EISNERAMPER

THE DEWEY ELECTRONICS CORPORATION

FINANCIAL STATEMENTS

JUNE 30, 2023 and 2022

THE DEWEY ELECTRONICS CORPORATION

Contents

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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, 2023 and 2022, 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.

Change in Accounting Principle

As discussed in Note A[16] to the financial statements, effective July 1, 2022, the Company adopted new accounting guidance Accounting Standards Codification ("ASC") 842, *Leases*. Our conclusion is not modified with respect to this matter.

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

EISNERAMPER LLP
Iselin, New Jersey
November 29, 2023

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THE DEWEY ELECTRONICS CORPORATION

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

	June 30, 2023	June 30, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,022,466	$ 2,978,490
Accounts receivable	1,105,582	268,876
Grant receivable	-	211,059
Inventory, net	2,872,118	2,972,039
Income tax receivable	-	44,996
Prepaid expenses and other current assets	125,605	89,269
Total current assets	6,125,771	6,564,729
Property and equipment, net	354,985	486,066
Intangible assets, net	163,737	190,195
Deferred tax assets	388,057	205,785
Security deposits	31,167	31,167
Long-term pension asset	8,201	-
Operating lease right-of-use assets	202,214	-
Total assets	$ 7,274,132	$ 7,477,942
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Line of credit	$ -	$ 308,883
Trade accounts payable	154,425	43,672
Deferred gain on sale of assets - current portion	-	165,764
Customer deposits	8,901	277,800
Income tax payable	92,497	-
Operating lease liabilities, current	254,440	-
Accrued expenses and other liabilities	1,168,470	1,188,167
Total current liabilities	1,678,733	1,984,286
Deferred gain on sale of assets, net of current	-	359,155
Operating lease liabilities, net of current	312,167	-
Long-term pension liability	-	330,681
Total liabilities	1,990,900	2,674,122
Stockholders' equity:		
Common stock, par value $.01; authorized 3,000,000 shares; issued 1,693,397 shares; outstanding - 939,298 shares	16,934	16,934
Additional paid-in capital	2,883,970	2,883,970
Retained earnings	4,772,370	4,631,840
Accumulated other comprehensive income (loss)	166,964	(171,918)
	7,840,238	7,360,826
Less: Treasury stock, 754,099 shares	(2,557,006)	(2,557,006)
Total stockholders' equity	5,283,232	4,803,820
Total liabilities and stockholders' equity	$ 7,274,132	$ 7,477,942

THE DEWEY ELECTRONICS CORPORATION

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

	Year Ended June 30, 2023	Year Ended June 30, 2022
Net sales	**$ 5,933,279**	$ 6,581,223
Cost of goods sold	**4,173,473**	5,478,564
Gross profit	**1,759,806**	1,102,659
Selling, general and administrative expenses	**1,523,285**	1,533,706
Income (loss) from operations	**236,521**	(431,047)
Other (expense) income:		
Interest expense	**(5,604)**	(20,531)
Gain on debt forgiveness	**-**	364,403
Gain on sale of property and equipment	**-**	1,998,101
Grant income	**-**	464,091
Other expense	**(20,282)**	(60,169)
Total other (expense) income	**(25,886)**	2,745,895
Net income before provision for income taxes	**210,635**	2,314,848
Provision for income taxes:		
Current income tax expense	**252,377**	419,068
Deferred income tax (benefit) expense	**(182,272)**	(6,834)
Total provision for income taxes	**70,105**	412,234
Net income	**$ 140,530**	$ 1,902,614

THE DEWEY ELECTRONICS CORPORATION

Statements of Comprehensive Income
(See independent accountants' review report and notes to financial statements)

	Year Ended June 30, 2023	Year Ended June 30, 2022
Net income	**$ 140,530**	$ 1,902,614
Other comprehensive income, net of tax:		
Amortization of actuarial income	**338,882**	715,533
Comprehensive income	**$ 479,412**	$ 2,618,147

THE DEWEY ELECTRONICS CORPORATION

Statements of Stockholders' Equity
(See independent accountants' review report and notes to financial statements)

	Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive	Treasury Stock at Cost		Total Stockholders'
	Shares	Amount	Capital	Earnings	Income (Loss)	Shares	Amount	Equity
Balance, July 1, 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
Net income	-	-	-	140,530	-	-	-	140,530
Minimum pension liability adjustment	-	-	-	-	338,882	-	-	338,882
Balance, June 30, 2023	**1,693,397**	**$ 16,934**	**$ 2,883,970**	**$ 4,772,370**	**$ 166,964**	**754,099**	**$ (2,557,006)**	**$ 5,283,232**

THE DEWEY ELECTRONICS CORPORATION

Statements of Cash Flows

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

	Year Ended June 30, 2023	Year Ended June 30, 2022
Cash flows from operating activities:		
Net income	**$ 140,530**	$ 1,902,614
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	**175,916**	163,445
Loss on disposal of fixed assets	**22,316**	-
Reserve for obsolete inventory	**37,622**	(70,000)
Gain on debt forgiveness	**-**	(364,403)
Amortization of deferred gain	**-**	(165,764)
Amortization of operating lease right-of-use asset	**82,274**	-
Deferred income tax (benefit) expense	**(182,272)**	(6,834)
Gain on sale of property and equipment	**-**	(1,998,101)
(Increase) decrease in:		
Accounts receivable	**(836,706)**	296,753
Grant receivable	**211,059**	(211,059)
Inventory	**62,299**	1,571,635
Prepaid expenses and other current assets	**(36,336)**	83,814
Income tax receivable	**44,996**	363,666
Increase (decrease) in:		
Accounts payable	**110,753**	(263,090)
Income tax payable	**92,497**	-
Operating lease liability	**(242,800)**	-
Customer deposits	**(268,899)**	(1,116,446)
Accrued expenses and other liabilities	**(19,697)**	250,536
Net cash (used in) provided by operating activities	**(606,448)**	436,766
Cash flows from investing activities:		
Acquisition of business	**-**	(150,000)
Payments for purchases of property and equipment	**(10,099)**	(80,946)
Payments for purchases of patents	**(30,594)**	(40,250)
Proceeds from sale of property and equipment, net of expenses	**-**	2,087,623
Net cash (used in) provided by investing activities	**(40,693)**	1,816,427
Cash flows from financing activities:		
Net payments on line of credit	**(308,883)**	(125,931)
Purchase of treasury stock	**-**	(2,076,887)
Net cash used in financing activities	**(308,883)**	(2,202,818)
Net change in cash and cash equivalents	**(956,024)**	50,375
Cash and cash equivalents - beginning	**2,978,490**	2,928,115
Cash and cash equivalents - ending	**$ 2,022,466**	$ 2,978,490
Supplemental disclosures of cash paid:		
Interest	**$ 5,604**	$ 17,929
Income taxes	**$ 547,320**	$ 55,402
Supplemental disclosures of noncash operating activities:		
Right-of-use assets obtained in exchange for operating lease liabilities	**$ 809,135**	$ -

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] Use of estimates:

The preparation of financial statements in conformity with 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 inventories, realization of deferred tax assets, allowances for doubtful accounts, revenue recognition, pension obligations, contingent consideration, and certain accrued expenses. Actual results could differ from those estimates.

[3] 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.

[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, 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, 2023 and 2022.

[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. Management uses a defined methodology to periodically review the inventory valuation for obsolescence and identification of slow-moving parts. 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.

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

[7] 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:

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

[8] 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 sheets 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.

[9] Impairment of long-lived assets:

The Company reviews the recoverability of all long-lived 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-lived assets in the years ended June 30, 2023 and 2022.

[10] 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 accounted for as fulfillment costs 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.

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

[10] Revenue recognition: (continued)

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 $1,105,582, $268,876, and $565,629 as of June 30, 2023, June 30, 2022, and July 1, 2021, 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 $8,901, $277,800, and $1,394,246 as of June 30, 2023, June 30, 2022, and July 1, 2021, respectively.

[11] 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 $110,000 and $98,000 of research and development costs for the years ended June 30, 2023 and 2022, respectively.

[12] 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, 2023 or 2022.

[13] Employee retention credit:

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 qualified 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 on December 27, 2020, extended the ERC through June 30, 2022. 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 Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 958-605 (see Note D). ERC funds were recognized as Grant income as the conditions to which they depended on were substantially met.

[14] 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.

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

[14] Income taxes: (continued)

As required by 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, 2023 and 2022.

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, 2023 and 2022.

[15] 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.

[16] Recently adopted accounting guidance:

In February 2016, FASB issued guidance ASC 842, *Leases*, to increase transparency and comparability among organizations by requiring the recognition of right-of-use (“ROU”) assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

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

[16] Recently adopted accounting guidance: (continued)

The Company adopted the standard effective July 1, 2022, and recognized and measured leases existing at July 1, 2022, with certain practical expedients available. Accordingly, the Company applied the guidance to each lease that had commenced as of the adoption date and also elected a package of practical expedients which included the following: no requirement to reassess: (a) whether any expired or existing contracts are, or contain, leases; (b) the lease classification for any expired or existing leases; and (c) the recognition requirements for initial direct costs for any existing leases. The Company excluded short-term leases having initial terms of 12 months or less from the new guidance as an accounting policy election and recognizes rent expense for such leases on a straight-line basis over the lease term. In calculating the related lease liabilities at the time of adoption, the Company utilized historical experience when determining the noncancelable portion of the lease term and elected to use the risk-free rate as the discount rate.

As a result of the adoption of the new lease accounting, the Company recognized on July 1, 2022 an operating lease liability of approximately $809,000, which represented the present value of the remaining operating lease payments, discounted using the risk-free rate of 2.8%, and a ROU asset of approximately $809,000. The remaining deferred gain on sale of assets of $524,919 from the sale leaseback was netted against the ROU asset upon the adoption of ASC 842.

The standard had a material impact on the Company’s balance sheets but did not have an impact on its statements of income and comprehensive income, nor statements of cash flows. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases, while the accounting for finance leases remained substantially unchanged.

[17] Leases:

The Company determines if an arrangement is a lease at inception.

<u>Operating Leases</u>

Operating leases are recorded as operating lease ROU assets and operating lease liabilities (current portion and long-term portion) on the accompanying balance sheets. Operating lease ROU assets and the related lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. The operating lease ROU assets also include lease incentives and initial direct costs incurred. For operating leases, interest on the lease liability and the amortization of ROU assets result in straight-line rent expense over the lease term.

Leases may include options to extend or terminate the lease, which are included in the ROU operating lease assets and operating lease liability when they are reasonably certain of exercise. Operating lease expense associated with minimum lease payments is recognized on a straight-line basis over the lease term. When additional payments are based on usage or vary based on other factors, they are considered variable lease payments and are excluded from the measurement of the ROU asset and lease liability. These payments are recognized as an expense in the period in which the related obligation was incurred.

The Company’s lease agreements do not contain any material residual value guarantees or material restrictive covenants.

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

[17] Leases: (continued)

For the year ended June 30, 2022, the Company accounted for leases under ASC 840. Operating leases were recorded on a straight-line basis over the term of the lease. The Company entered into operating leases that may have included provisions for tenant improvement allowances, rent holidays, rent concessions, and/or rent escalations. Incentive payments received from landlords were recorded as deferred rent and were amortized over the underlying lease term on a straight-line basis as a reduction of rent expense. When the terms of an operating lease provided for periods of free rent, rent concessions, and/or rent escalations, we established a deferred rent expense for the difference between the scheduled rent payment and the straight-line rent expense recognized.

[18] Recent accounting pronouncements:

The Company considers the applicability and impact of all Accounting Standards Updates ("ASUs"). ASUs not discussed below were assessed and determined to be either not applicable, or are expected to have minimal impact on the financial statements.

In June 2016, FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 replaces the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The new guidance is effective for fiscal years beginning after December 15, 2022. The Company is in the process of evaluating this ASU, which is effective for the Company on July 1, 2023.

[19] Subsequent events:

The Company evaluated subsequent events through November 29, 2023, which is the date the financial statements were available to be issued.

NOTE B - 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 M). 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	(291,940)
Net purchase price	3,708,060
Assets sold:	
Land	546,855
Building	84,594
Deferred costs	65,095
Total assets sold	696,544
Gain on sale of assets	3,011,516
Deferred gain on sale leaseback	(828,820)
Total gain on sale of property and equipment	$ 2,182,696

The deferred gain on the sale-leaseback is amortized over the original lease term (see Notes A[16] and M).

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.

NOTE C - INVENTORY

Inventory, net of provision, consists of the following:

	June 30, 2023	June 30, 2022
Finished goods	**$ 294,582**	$ 275,252
Work-in-progress	**1,329,681**	1,334,403
Raw materials	**1,487,857**	1,564,764
	3,112,120	3,174,419
Provision for inventory	**(240,002)**	(202,380)
	$ 2,872,118	$ 2,972,039

NOTE D - GOVERNMENT GRANT

The CARES Act provided the ERC, which is a refundable tax credit against certain employment taxes. During the year ended June 30, 2022, the Company recorded $464,091 related to the CARES ERC in "Grant income" on the Company's statements of income. As of June 30, 2023 and 2022, the Company has receivable balances of $0 and $211,059, respectively, from the United States government related to the CARES Act, which is recorded in "Grant receivable" on the Company's balance sheets.

NOTE E - PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows:

	June 30, 2023	June 30, 2022
Land	**$ 14,638**	$ 14,638
Leasehold improvements	**281,980**	281,980
Furniture and fixtures	**329,801**	329,801
Machinery and equipment	**2,540,041**	2,552,258
	3,166,460	3,178,677
Less: accumulated depreciation	**(2,811,475)**	(2,692,611)
	$ 354,985	$ 486,066

Depreciation and amortization expense was $118,864 and $112,618 for the years ended June 30, 2023 and 2022, respectively.

NOTE F - INTANGIBLE ASSETS

Intangible assets associated with the assets purchased from INI are being amortized over their estimated useful lives, as described in Note A[8]. Amortization was $57,052 and $50,827 for the years ended June 30, 2023 and 2022, respectively. Amortization expense is expected to be approximately $61,000 per year for the next two years, $26,000 in 2026, $11,000 in 2027, and $5,000 in 2028.

The Company's intangible assets consist of the following:

	June 30, 2023	June 30, 2022
Patents	$ **336,892**	$ 306,298
Less: accumulated depreciation	**(173,155)**	(116,103)
Intangibles, net	$ **163,737**	$ 190,195

NOTE G - 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. The agreement between the Company and Crestmark included a borrowing base calculation tied to accounts receivable, raw materials and finished goods inventory, as well as machinery and equipment. The interest rate was 3.75% above Prime Rate as listed in the *Wall Street Journal.* The effective rate, including all expenses and fees, ranged between 10.5% and 11.5%. The initial agreement was for two years and automatically renewed for an additional two years unless the Company notified Crestmark of termination within sixty (60) days of the renewal date. 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.

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

NOTE H - ACCRUED EXPENSES AND OTHER LIABILITIES

	June 30, 2023	June 30, 2022
Accrued pension costs	$ **418,668**	$ 439,092
Accrued royalties	**146,171**	247,601
Other accrued expenses	**184,181**	103,244
Accrued compensation and benefits payable	**220,635**	225,250
Accrued audit and accounting	**72,012**	72,577
Accrued warranty reserve	**126,803**	100,403
Accrued expenses and other liabilities	$ **1,168,470**	$ 1,188,167

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, 2023 and 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, 2023 and 2022. The Company recorded no stock option compensation expense for the fiscal years ended June 30, 2023 and 2022.

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, 2023, 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.

NOTE K - TAXES ON INCOME

Deferred tax assets and liabilities as of June 30, 2023 and 2022 consisted of the following:

	2023	2022
Deferred tax assets (liabilities):		
Vacation accrual	**$ 39,330**	$ 37,538
Inventory reserve	**67,464**	56,889
Prepaid expenses	**(29,159)**	(13,901)
Pension	**115,382**	216,434
Deferred gain	**-**	147,554
Operating lease ROU asset	**(56,842)**	-
Operating lease liability	**162,975**	-
Capitalized research and development credits	**203,404**	-
Property and equipment	**885**	(22,295)
	503,439	422,219
Less: valuation allowance	**(115,382)**	(216,434)
Total deferred tax assets	**$ 388,057**	$ 205,785

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, 2023 and 2022 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, 2023 and 2022, the valuation allowance decreased by $101,052 and $186,116, respectively. The actual tax expense differs from the expected amount of tax based on the federal statutory rate related to a true-up of prior year balances.

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

	2023	2022
Federal:		
Current	**$ 165,805**	$ 278,068
Deferred	**(145,936)**	(12,888)
State:		
Current	**86,572**	141,000
Deferred	**(36,336)**	6,054
Income tax expense	**$ 70,105**	$ 412,234

NOTE L - PENSION PLAN

The Company has a noncontributory 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.

The long-term pension liability on the balance sheet decreased over the previous year by approximately $339,000 and was a long-term pension asset of approximately $8,000 at June 30, 2023. The primary factors were an increase in the Discount Rate from 4.55% to 5.19%, which resulted in a decrease to the liability of approximately $167,000, and the death of a participant, which resulted in a decrease to the liability of approximately $197,000.

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 5.19% as of June 30, 2023, which is higher than the assumed discount rate of 4.55% as of June 30, 2022. 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 $61,000 and $50,000 for the years ended June 30, 2023 and 2022, respectively. The estimated fiscal year 2024 minimum contribution to the Plan is approximately $44,000.

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:

	2023	**2022**
Benefit obligation at beginning of year	**$ 2,965,593**	$ 3,670,046
Interest cost	**130,670**	94,862
Actuarial gain	**(363,700)**	(638,133)
Benefits paid plus administrative expenses	**(157,420)**	(161,182)
Benefit obligation at end of year	**$ 2,575,143**	$ 2,965,593
Change in plan assets:		
Fair value of plan assets at beginning of year	**$ 2,195,820**	$ 2,237,994
Actual return on plan assets	**65,180**	69,384
Employer contributions	**61,096**	49,624
Benefits paid plus administrative expenses	**(157,420)**	(161,182)
Fair value of plan assets at end of year	**$ 2,164,676**	$ 2,195,820
Funded status	**$ (410,467)**	$ (769,773)
Unrecognized net (gain) loss	**(8,201)**	330,681
Accrued pension expense	**$ (418,668)**	$ (439,092)

	July 1, 2022 - June 30, 2023	**July 1, 2021 - June 30, 2022**
Weighted average assumptions:		
Discount rate	**5.19%**	4.55%
Expected return on plan assets	**4.50%**	4.50%
Rate of compensation increase	**N/A**	N/A
Measurement date	**July 1, 2023**	July 1, 2022

NOTE L - PENSION PLAN (CONTINUED)

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

	2023	2022
Total accrued pension liability	**$ (410,467)**	$ (769,773)
Accumulated other comprehensive (income) loss, pre-tax	**(8,201)**	330,681
Net amount recognized	**$ (418,668)**	$ (439,092)

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

	June 30,	
	2023	2022
Change in net loss	**$ (333,214)**	$ (609,902)
Amortization of net loss	**(5,668)**	(105,631)
Amortization of actuarial income (loss)	**$ (338,882)**	$ (715,533)

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

	June 30,	
	2023	2022
Unrecognized net (gain) loss, pre-tax	**$ (8,201)**	$ 330,681

Amounts included in accumulated other comprehensive income recognized as a component of benefit cost during fiscal 2023 consist of amortization of amortization of net loss of approximately $6,000.

Components of periodic pension costs for the years ended June 30, 2023 and 2022 are as follows:

	2023	2022
Interest cost on projected benefit obligation	**$ 130,670**	$ 94,862
Expected return on plan assets	**(95,666)**	(97,615)
Amortization of actuarial loss	**5,668**	105,631
Net periodic pension costs	**$ 40,672**	$ 102,878

NOTE L - PENSION PLAN (CONTINUED)

	2023	2022
Weighted average assumptions for net periodic pension expense:		
Discount rate	**5.19%**	4.55%
Expected return on plan assets	**4.50%**	4.50%
Rate of compensation increase	**N/A**	N/A

The weighted average asset allocations at June 30, 2023 and 2022 by asset category are as follows:

	2023	2022
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[15]).

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 nonactive 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 Plan's Level 3 assets for the fiscal year ended June 30, 2023:

	All Fixed Funds
Balance, June 30, 2022	$ 2,195,820
Actual return on plan assets	65,180
Purchases and sales	(96,324)
Transfers in and/or out of Level 3	-
Balance, June 30, 2023	$ 2,164,676

NOTE L - PENSION PLAN (CONTINUED)

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

2024	$	184,000
2025		188,000
2026		191,000
2027		192,000
2028		193,000
Five years thereafter		965,000

NOTE M - LEASES

On August 13, 2020, the Company entered into a sale and purchase agreement with an unrelated third party (see Note B). 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 and amortized in proportion to the related gross rental charged to expense over the related lease term.

In addition to the base rent, the leases include variable lease payments requiring the Company to pay its proportionate share of real estate taxes and operating expenses during the lease term. Such amounts are considered variable lease payments and are not included in operating lease ROU assets or operating lease liability balances and are recognized in the period in which the expenses are incurred. The Company’s lease terms may include options to extend or terminate the lease. Options to extend lease terms that are reasonably certain of exercise are recognized as part of the operating lease ROU asset and operating lease liability balances.

The liabilities under operating leases are recorded at the present value of the minimum lease payments. Lease expense relating to operating leases, consisting of ROU asset amortization and lease liability interest, is included in general and administrative expenses as rent on the accompanying statements of income.

NOTE M - LEASES (CONTINUED)

The following maturity analysis of the annual undiscounted cash flows of the operating lease liabilities as of June 30, 2023 is approximately as follows:

Year Ending June 30,	Operating Leases
2024	$ 266,560
2025	271,574
2026	45,402
2027	-
2028	-
Thereafter	-
	583,536
Less: amount representing interest	16,929
Total	$ 566,607

Reported as of June 30, 2023	Operating Leases
Current portion of lease liabilities	$ 254,440
Lease liabilities, net of current portion	312,167
Total	$ 566,607

Cash paid for amounts included in the measurement of lease liabilities relating to operating leases approximated $262,000 and an operating lease cost of approximately $101,000. The Company did not incur any short-term or variable lease costs. The weighted average remaining lease term is 2.17 years and the weighted average discount rate is 2.8%

The rent expense for the operating lease for the year ended June 30, 2022, excluding the amortization of the gain on sale, was approximately $211,000.

NOTE N - CONCENTRATIONS

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.

NOTE N - CONCENTRATIONS (CONTINUED)

Product concentration risk:

For the year ended June 30, 2023, the Company derived approximately 74% of its revenues from the sale of spare parts and repairs for its power products. For the year ended June 30, 2022, the Company derived approximately 44% of its revenues from sales of these products.

For the year ended June 30, 2023, the Company derived approximately 26% 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, 2022, the Company derived approximately 56% of its revenues from sales of these products.

Supplier concentration risks:

For the year ended June 30, 2023, the Company did not have a significant vendor of material purchases. For the year ended June 30, 2022, 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, 2023, the Company had one major customer representing 53% of net sales. As at June 30, 2023, three customers accounted for 81% (42%, 25%, and 14%) of the outstanding accounts receivable balance. 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.

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

NOTE O - COMMITMENTS AND CONTINGENCIES

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. Payment is due within 30 days after the end of each calendar quarter. There was no royalty expense for the years ended June 30, 2023 and 2022. There were $146,171 and $247,601 of accrued royalties as of June 30, 2023 and 2022, 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, 2023 and determined there were no changes from the original estimated amount. The Company made royalty payments of $101,430 for the year ended June 30, 2023.

Future royalty payments at June 30 are approximately as follows:

2024	$ 112,500
2025	33,500
Future royalty payments	$ 146,000