenses	1,533,706	1,283,223
(Loss) earnings from operations	(431,047)	(756,388)
Other income (expense):		
Interest expense	(20,531)	(38,592)
Gain on debt forgiveness	364,403	297,337
Gain on sale of property and equipment	1,998,101	2,182,697
Grant income	464,091	-
Other expense	(60,169)	(20,418)
Total other income	2,745,895	2,421,024
Net income before provision for income taxes	2,314,848	1,664,636
Provision for income taxes:		
Current income tax expense	419,068	434,000
Deferred income tax (benefit) expense	(6,834)	(21,295)
Total provision for income taxes	412,234	412,705
Net income	\$ 1,902,614	\$ 1,251,931

THE DEWEY ELECTRONICS CORPORATION

Statements of Comprehensive Income

(See independent accountants' review report and notes to financial statements)

	Year Ended June 30,	
	<u>2022</u>	<u>2021</u>
Net income	\$ 1,902,614	\$ 1,251,931
Other comprehensive income, net of tax:		
Amortization of actuarial income	<u>715,533</u>	<u>138,049</u>
Comprehensive income	<u>\$ 2,618,147</u>	<u>\$ 1,389,980</u>

THE DEWEY ELECTRONICS CORPORATION

Statements of Stockholders' Equity

(See independent accountants' review report and notes to financial statements)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock at Cost		Total Stockholders' Equity
	Shares	Amount				Shares	Amount	
Balance, July 1, 2020	1,693,397	\$ 16,934	\$ 2,883,970	\$ 1,477,295	\$ (1,025,500)	326,666	\$ (480,119)	\$ 2,872,580
Net income	-	-	-	1,251,931	-	-	-	1,251,931
Minimum pension liability adjustment	-	-	-	-	138,049	-	-	138,049
Balance, June 30, 2021	1,693,397	16,934	2,883,970	2,729,226	(887,451)	326,666	(480,119)	4,262,560
Net income	-	-	-	1,902,614	-	-	-	1,902,614
Stock repurchase	-	-	-	-	-	427,433	(2,076,887)	(2,076,887)
Minimum pension liability adjustment	-	-	-	-	715,533	-	-	715,533
Balance, June 30, 2022	1,693,397	\$ 16,934	\$ 2,883,970	\$ 4,631,840	\$ (171,918)	754,099	\$ (2,557,006)	\$ 4,803,820

THE DEWEY ELECTRONICS CORPORATION

Statements of Cash Flows

(See independent accountants' review report and notes to financial statements)

	Year Ended June 30,	
	2022	2021
Cash flows from operating activities:		
Net income	\$ 1,902,614	\$ 1,251,931
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	163,445	76,590
Reserve for obsolete inventory	(70,000)	-
Gain on debt forgiveness	(364,403)	(297,337)
Amortization of deferred gain	(165,764)	(138,136)
Deferred income tax (benefit) expense	(6,834)	(21,295)
Gain on sale of property and equipment	(1,998,101)	(2,182,697)
(Increase) decrease in:		
Accounts receivable	296,753	(444,343)
Grant receivable	(211,059)	-
Inventory	1,571,635	(1,723,934)
Prepaid expenses and other current assets	83,814	(82,650)
Income tax receivable	363,666	(408,662)
Security deposit	-	(31,167)
Increase (decrease) in:		
Accounts payable	(263,090)	184,948
Customer deposits	(1,116,446)	1,365,460
Accrued expenses and other liabilities	250,536	(31,508)
	<u>436,766</u>	<u>(2,482,800)</u>
Net cash provided by (used in) operating activities		
Cash flows from investing activities:		
Acquisition of business	(150,000)	(150,000)
Payments for purchases of property and equipment	(80,946)	(370,398)
Payments for purchases of patents	(40,250)	-
Proceeds from sale of property and equipment, net of expenses	2,087,623	3,708,060
	<u>1,816,427</u>	<u>3,187,662</u>
Net cash provided by investing activities		
Cash flows from financing activities:		
Net (payments on) proceeds from line of credit	(125,931)	336,883
Purchase of treasury stock	(2,076,887)	-
Proceeds from Paycheck Protection Program loan	-	364,403
	<u>(2,202,818)</u>	<u>701,286</u>
Net cash (used in) provided by financing activities		
Net change in cash and cash equivalents	50,375	1,406,148
Cash and cash equivalents - beginning	<u>2,928,115</u>	<u>1,521,967</u>
Cash and cash equivalents - ending	\$ 2,978,490	\$ 2,928,115
Supplemental disclosures of cash paid:		
Interest	\$ 17,929	\$ 38,592
Income taxes	\$ 55,402	\$ 583,500
Supplemental disclosure of non-cash operating and investing activities:		
Inventory, patents, and property and equipment purchased in exchange for future cash and contingent consideration (see Note D)	\$ -	\$ 450,558

THE DEWEY ELECTRONICS CORPORATION

Notes to Financial Statements

(See independent accountants' review report)

June 30, 2022 and 2021

NOTE A - BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Dewey Electronics Corporation (the "Company") is a systems-oriented military electronics development, design and manufacturing organization based in Oakland, New Jersey, with a focus on compact diesel power generation solutions.

[1] Basis of accounting:

The financial statements of the Company have been prepared on the accrual basis of accounting in conformity with the accounting principles generally accepted in the United States of America ("U.S. GAAP").

[2] Revenue recognition:

Revenue is recognized when a performance obligation is satisfied, which is when the expected goods or services are transferred to the customer, in an amount that reflects the consideration to which the entity expects to receive. The Company enters into contracts that can include different products, which are generally capable of being distinct and accounted for as separate performance obligations. In such situations, contract values are allocated to each performance obligation based on its relative estimated standalone selling price. The Company's contracts do not include any variable considerations. Revenue is recognized when control passes to the customer, which is generally the point at which the product is delivered to the customer and when collectability is reasonably assured.

Revenue includes certain shipping and handling costs. Shipping and handling costs associated with outbound freight are account for as fulfillment cost and included in cost of goods sold.

The Company's payment terms vary by contract with each customer based on the goods offered. There are no financing components to the contracts.

Contract assets are recorded when goods are delivered (accounts receivable), or delivered in advance of the Company's unconditional right to payment (unbilled revenue). Contract assets are identified as accounts receivable on the balance sheets and were \$268,876, \$565,629 and \$121,286 as of June 30, 2022, June 30, 2021 and July 1, 2020, respectively.

Contract liabilities are recorded when cash payments are received in advance of when revenue is recognized. Contract liabilities are presented as customer deposits on the balance sheets and were \$277,800, \$1,394,246, and \$28,786 as of June 30, 2022, June 30, 2021 and July 1, 2020, respectively.

[3] Concentration risks:

Concentration of cash balances:

The Company is subject to concentrations of credit risk primarily from cash. The Company maintains accounts with financial institutions that exceed the current federally insured maximum of \$250,000. The Company minimizes risks associated with cash by periodically reviewing the credit quality of its primary financial institutions.

Product concentration risk:

For the year ended June 30, 2022, the Company derived approximately 56% of its revenues from the sale of power products, consisting of diesel operated tactical generator sets and associated hardware and electronics. For the year ended June 30, 2021, the Company derived approximately 49% of its revenues from sales of these products.

THE DEWEY ELECTRONICS CORPORATION

Notes to Financial Statements

(See independent accountants' review report)

June 30, 2022 and 2021

NOTE A - BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[3] Concentration risks: (continued)

Supplier concentration risks:

For the year ended June 30, 2022, the Company did not have a significant vendor of material purchases. For the year ended June 30, 2021, one vendor accounted for approximately 11% of material purchases. A major supplier is defined as one representing more than 10% of the Company's purchases. The Company believes that other suppliers could provide for the Company's inventory needs on comparable terms.

Customer concentration risks:

For the year ended June 30, 2022, the Company had two major customers representing 63% (39% and 24%) of net sales and 35% of outstanding accounts receivable. For the year ended June 30, 2021, the Company had four major customers representing 69% (29%, 18%, 12%, and 10%) of net sales and 54% of outstanding accounts receivable.

The Company's customers are the United States Department of Defense and Department of Defense contractors and agencies.

[4] Cash and cash equivalents:

The Company considers investments in all highly liquid debt instruments with an original maturity of three months or less at the date of purchase to be cash equivalents.

[5] Accounts receivable:

The Company regularly reviews its trade receivables for probability of collection. The Company determines its allowance by considering a number of factors, including the length of time accounts receivable are past due, the Company's previous loss history, the customer's current ability to pay its obligations to the Company, and the condition of the general economy and the industry as a whole. An assessment of the probability of collection of delinquent accounts is made and an allowance is recorded when collection becomes uncertain. There was no allowance for doubtful accounts as of June 30, 2022 and 2021.

[6] Inventory:

Cost is determined by the first-in, first-out ("FIFO") method. Inventory is stated at the lower of cost or net realizable value and consists of raw materials, work in process and finished goods. Management uses a defined methodology to periodically review the inventory valuation for obsolescence and identification of slow-moving parts. The Company established an allowance for obsolete and slow-moving inventory of approximately \$202,000 and \$272,000 as of June 30, 2022 and 2021, respectively. Components of inventory cost include finished goods, work in progress, and raw materials that have not been charged to specific contracts. The components of inventory include allocated costs of direct labor and overhead.

THE DEWEY ELECTRONICS CORPORATION

Notes to Financial Statements
(See independent accountants' review report)
June 30, 2022 and 2021

NOTE A - BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[7] Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. These estimates include, among others, lower of cost or net realizable value of estimates for inventories, realization of deferred tax assets, allowances for doubtful accounts, provision for inventory reserve, revenue recognition, pension obligations, contingent consideration, and certain accrued expenses. Actual results could differ from those estimates.

[8] Property, plant, and equipment:

Property, plant, and equipment are stated at cost less accumulated depreciation. Expenditures for maintenance and repairs are expensed currently, while renewals and betterments that materially extend the life of an asset are capitalized. Depreciation is provided on a straight-line basis over estimated useful lives of the assets, as follows:

	<u>Estimated Useful Life</u>
Machinery and equipment	3 - 10 years
Leasehold improvements	Shorter of estimated useful life or lease term
Furniture and fixtures	10 years

The Company sold a portion of its related land during the year ended June 30, 2022. The Company sold its building and a portion of its related property during the year ended June 30, 2021 (see Note C).

[9] Intangible assets, cost of patents:

The cost of patents is being amortized over the lesser of their estimated useful lives or the legal life of the patent on a straight-line basis, generally five years. Costs of patents included on the balance sheet represent related costs for patent applications. If a patent is awarded in the future, the related costs will be capitalized and amortized as described above; if a patent is denied, the cost will be expensed.

[10] Research and development costs:

The Company expenses its research and development costs as incurred. These costs consist primarily of salaries and material costs. The Company expensed approximately \$98,000 and \$80,000 of research and development costs for the years ended June 30, 2022 and 2021, respectively.

THE DEWEY ELECTRONICS CORPORATION

Notes to Financial Statements

(See independent accountants' review report)

June 30, 2022 and 2021

NOTE A - BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[11] Impairment of long-lived assets:

The Company reviews the recoverability of all long-term assets, including the related useful lives, whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset might not be recoverable. If required, the Company compares the estimated undiscounted future net cash flows to the related asset's carrying value to determine whether there has been an impairment. If an asset is considered impaired, the asset is written down to fair value, which is based either on discounted cash flows or appraised values in the period the impairment becomes known. There were no impairments of long-term assets in the years ended June 30, 2022 and 2021.

[12] Income taxes:

The Company is subject to federal and state income taxes as a C-Corporation. The Company accounts for income taxes pursuant to the asset and liability method, which requires deferred tax assets and liabilities be computed annually for temporary differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the period in which the temporary differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

As required by Accounting Standards Codification ("ASC") Topic 740, *Income Taxes*, the management of the Company has evaluated the positive and negative evidence bearing upon the realizability of its deferred tax assets. Management has established a valuation allowance for pension related assets due to the uncertainty of their future realization.

The Company complies with the provisions of ASC 740-10-25 that clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with ASC 740-10, *Accounting for Income Taxes*, and prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. Management has evaluated the tax positions taken and has determined that there are no uncertain tax positions taken or expected to be taken that would require the recognition of an income tax asset or liability as of June 30, 2022 and 2021.

Additionally, ASC 740-10 provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company recognizes potential accrued interest and penalties related to unrecognized tax benefits within operations as income tax expense. As new information becomes available, the assessment of the recognition threshold and the measurement of the associated tax benefit of uncertain tax positions may result in financial statement recognition or de-recognition. There were no interest or penalties related to income taxes that have been accrued or recognized as of and for the years ended June 30, 2022 and 2021.

THE DEWEY ELECTRONICS CORPORATION

Notes to Financial Statements

(See independent accountants' review report)

June 30, 2022 and 2021

NOTE A - BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[13] Fair value measurements:

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The accounting guidance includes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are as follows:

Level 1 – Unadjusted quoted prices for identical assets or liabilities in active markets;

Level 2 – Inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly for substantially the full term of the asset or liability; and

Level 3 – Unobservable inputs for the asset or liability, which include management's own assumption about the assumptions market participants would use in pricing the asset or liability, including assumptions about risk.

[14] Stock-based compensation:

The Company computes the value of stock options granted under its Stock Option Plans using the Cox-Roth-Rubenstein Binomial Tree Method. The value of the options is then amortized over the vesting period of the options using the straight-line method. No stock options were granted for the years ended June 30, 2022 or 2021.

[15] Business combinations:

The Company accounts for acquired businesses using the acquisition method of accounting, which requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. Any excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill, and any excess of the estimated fair value over the purchase prices is considered a bargain purchase and recorded as a gain on acquisition. Acquisition-related expenses are recognized separately from the business combinations and are expensed as incurred.

[16] Paycheck Protection Program loan:

On March 27, 2020, Congress enacted the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). The Paycheck Protection Program ("PPP") established by the CARES Act, implemented by the U.S. Small Business Administration ("SBA"), provided businesses with funds to pay payroll and other costs during the coronavirus ("COVID-19") outbreak. The Economic Aid to Hard-Hit Small Businesses, Nonprofits and Venues Act ("Economic Aid Act"), a part of the Consolidated Appropriations Act, 2021 package, extended the PPP to include a second round of funding for qualified borrowers. During fiscal years 2021 and 2020, the Company applied for and received PPP funds under both programs and the Company elected to record the PPP funds as a loan under Financial Accounting Standards Board ("FASB") ASC 470, *Debt*. During fiscal years 2022 and 2021, the Company received forgiveness on PPP funds received which is recognized as a gain on debt extinguishment (see Note N).

THE DEWEY ELECTRONICS CORPORATION

Notes to Financial Statements

(See independent accountants' review report)

June 30, 2022 and 2021

NOTE A - BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[17] Employee Retention Credit ("ERC"):

The Employee Retention Credit ("ERC"), was created by the Coronavirus Aid, Relief, and Economic Security ("CARES") Act, signed into law in March 2020, to help businesses retain their workforces and avoid layoffs during the coronavirus pandemic. The ERC is a refundable payroll tax credit providing reductions of payroll taxes or cash refunds. Eligible employers include those who experienced total government-ordered shut down or a significant decline in quarterly gross cash receipts in 2020 compared with the same quarters in 2019. Significant was defined as a reduction of 50% or more. Eligible employers may qualify for up to 50% of qualified wages per employee for 2020, up to a maximum of \$5,000 per employee. The Taxpayer Certainty and Disaster Relief Act of 2020 ("TCDR"), enacted December 27, 2020, extended the ERC through June 30, 2021. Additionally, the TCDR modified the ERC to qualify up to 70% of qualified wages per employee per calendar quarter in 2021, increasing the maximum credit to \$7,000 per employee per quarter, for a total of \$14,000 in 2021. The Company applied for ERC funds and has elected to account for the ERC funds as a conditional contribution in accordance with FASB ASC 958-605 (Note O). ERC funds will be recognized as ERC income as the conditions which they depend on are substantially met.

[18] Subsequent events:

The Company evaluated subsequent events through November 15, 2022, which is the date the financial statements were available to be issued.

NOTE B - RECENT ACCOUNTING STANDARDS

In February 2016, the FASB issued its new lease accounting guidance in ASU No. 2016-02, *Leases* (Topic 842). The new ASU will require lessees to recognize for all leases (with terms of more than 12 months) at the commencement date, the following: a) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis, and b) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Lessees will no longer be provided with a source of off-balance sheet financing. ASU No. 2016-02 will be effective for nonpublic businesses for fiscal years beginning after December 15, 2021. Early application is permitted. The Company is currently evaluating the effect of this new guidance on the financial statements and related disclosures.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses* (Topic 326) *Measurement of Credit Losses on Financial Instruments*. ASU No. 2016-13 significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. Current U.S. GAAP contains an incurred loss methodology for recognizing credit losses and delays the recognition until it is probable that a loss has been incurred. ASU No. 2016-13 introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments (including trade receivables). For private companies, ASU No. 2016-13 is effective for fiscal years beginning after December 15, 2022. Early adoption is permitted. The Company is currently evaluating the effect of this new guidance on the financial statements and related disclosures.

In August 2018, the FASB issued ASU No. 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans – General* (Subtopic 715-20): *Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans*, that applies to all employers that sponsor defined benefit pension or other postretirement plans. The amendments modify the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. ASU No. 2018-14 is effective for fiscal years ending after December 15, 2021. The adoption of ASU No. 2018-14 did not have a material impact on the financial statements.

THE DEWEY ELECTRONICS CORPORATION

Notes to Financial Statements

(See independent accountants' review report)

June 30, 2022 and 2021

NOTE B - RECENT ACCOUNTING STANDARDS (CONTINUED)

In October 2021, the FASB issued ASU No. 2021-08, *Business Combinations (Topic 805) Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*. The ASU aims to improve the accounting for acquired revenue contracts with customers in business combination by addressing diversity in practice in inconsistency related to the following: a) recognition of an acquired contract liability, and b) payment terms and their effect on subsequent revenue recognized by the acquirer. ASU No. 2021-08 is effective for fiscal years beginning after December 15, 2023, and early adoption is permitted. The Company is currently evaluating the effect of this new guidance on the financial statements and related disclosures.

NOTE C - SALE OF PROPERTY AND EQUIPMENT

On August 13, 2020, the Company entered into a sale and purchase agreement to sell the Company's building, improvements, and land. The Company received cash consideration of approximately \$4,000,000 as of the date of the agreement and entered into a five-year sale-leaseback agreement for office and warehouse space beginning September 1, 2020 (see Note P[1]).

The following table summarizes the value of assets sold and considerations received on the date of sale:

Purchase price:	
Proceeds	\$ 4,000,000
Expenses of sale	<u>(291,940)</u>
Net purchase price	<u>3,708,060</u>
Assets sold:	
Land	546,855
Building	84,594
Deferred costs	<u>65,095</u>
Total assets sold	<u>696,544</u>
Gain on sale of assets	3,011,517
Deferred gain on sale-leaseback	<u>(828,820)</u>
Total gain on sale of property and equipment	<u>\$ 2,182,697</u>

The deferred gain on the sale-leaseback will be amortized over the lease term (see Note P).

On July 22, 2021, the Company entered into an agreement to sell land held for resale which closed on June 6, 2022. The Company sold the land for \$2,250,000 and incurred related transaction costs of \$162,377 and recorded a gain on sale of property and equipment of \$1,998,101.

THE DEWEY ELECTRONICS CORPORATION

Notes to Financial Statements

(See independent accountants' review report)

June 30, 2022 and 2021

NOTE D - ACQUISITION OF BUSINESS

Effective September 28, 2020, the Company entered into an Asset Purchase Agreement with INI Power Systems ("INI") and Corbel Structured Equity Partners ("Corbel") for the purchase of INI, of which Corbel was a lender and creditor. As part of the Asset Purchase Agreement, the Company acquired certain tangible and intangible assets from INI. The original aggregate cash purchase price for the purchased assets was \$300,000, of which \$150,000 was paid at the close of the Asset Purchase Agreement and the additional \$150,000 was paid on September 28, 2021. The parties also entered into a royalty agreement whereby the purchaser is required to make royalty payments for a defined period ("contingent consideration") (see Note P[2]).

A summary of the purchase consideration for the acquisition is as follows:

Consideration:		
Cash consideration	\$	150,000
Future cash consideration		150,000
Contingent consideration		<u>300,558</u>
Total purchase consideration	\$	<u><u>600,558</u></u>

The following table summarizes the estimated fair values of intangible and tangible assets and liabilities acquired as of the date of the acquisition:

Inventory	\$	261,226
Fixed assets, net		103,130
Intangible assets:		
Patents		<u>236,202</u>
Net assets acquired	\$	<u><u>600,558</u></u>

NOTE E - INVENTORY

Inventory, net of provision, consists of the following:

	June 30,	
	<u>2022</u>	<u>2021</u>
Finished goods	\$ 275,252	\$ 429,622
Work in progress	1,334,403	2,156,596
Raw materials	<u>1,362,384</u>	<u>1,887,456</u>
	<u><u>\$ 2,972,039</u></u>	<u><u>\$ 4,473,674</u></u>

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NOTE F - INTANGIBLE ASSETS

Intangible assets associated with the assets purchased from INI (see Note D) are being amortized over their estimated useful lives, as described in Note A[9]. Amortization was \$50,827 and \$35,430 for the years ended June 30, 2022 and 2021, respectively. Amortization expense is expected to be approximately \$56,000 per year for the next 3 years, \$17,000 in 2026 and \$5,000 in 2027.

The Company's intangible assets consist of the following:

	<u>June 30,</u>	
	<u>2022</u>	<u>2021</u>
Patents	\$ 306,298	\$ 266,048
Less: accumulated amortization	<u>116,103</u>	<u>65,276</u>
Intangibles, net	<u>\$ 190,195</u>	<u>\$ 200,772</u>

NOTE G - PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows:

	<u>June 30,</u>	
	<u>2022</u>	<u>2021</u>
Land	\$ 14,638	\$ -
Leasehold improvements	281,980	239,934
Furniture and fixtures	329,801	329,801
Machinery and equipment	<u>2,552,258</u>	<u>2,520,442</u>
	3,178,677	3,090,177
Less: accumulated depreciation	<u>(2,692,611)</u>	<u>(2,587,077)</u>
	<u>\$ 486,066</u>	<u>\$ 503,100</u>

Depreciation and amortization expense was \$112,618 and \$41,160 for the years ended June 30, 2022 and 2021, respectively.

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NOTE H - ACCRUED EXPENSES AND OTHER LIABILITIES

	June 30,	
	2022	2021
Accrued pension costs	\$ 439,092	\$ 385,838
Accrued royalties	247,601	279,665
Other accrued expenses	103,244	17,847
Accrued acquisition payable (see Note D)	-	150,000
Accrued compensation and benefits payable	225,250	141,598
Accrued audit and accounting	72,577	69,280
Accrued warranty reserve	100,403	43,403
	<u>\$ 1,188,167</u>	<u>\$ 1,087,631</u>

NOTE I - STOCK OPTION PLANS

On September 22, 2011, the Board of Directors of the Company adopted the Company's 2011 Stock Option Plan (the "2011 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 (the "1998 Plan") 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 may be granted under this plan with an exercise price no less than the fair market value of the stock on the date of grant. As of June 30, 2022, as noted below, no options remained outstanding, and no additional options may be granted under this plan.

There were no stock options granted during the years ended June 30, 2022 and 2021. The Company recorded no stock option compensation expense for the fiscal years ended June 30, 2022 and 2021.

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NOTE I - STOCK OPTION PLANS (CONTINUED)

The changes in the number of shares under options outstanding are as follows:

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>
Balance at July 1, 2020	4,700	\$ 1.84
Granted	-	-
Exercised	-	-
Forfeited	<u>(3,000)</u>	<u>2.00</u>
Balance at June 30, 2021	1,700	1.55
Granted	-	-
Exercised	-	-
Forfeited	<u>(1,700)</u>	<u>-</u>
Balance at June 30, 2022	<u>-</u>	<u>\$ -</u>
Exercisable at June 30, 2022	<u>-</u>	<u>\$ -</u>

At the Annual Meeting of Stockholders on December 5, 2001, the Company adopted a Stock Option Plan for Non-Employee Directors (the "Directors Plan"). The number of shares issuable upon exercise of options, which may be granted under this plan, shall not exceed 50,000 shares of common stock. No options have been granted under this plan.

As of June 30, 2022, there are no stock options outstanding and exercisable.

NOTE J - STOCK REPURCHASE

Effective November 2021, the Company executed a stock repurchase of 427,433 shares at a stock price of \$4.56 per share and incurred related expenses of approximately \$128,000.

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NOTE K - TAXES ON INCOME

Deferred tax assets and liabilities as of June 30, 2022 and 2021 consisted of the following:

	<u>2022</u>	<u>2021</u>
Deferred tax assets/(liabilities):		
Vacation accrual	\$ 37,538	\$ 32,115
Inventory reserve	56,889	76,566
Prepaid expenses	(13,901)	(23,768)
Pension	216,434	402,550
Deferred gain	147,554	194,151
Property and equipment	<u>(22,295)</u>	<u>(80,113)</u>
	422,219	601,501
Less: valuation allowance	<u>(216,434)</u>	<u>(402,550)</u>
Total deferred tax assets	<u>\$ 205,785</u>	<u>\$ 198,951</u>

As of each reporting period, management considers both positive and negative factors that could affect its view of future realization of deferred tax assets. The Company had pre-tax income for the years ended June 30, 2022 and 2021, and therefore, management has determined that there is enough positive evidence to conclude that it is more-likely-than-not that all deferred tax assets and liabilities are realizable except for the pension deferred tax asset. The Company has provided a valuation allowance to offset the related pension deferred tax asset. During the years ended June 30, 2022 and 2021, the valuation allowance decreased by \$186,116 and \$44,145, respectively. The actual tax expense differs from the expected amount of tax based on the federal statutory rate because there is a valuation allowance against the Company's deferred tax assets at the beginning and end of the year.

Income tax expense (benefit) for the years ended June 30, consisted of the following:

	<u>2022</u>	<u>2021</u>
Federal:		
Current	\$ 278,068	\$ 200,000
Deferred	(12,888)	34,222
State:		
Current	141,000	234,000
Deferred	<u>6,054</u>	<u>(55,517)</u>
Income tax expense	<u>\$ 412,234</u>	<u>\$ 412,705</u>

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NOTE L - PENSION PLAN

The Company has a non-contributory defined benefit retirement plan (the "Plan") covering substantially all its employees, which is qualified under the Internal Revenue Code. In general, employees can receive an amount per month equal to 0.8% multiplied by their years of service (up to a maximum of 35 years of service) multiplied by their average monthly earnings (based on earnings during the five years preceding retirement), up to a specified maximum of \$850 per month for life assuming normal retirement at age 65. The maximum benefit increases approximately 8% for each year work beyond normal retirement date. The plan was frozen for future eligibility and accrual of benefits as of December 31, 2017. Upon the employee's death, 50% of the monthly benefit is payable to the employee's spouse for life. The Company's policy is to contribute to the plan the amounts allowable under Internal Revenue Service regulations.

As of June 30, 2022, the long-term pension liability on the balance sheet decreased over the previous year by approximately \$716,000. The primary factor was an increase in the Discount Rate from 2.65% to 4.55%, which resulted in a decrease to the liability of approximately \$687,000.

The investment policy of the Company for its pension plan is to maximize value within the context of providing benefit security for Plan participants. The Plan assets are invested in a fixed income investment account.

The Company has assumed, based upon high quality corporate bond yields with similar maturities as the benefit obligation (AA rated or higher), that its assumed discount rate will be 4.55% as of June 30, 2022, which is higher than the assumed discount rate of 2.65% as of June 30, 2021. The Company's management conducts an analysis, which includes a review of Plan asset investments, and projected future performance of those investments to determine the plan's assumed long-term rate of return.

The Company expects to continue to contribute within the range of legally acceptable contributions as identified by the Plan's enrolled actuary. The Company made cash contributions to the Plan of approximately \$50,000 and \$139,000 for the years ended June 30, 2022 and 2021, respectively. The estimated fiscal year 2023 minimum contribution to the Plan is approximately \$58,000.

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NOTE L - PENSION PLAN (CONTINUED)

The following tables provide information about changes in the benefit obligation and Plan assets and the funded status of the Company's pension plan as of June 30:

	<u>2022</u>	<u>2021</u>
Benefit obligation at beginning of year	\$ 3,670,046	3,787,903
Interest cost	94,862	94,469
Actuarial gain	(638,133)	(46,516)
Benefits paid plus administrative expenses	<u>(161,182)</u>	<u>(165,810)</u>
Benefit obligation at end of year	<u>\$ 2,965,593</u>	<u>3,670,046</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 2,237,994	\$ 2,198,807
Actual return on plan assets	69,384	66,257
Employer contributions	49,624	138,740
Benefits paid plus administrative expenses	<u>(161,182)</u>	<u>(165,810)</u>
Fair value of plan assets at end of year	<u>\$ 2,195,820</u>	<u>\$ 2,237,994</u>
Funded status	\$ (769,773)	\$ (1,432,052)
Unrecognized net loss	<u>(330,681)</u>	<u>(1,046,214)</u>
Accrued pension expense	<u>\$ (439,092)</u>	<u>\$ (385,838)</u>
	<u>07/01/2021-</u> <u>06/30/2022</u>	<u>07/01/2020-</u> <u>06/30/2021</u>
Weighted-average assumptions:		
Discount rate	4.55%	2.65%
Expected return on plan assets	4.50%	4.50%
Rate of compensation increase	N/A	N/A
Measurement date	07/01/2022	07/01/2021

Set forth below is a summary of the amounts reflected in the Company's balance sheet at the end of the last two fiscal years:

	<u>2022</u>	<u>2021</u>
Total accrued pension liability	\$ (769,773)	\$ (1,432,052)
Accumulated other comprehensive loss, pre-tax	<u>(330,681)</u>	<u>(1,046,214)</u>
Net amount recognized	<u>\$ (439,092)</u>	<u>\$ (385,838)</u>

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NOTE L - PENSION PLAN (CONTINUED)

Other changes in Plan assets and benefit obligations recognized in the other comprehensive loss for each fiscal year are as follows:

	<u>June 30,</u>	
	<u>2022</u>	<u>2021</u>
Change in net loss	\$ (609,902)	\$ (14,130)
Amortization of net loss	<u>(105,631)</u>	<u>(123,919)</u>
Amortization of actuarial income (loss)	<u>\$ (715,533)</u>	<u>\$ (138,049)</u>

Accumulated other comprehensive loss consisted of the following amounts that had not, as of year-end, been recognized in net benefit cost:

	<u>June 30,</u>	
	<u>2022</u>	<u>2021</u>
Unrecognized net loss, pre-tax	<u>\$ 330,681</u>	<u>\$ 1,046,214</u>

Amounts included in accumulated other comprehensive loss as of June 30, 2022 that are expected to be recognized as a component of benefit cost during fiscal 2022 consist of amortization of net loss of approximately \$105,000.

Components of periodic pension costs for the years ended June 30, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Interest cost on projected benefit obligation	\$ 94,862	\$ 94,469
Expected return on plan assets	(97,615)	(98,643)
Amortization of actuarial loss	<u>105,631</u>	<u>123,919</u>
Net periodic pension cost	<u>\$ 102,878</u>	<u>\$ 119,745</u>

	<u>2022</u>	<u>2021</u>
Weighted average assumptions for net periodic pension expense:		
Discount rate	4.55%	2.55%
Expected long-term rate of return on assets	4.50%	4.50%
Rate of increase in future compensation levels	N/A	N/A

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NOTE L - PENSION PLAN (CONTINUED)

The weighted average asset allocations at June 30, 2022 and 2021, by asset category are as follows:

	<u>2022</u>	<u>2021</u>
Asset category:		
Fixed funds with guaranteed interest rates	100%	100%

Fair Value of Plan Assets

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). See Note A[13].

All the Plan's investments are in fixed funds with guaranteed interest rates, which are valued using evaluated bid prices based on a compilation of observable market information or a broker quote in a non-active market. Inputs used vary by type of security, but include spreads, yields, rate benchmarks, rate of prepayment, cash flows, rating changes and collateral performance and type. All fixed income funds are included as a Level 3 measurement.

The following table sets forth a summary of changes of fair value of the Retirement Plan's Level 3 assets for the fiscal year ended June 30, 2022:

	<u>All Fixed Funds</u>
Balance, June 30, 2021	\$ 2,237,994
Actual return on plan assets	69,384
Purchases and sales	(111,558)
Transfers in and/or out of Level 3	-
	<u> </u>
Balance, June 30, 2022	<u>\$ 2,195,820</u>

The expected future benefit payments for the years ending June 30, are as follows:

2023	\$ 190,000
2024	193,000
2025	200,000
2026	208,000
2027	211,000
Five years thereafter	1,065,000

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NOTE M - CREDIT FACILITY

On October 19, 2018, the Company entered into a loan and security agreement with Crestmark Financial ("Crestmark"), a division of MetaBank, for an asset-based credit facility with a maximum borrowing of \$1,650,000. Crestmark is an FDIC approved bank headquartered in Troy, Michigan. The agreement between the Company and Crestmark includes a borrowing base calculation tied to accounts receivable, raw materials and finished goods inventory, as well as machinery and equipment. There is an additional component tied to costs, including WIP, on contracts where the U.S. Government is the end customer. The calculation shall be 85% of eligible accounts receivable; 50% of eligible inventory up to the lesser of \$500,000 or 100% of eligible accounts receivable; and 75% of eligible machinery and equipment, not to exceed \$150,000. The "eligibility" is based upon meeting certain criteria specified by Crestmark. The Company also has the ability to borrow 75% of the incurred cost of materials needed to perform contracts where the U.S. Government is the end customer, not to exceed \$500,000 and at the discretion of Crestmark. The interest rate on the agreement shall be 3.75% above Prime Rate as listed in the *Wall Street Journal*. The effective rate, including all expenses and fees, is expected to be between 10.5% and 11.5%. The initial agreement was for two years and will automatically renew for an additional two-years unless the Company notifies Crestmark of termination within sixty (60) days of the renewal date (see Note Q). There is a minimum borrowing amount of \$375,000. At closing of the Loan (October 19, 2018) and on each anniversary thereafter, the Company will pay Crestmark a loan fee of 1% of the maximum amount. The loan and security agreement grants Crestmark a security interest in substantially all assets of the Company, other than the land, building and improvements. As of June 30, 2022, the outstanding amount borrowed on the Crestmark facility was \$308,883 with the ability to borrow an additional amount of approximately \$22,000 based on the borrowing base calculation at that date.

NOTE N - PAYCHECK PROTECTION PROGRAM LOAN

On April 16, 2020, the Company received \$297,337 from the Paycheck Protection Program ("PPP") Loan through Crestmark. The loan accrued interest at 1% and was scheduled to mature on April 16, 2022. On March 29, 2021, the Company received forgiveness of the entire balance of the principal and interest of the loan, which was recorded as gain on debt forgiveness on the statements of income.

On April 15, 2021, the Company received \$364,403 from the PPP Loan through Crestmark. The loan accrued interest at 1% and was scheduled to mature on April 15, 2026. On February 4, 2022, the Company received forgiveness of the entire balance of the principal and interest of the loan, which was recorded as gain on debt forgiveness on the statements of income.

NOTE O - GOVERNMENT GRANT

The CARES Act provides an ERC, which is a refundable tax credit against certain employment taxes. The Company qualifies for the tax credit under the additional relief provisions for qualified wages through September 30, 2021. During the year ended June 30, 2022, the Company recorded \$464,091 related to the CARES Employee Retention Credit in "Grant income" on the Company's statements of income. As of June 30, 2022, the Company has a receivable balance of \$211,059 from the United States government related to the CARES Act, which is recorded in "Grant receivable" on the Company's balance sheets.

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NOTE P - COMMITMENTS AND CONTINGENCIES

[1] Operating lease:

On August 13, 2020, the Company entered into a sale and purchase agreement with an unrelated third party (see Note C). The Company sold the building and associated real estate for cash consideration of \$4,000,000. In conjunction with the sale, the Company, the existing tenant before execution of the Sale and Purchase Agreement, entered into a lease with the buyer to leaseback the property. The lease has a term of five years with a renewal option for a period of five years. Under FASB ASC 840-40, this transaction meets the criteria of a sale-leaseback transaction and, as a result, the related gain on the sale of the property is deferred to be amortized in proportion to the related gross rental charged to expense over the related lease term. Total amortization of the related gain for the years ended June 30, 2022 and 2021 was approximately \$166,000 and \$138,000, respectively, and was recorded as a reduction of rent expense. The remaining unamortized gain was approximately \$525,000 as of June 30, 2022.

Future minimum rental payments under noncancelable operating leases at June 30, are approximately as follows:

2023	\$	196,000
2024		201,000
2025		206,000
2026		<u>34,000</u>
Future minimum lease payments	\$	<u>637,000</u>

Rent expense and common area maintenance charges for the year ended June 30, 2022, excluding the amortization of the gain on sale, was approximately \$211,000.

[2] Royalty agreement:

The Company is obligated, through September 28, 2025, to pay a royalty fee equal to 15% of gross revenues or proceeds from the use of purchased assets (see Note D). Payment is due within 30 days after the end of each calendar quarter. There was no royalty expense for the years ended June 30, 2022 and 2021. There were \$247,601 and \$279,665 of accrued royalties as of June 30, 2022 and 2021, respectively. Accrued royalties related to the purchase are required to be re-measured at the end of each fiscal year. The Company re-measured the accrued royalties at June 30, 2022 and determined there were no changes from the original amount. The Company made royalty payments of \$32,064 for the year ended June 30, 2022.

Future royalty payments at June 30, are approximately as follows:

2023	\$	30,000
2024		112,500
2025		<u>105,500</u>
Future royalty payments	\$	<u>248,000</u>

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NOTE P - COMMITMENTS AND CONTINGENCIES (CONTINUED)

[3] Contingencies:

The extent of the impact and effects of the coronavirus ("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, or the uncertainty with respect to the accessibility of additional liquidity 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 results of its operations and/or liquidity may be materially adversely affected.

NOTE Q - SUBSEQUENT EVENT

On October 11, 2022, the Company terminated its credit facility (Note M) and satisfied all obligations at which time the lender discharged the Company and released any lien on the Company's property.