THE DEWEY ELECTRONICS CORPORATION

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FINANCIAL STATEMENTS

June 30, 2017 and 2016

INDEX TO FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of The Dewey Electronics Corporation (the "Company"), which comprise the balance sheet as of June 30, 2017, and the related statements of operations, comprehensive (loss)/income, stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements.

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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Dewey Electronics Corporation as of June 30, 2017, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

EisnerAmper LLP

Iselin, New Jersey
December 8, 2017

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of
The Dewey Electronics Corporation

We have audited the accompanying balance sheet of The Dewey Electronics Corporation (the "Company") as of June 30, 2016, and the related statements of operations, comprehensive (loss)/income, stockholders' equity, and cash flows for the year then ended. The financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Dewey Electronics Corporation as of June 30, 2016, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

EisnerAmper LLP

Iselin, New Jersey
December 8, 2017

The Dewey Electronics Corporation

Balance Sheets

	June 30, 2017	June 30, 2016
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	$ 465,170	$ 539,742
Accounts receivable	203,078	497,862
Inventories	1,765,487	1,889,908
Prepaid expenses and other current assets	64,189	106,047
TOTAL CURRENT ASSETS	2,497,924	3,033,559
PROPERTY, PLANT AND EQUIPMENT:		
Land and improvements	651,015	651,015
Building and improvements	1,962,815	1,957,815
Machinery and equipment	3,364,917	3,342,690
Furniture and fixtures	268,700	268,700
	6,247,447	6,220,220
Less accumulated depreciation	(5,426,949)	(5,386,655)
	820,498	833,565
DEFERRED COSTS	65,095	65,095
TOTAL ASSETS	$ 3,383,517	$ 3,932,219
LIABILITIES AND STOCKHOLDERS' EQUITY:		
CURRENT LIABILITIES:		
Notes payable – current portion	$ 500,000	$ -
Trade accounts payable	23,192	123,495
Accrued expenses and other liabilities	186,813	236,665
Accrued compensation and benefits payable	119,264	152,573
Accrued pension costs	410,565	301,229
TOTAL CURRENT LIABILITIES	1,239,834	813,962
LONG-TERM PENSION LIABILITY	671,184	1,012,005
TOTAL LIABILITIES	1,911,018	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 and 1,362,031 shares outstanding at June 30, 2017 and 2016, respectively	16,934	16,934
Additional paid-in capital	2,883,970	2,882,842
Retained earnings	(435,865)	546,747
Accumulated other comprehensive loss	(512,421)	(853,243)
	1,952,618	2,593,280
Less: Treasury stock, 326,666 and 331,366 shares at June 30, 2017 and 2016, respectively, at cost	(480,119)	(487,028)
TOTAL STOCKHOLDERS' EQUITY	1,472,499	2,106,252
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 3,383,517	$ 3,932,219

See accompanying Notes to the Financial Statements

The Dewey Electronics Corporation

Statements of Operations

	Years Ended June 30,	
	2017	2016
Revenues	$ 3,325,993	$ 5,846,048
Cost of revenues	3,027,126	4,023,278
Gross profit	298,867	1,822,770
Selling, general and administrative expenses	1,284,331	1,735,339
Operating (loss) / income	(985,464)	87,431
Interest expense	(17,029)	(20,368)
Other income – net	19,881	49,056
NET (LOSS) / INCOME	$ (982,612)	$ 116,119
NET (LOSS) / INCOME PER COMMON SHARE – BASIC	$ (0.72)	$ 0.09
NET (LOSS) / INCOME PER COMMON SHARE – DILUTED	$ (0.72)	$ 0.09
Weighted average shares outstanding		
Basic	1,365,739	1,362,031
Diluted	1,365,739	1,364,267

Statements of Comprehensive (Loss)/Income

	Years Ended June 30,	
	2017	2016
Net (loss) / income	$ (982,612)	$ 116,119
Amortization of actuarial gains	340,822	39,000
Comprehensive (loss) / income	$ (641,790)	$ 155,119

See accompanying Notes to the Financial Statements

The Dewey Electronics Corporation

Statements of Stockholders' Equity
Years ended June 30, 2017 and 2016

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury stock at Cost Shares	Treasury stock at Cost Amount	Total Stockholders' Equity
Balance, June 30, 2015	1,693,397	$16,934	$2,882,842	$ 430,628	$ (892,243)	331,366	$(487,028)	$ 1,951,133
Net income	--	--	--	$116,119	--	--	--	116,119
Minimum pension liability adjustment	--	--	--	--	39,000	--	--	39,000
Balance, June 30, 2016	1,693,397	$16,934	$2,882,842	$ 546,747	$ (853,243)	331,366	$(487,028)	$ 2,106,252
Net loss	--	--	--	$(982,612)	--	--	--	$(982,612)
Exercise of Stock Options			1,128			(4,700)	6,909	8,037
Minimum pension liability adjustment	--	--	--	--	$340,822	--	--	340,822
Balance, June 30, 2017	1,693,397	$16,934	$2,883,970	$(435,865)	$ (512,421)	326,666	$ (480,119)	$ 1,472,499

See the accompanying Notes to the Financial Statements

The Dewey Electronics Corporation

Statements of Cash Flows
Years ended June 30,

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) / income	$ (982,612)	$ 116,119
Adjustments to reconcile net (loss)/income to net Cash (used in) / provided by operating activities:		
Depreciation	40,294	38,095
Provision for inventory reserve	96,415	11,940
Decrease in accounts receivable	294,784	831,465
Decrease in inventories	28,006	129,384
Decrease/(Increase)in prepaid expenses and other current assets	41,858	(32,843)
Decrease in accounts payable	(100,303)	(224,758)
Decrease in accrued expenses and other liabilities	(83,161)	(254,746)
Increase in accrued pension costs	109,336	97,472
Total adjustments	427,229	596,009
Net cash (used in) / provided by operating activities	(555,383)	712,128
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures for property, plant and equipment	(27,226)	(19,984)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Short-term borrowings	500,000	--
Repayment of short-term borrowings	--	(500,000)
Proceeds from the exercise of stock options	8,037	--
Net cash used in financing activities	508,037	(500,000)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(74,572)	192,144
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	539,742	347,598
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 465,170	$ 539,742
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	$ 14,876	$ 22,198

See the accompanying Notes to the Financial Statements

1. Business and Summary of Significant Accounting Policies

The Dewey Electronics Corporation 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.

A. Revenue Recognition

Revenues and earnings for orders for replacement parts and other short term business are recorded when deliveries of product are made and title and risk of loss have been transferred to the customer and collection is probable.

Revenues and estimated earnings under long-term defense contracts (including research and development contracts) are recorded using the percentage-of-completion method of accounting, measured as the percentage of costs incurred to estimated total costs of each contract. These calculations require management to estimate the cost to complete open orders. Changes between those estimates and the actual cost of completion of delivery orders impact the revenue recognition in each reporting period. Estimates are adjusted as necessary on a quarterly basis. For research and development contracts total costs incurred are compared to total expected costs for each contract. As of June 30, 2017 and 2016 the Company had no uncompleted contracts for which revenue has been recognized on a percentage of completion basis.

For those contracts where revenue has been recognized using the percentage-of-completion method of accounting, provisions for estimated losses on uncompleted contracts are made in the period in which such losses become known. Changes in job performance, job conditions, and estimated profitability may result in revisions to costs and income and are recognized in the period in which the revisions become known.

B. Concentration Risks

Concentration of Credit Risks

The Company is subject to concentrations of credit risk primarily from cash and accounts receivable. The Company maintains accounts with financial institutions which 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. The Company's accounts receivable are principally with Department of Defense contractors and agencies of the United States Department of Defense. One Department of Defense contractor accounted for 55% of the Company's accounts receivable as of June 30, 2017. As of June 30, 2016 one Department of Defense contractor accounted for 44% of the Company's accounts receivable.

Product Concentration Risk

In fiscal 2017 the Company derived approximately 28% of its revenues from the sale of power products, consisting of diesel operated tactical generator sets and associated hardware and electronics. In fiscal 2016 the Company derived approximately 30% of its revenues from sales of these products.

Supplier Concentration Risks

The Company is primarily dependent on four vendors to supply qualified components for its generator products. During fiscal year 2017 two vendors accounted for approximately 12% each of material purchases. In fiscal 2016, no supplier accounted for 10% or more of material purchases.

Customer Concentration Risks

In fiscal year 2017 two customers accounted for approximately 58% of Company revenues. In fiscal year 2016 one customer accounted for approximately 50% of Company revenues. No other customer accounted for more than 10% of the Company's revenues in fiscal years 2017 or 2016.

C. Liquidity

The accompanying financial statements and notes have been prepared assuming that the Company will continue as a going concern in accordance with Financial Accounting Standards Board Accounting Standards Update 2014-15 "Presentation of Financial Statements – Going Concern". For the fiscal year ended June 30, 2017, the Company had a net loss of approximately $983,000 and net cash outflows from operations of approximately $555,000. Net cash outflows from operations were principally due to the net loss, decreases in accounts payable and accrued expenses and other liabilities, partially offset by decreases in accounts receivable, inventories, prepaid expenses and other current assets and an increase in accrued pension costs. The Company believes that the Company's current cash and its line of credit (described in Note 9 below), which has been extended to February 28, 2018, combined with progress payments as well as billings at the time of delivery of products, will be sufficient to support short-term liquidity requirements, working capital needs and capital expenditures at their current or expected levels. However, if our performance expectations fall short (including our failure to generate expected levels of sales) or our expenses exceed expectations, or if the commitment under the line of credit becomes unavailable, we may need to execute the additional sources of financing (described in Note 10 below) and/or reduce our expenses to continue our operations. Our failure to do so would have a material adverse impact on our prospects and financial condition. However, if required, we believe we would be able to reduce our expenses to a sufficient level to continue to operate as a going concern through December 08, 2018.

D. 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.

E. Accounts Receivable

The Company regularly reviews its trade receivables for probability of collection. 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, 2017 or June 30, 2016.

F. Inventories

Cost is determined by the first-in, first-out (FIFO) method. Inventories are valued at the lower of cost or market. Components of inventory cost include materials, direct labor and overhead that have not been charged to specific contracts.

G. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 market estimates for inventories, realization of deferred tax assets, allowances for doubtful accounts, revenue recognition and certain accrued expenses. Actual results could differ from those estimates.

H. Property, Plant, and Equipment

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, ten years for furniture and fixtures, and twenty years for building and improvements.

I. Development Costs

The Company expenses its research and development costs as incurred. These costs consist primarily of salaries and material costs. For the fiscal years ended June 30, 2017 and 2016, the Company expensed $0 respectively, of research and development costs. Research and development projects performed under contracts for customers are billed to the customer and are recorded as contract costs as incurred.

J. 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, 2017 and 2016.

K. Income Taxes

Under the asset and liability method of accounting for taxes under ASC Topic 740, "Income Taxes", deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The effect on deferred tax assets and liabilities of a change in tax laws is recognized in the results of operations in the period the new laws are enacted. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not, that such assets will be realized.

The Company accounts for uncertain tax positions in accordance with Generally Accepted Accounting Principles in the U.S. Income tax positions must meet a more-likely-than-not recognition in order to be recognized in the financial statements. 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.

L. Deferred Costs

The Company is continuing to actively pursue possible methods of monetizing the undeveloped and unused portion of its property, by its sale and/or development. To that end the Company has deferred $65,095 as of June 30, 2017 and 2016 of costs incurred related to these efforts.

M. 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.

N. 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 are then amortized over the vesting period of the options using the straight-line method. No stock options were granted in fiscal years ended June 30, 2017 or 2016.

O. Subsequent Events

The Company evaluated subsequent events through December 08, 2017, which is the date the financial statements were available to be issued. Refer to Note 10.

2. Accounting Standards Updates Not Yet Effective

In August 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (ASU) 2015-14 "Revenue from Contracts with Customers - Deferral of Effective Date", which deferred the effective adoption date of ASU 2014-09 to apply to fiscal years and interim reporting periods within those years beginning after December 15, 2018.

In August 2014, the FASB issued Accounting Standards Update (ASU) 2014-15 "Presentation of Financial Statements – Going Concern", which provides guidance on determining when and how to disclose going-concern uncertainties in the financial statements. This ASU requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued. An entity must provide certain disclosures if "conditions or events raise substantial doubt about the entity's ability to continue as a going concern." This ASU applies to all entities and is effective for annual periods ending after December 15, 2016, and interim periods thereafter, with early adoption permitted. Adoption of this ASU did not have a material impact on our financial statements.

In November 2015, the FASB issued Accounting Standards Update (ASU) 2015-17, "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes", which requires an entity to classify deferred tax liabilities and assets as noncurrent in a classified statement of financial position. This ASU will align the presentation of deferred income tax assets and liabilities with International Financial Reporting Standards (IFRS). It applies to all entities and is effective for annual periods ending after December 15, 2017, with early adoption permitted.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments (Topic 326) – Credit Losses: Measurement of Credit Losses on Financial Instruments*, which provides guidance regarding the measurement of credit losses on financial instruments. The new guidance replaces the incurred loss impairment methodology in the current guidance with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to determine credit loss estimates. The ASU will be effective for annual periods beginning after December 15, 2020.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments — a consensus of the Emerging Issues Task Force*. The ASU amends ASC 230 by adding or clarifying guidance on the classification of certain cash receipts and payments in the statement of cash flows. The standard is effective for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, provided that all of the amendments are adopted in the same period.

In March 2017, the FASB issued ASU No. 2017-07, ("ASU 2017-07"), "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost". ASU 2017-07 requires that the service cost component be disaggregated from the other components of net benefit cost and provides guidance for separate presentation in the income statement. ASU 2017-07 also changes the rules for capitalization of costs such that only the service cost component of net benefit cost may be capitalized rather than total net benefit cost. ASU 2017-07 will be effective for fiscal years and interim periods beginning after December 15, 2018. ASU 2017-07 is required to be applied retrospectively for the income statement presentation and prospectively for the capitalization of the service cost component of net periodic pension cost.

The Company expects to adopt the ASUs described above when effective and is currently evaluating the effect on its financial statements. Other Accounting Standards Updates first effective after June 30, 2017 are not expected to have a material effect on the Company's financial position or results of operations.

3. Inventories

Inventories consist of:

	June 30, 2017	June 30, 2016
Finished goods	$ 324,150	$ 66,652
Work in progress	757,442	944,267
Raw materials	683,895	878,989
	$ 1,765,487	$ 1,889,908

4. Accrued Expenses and Other Liabilities

	June 30, 2017	June 30, 2016
Customer deposits	$ 27,559	$ 43,586
Accrued audit & accounting	60,000	83,088
Accrued warranty reserve	21,758	39,089
Other accrued expenses	77,496	70,902
	$ 186,813	$ 236,665

5. Stock Option Plan

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 fair market value of the stock on the date of grant. As of June 30, 2017, outstanding options were exercisable for ten years from the date of grant, and had 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 during the years ending June 30, 2017 and 2016. The Company recorded no stock option compensation expense in either fiscal year 2017 or fiscal year 2016.

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

	Number of Shares	Weighted Average Exercise Price
Balance at June 30, 2015	33,200	$ 1.96
Granted	--	
Expired	(12,500)	2.03
Balance at June 30, 2016	20,700	1.92
Granted	--	
Exercised	(4,700)	1.71
Forfeited	(1,500)	2.03
Balance at June 30, 2017	14,500	$ 1.98
Exercisable at June 30, 2017	14,500	$ 1.98

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.

Listed below is a summary of the stock options outstanding and exercisable at June 30, 2017:

Exercise Price	Options	Weighted Average Exercise Price	Weighted Average Remaining Life-Years
$1.60	1,800	$1.60	1.4
2.24	5,000	2.24	2.8
2.00	6,000	2.00	3.5
1.55	1,700	1.55	4.2
	14,500	$1.98	3.1

As of June 30, 2017, stock options outstanding and exercisable had an intrinsic value of $0.

6. Taxes on Income

Deferred tax assets and liabilities as of June 30, 2017 and 2016 consisted of the following:

Deferred Tax assets/(liabilities):	2017	2016
Current		
Vacation accrual	$ 35,950	$51,376
Inventory reserve	88,268	49,683
Prepaids	(21,399)	(27,763)
	102,819	73,296
Less valuation allowance	(102,819)	(73,296)
Total current deferred tax asset	--	--
Non-current		
Pension	432,908	525,556
Depreciation	(12,550)	(27,118)
Net operating loss	847,342	542,344
	1,267,700	1,040,782
Less valuation allowance	(1,267,700)	(1,040,782)
Total non-current deferred tax assets	--	--
Total deferred tax assets	$ --	$ --

The Company has provided a valuation allowance against its net deferred taxes as it believes that it is more likely than not that it will not realize the tax attributes. In fiscal 2017, the Company recorded a valuation allowance against its deferred tax assets as it believes that it is more likely than not that it will not realize the tax attributes. Federal and state net operating loss carry-forwards expire in 2027 through 2037 and 2030 through 2037, respectively. As of June 30, 2017, the Company has approximately $2,265,000 and $1,303,000 of federal and state, respectively.

Income tax (benefit)/expense consists of the following:

	Year Ended June 30, 2017	2016
Federal		
Current	$ --	$ --
Deferred	(333,689)	37,599
State:		
Current	--	--
Deferred	(59,155)	7,026
	(392,844)	44,625
Change in valuation allowance	392,844	(44,625)
Income tax expense	$ --	$ --

The reconciliation of the Federal statutory rate with the Company's effective tax rate is summarized as follows:

	Years ended June 30, 2017	2016
Federal statutory rate	34.00 %	34.00 %
State tax net of federal benefit	6.02	6.05
Other/Expiration of NOL	(0.04)	(1.62)
Change to carrying value of deferred tax assets	--	--
Change in valuation allowance	(39.98)	(38.43)
Effective rate	0.00 %	0.00 %

The Company adopted ASC Topic 740, which clarifies the accounting for uncertainty in income taxes recognized in the financial statements. This interpretation prescribes a recognition threshold, and a measurement attribute for the financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return. There were no significant matters determined to be unrecognized tax benefits taken or expected to be taken in a tax return that have been recorded on the Company's financial statements for the years ended June 30, 2017 or 2016.

Additionally, ASC Topic 740 provides guidance on the recognition of interest and penalties related to income taxes. 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, 2017 and 2016. The Company's policy is to record income tax related interest and penalties in income tax expense.

The Company files corporate tax returns in the United States, both in the Federal jurisdiction and in various state jurisdictions. The Company is subject to tax examination for fiscal tax years of 2013 through 2016.

7. Pension Plan

The Company has a non-contributory defined benefit retirement plan covering substantially all its employees which is qualified under the Internal Revenue Code (the Plan). 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. 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.

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 3.75% as of June 30, 2017, which is higher than the assumed discount rate of 3.5% as of June 30, 2016. 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 $80,000 and $107,000 in fiscal years 2017 and 2016, respectively. The estimated fiscal year 2018 minimum contribution to the Plan is approximately $97,000.

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

	2017	2016
Benefit obligation at beginning of year	$ 3,464,138	$ 3,286,682
Service cost	55,575	48,096
Interest cost	118,979	129,189
Actuarial (gain)/loss	(256,099)	75,553
Benefits paid plus administrative expenses	(101,871)	(75,382)
Benefit obligation at end of year	$ 3,280,722	$ 3,464,138
Change in plan assets:		
Fair value of plan assets at beginning of Year	$ 2,150,904	$ 2,031,920
Actual return on plan assets	69,754	87,711
Employer contributions	80,186	106,655
Benefits paid plus administrative expenses	(101,871)	(75,382)
Fair value of plan assets at end of year	$2,198,973	$ 2,150,904
Funded status	(1,081,749)	(1,313,234)
Unrecognized net loss	(671,184)	1,012,005
Accrued pension expense	$ (410,565)	$ (301,229)
	07/01/2017-06/30/2018	07/01/2016-06/30/2017
Weighted-average assumptions		
Discount rate	3.75%	3.50%
Expected return on plan assets	5.00%	5.00%
Rate of compensation increase	2.75%	2.75%
Measurement Date	07/01/2017	07/01/2016

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:

	June 30, 2017	June 30, 2016
Total accrued pension liability	$ (1,081,749)	$(1,313,234)
Accumulated other comprehensive loss, pre-tax	671,184	1,012,005
Net amount recognized	$ (410,565)	$ (301,229)

The accumulated benefit obligation for the Plan was $3,280,722 and $3,464,138 at June 30, 2017, and 2016, respectively.

Other changes in Plan assets and benefit obligations recognized in the Other Comprehensive Loss for each fiscal year are as follows:

	June 30, 2017	June 30, 2016
Change in net (gain)/loss	$ (219,364)	$ 95,263
Amortization of net loss	(121,458)	(134,263)
	$ (340,822)	$ (39,000)

Accumulated Other Comprehensive Loss consisted of the following amounts that had not, as of year-end, been recognized in net benefit cost.

	June 30, 2017	June 30, 2016
Unrecognized net loss	$ 671,184	$ 1,012,005

Amounts included in Accumulated Other Comprehensive Loss as of June 30, 2017 that are expected to be recognized as a component of benefit cost during fiscal 2018 consist of amortization of net loss of $121,458.

Components of periodic pension costs as of June 30, 2017 and 2016 are as follows:

	2017	2016
Service cost-benefits earned during the period	$ 55,575	$ 48,096
Interest cost on projected benefit obligation	118,979	129,189
Expected return on plan assets	(106,490)	(107,421)
Amortization of actuarial loss	121,458	134,263
Net periodic pension cost	$ 189,522	$ 204,127

Weighted Average Assumptions for Net Periodic Pension Expense

	2017	2016
Discount rate	3.50%	4.00%
Expected long-term rate of return on assets	5.00%	5.25%
Rate of increase in future compensation levels	2.75%	3.00%

Retirement Plan for Employees of Dewey Electronics Corporation's weighted average asset allocations at June 30, 2017, and 2016, by asset category are as follows:

	2017	2016
Asset Category		
Fixed Funds with Guaranteed Interest Rates	100%	100%
Total	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 1-M, "Fair Value Measurements," for a description of the fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The following is a description of the valuation methodologies used for assets and liabilities measured at fair value.

All of 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, 2017.

	All Fixed Funds
Balance, June 30, 2016	$2,150,904
Actual return on plan assets	69,754
Purchases and sales	(21,685)
Transfers in and/or out of Level 3	--
Balance June 30, 2017	$2,198,973

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

2018	$ 155,000
2019	$ 158,000
2020	$ 161,000
2021	$ 168,000
2022	$ 171,000
Five years thereafter	$ 919,000

8. Earnings Per Share

Net (loss)/income per share has been presented pursuant to ASC Topic 260, "Earnings per Share". Basic net (loss)/income per share is computed by dividing reported net income/(loss) available to common shareholders by the weighted average number of shares outstanding for the period. Diluted net (loss)/income per share is computed by dividing reported net (loss)/income available to common shareholders by the weighted average number of shares outstanding for the period, adjusted for the dilutive effect of common stock equivalents, which consist of stock options, using the treasury stock method.

The tables below set forth the reconciliation of the numerators and denominators of the basic and diluted net (loss)/income per common share computations. Certain stock options were excluded from the computation of earnings per share due to their anti-dilutive effect. The weighted average numbers of such shares are 16,297 and 7,762, respectively, for the years ended June 30, 2017 and 2016.

	Year Ended June 30, 2017		
	Loss	Shares	Per Share Amount
Basic net loss per common share	$ (982,612)	1,365,739	$ (0.72)
Effect of dilutive securities	--	--	--
Diluted net loss per common share	$ (982,612)	1,365,739	$ (0.72)

	Year Ended June 30, 2016		
	Income	Shares	Per Share Amount
Basic net income per common share	$ 116,119	1,362,031	$ 0.09
Effect of dilutive securities	--	2,236	--
Diluted net income per common share	$ 116,119	1,364,267	$ 0.09

9. Credit Facility

The Company maintains a line of credit (the "Line of Credit") with TD Bank, NA (the "Bank") for $500,000. The Line of Credit has been extended to February 28, 2018.

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 June 30, 2017 was approximately 5.25%. The Company has previously utilized the Line of Credit during periods of increased production requirements and (subject to renewal of the Line of Credit as described below) anticipates that it will continue to utilize this credit facility to support production activity. As of June 30, 2017, the Company has an outstanding balance against the Line of Credit of $500,000.

The Company is in discussions with the Bank to renew the Line of Credit through November 30, 2018.

<u>10. Subsequent Events</u>

Effective November 16, 2017, the Company entered into Promissory Notes with two members of the Board of Directors for $250,000 each. The Promissory Notes may be borrowed against upon the expiration of the senior credit facility with TD Bank, N.A. The Promissory Notes shall bear interest at 8 percent per annum, and the scheduled maturity date is November 16, 2019. Initial commitment fees payable as of the effective date in connection with the Promissory Notes totaled $10,000. In addition, the unused portion of both Promissory Notes will be assessed 1 percent fee on a quarterly basis, beginning 180 days following the effective date.