THE DEWEY ELECTRONICS CORPORATION

FINANCIAL STATEMENTS

JUNE 30, 2024 and 2023

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, 2024 and 2023, and the related statements of operations, comprehensive (loss) 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

EISNERAMPER LLP
Iselin, New Jersey
December 5, 2024

THE DEWEY ELECTRONICS CORPORATION

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

	June 30, 2024	June 30, 2023
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 1,400,264**	$ 2,022,466
Accounts receivable	**312,505**	1,105,582
Income tax receivable	**49,781**	-
Inventory, net	**3,647,088**	2,872,118
Prepaid expenses and other current assets	**108,802**	125,605
Total current assets	**5,518,440**	6,125,771
Property and equipment, net	**265,988**	354,985
Intangible assets, net	**125,005**	163,737
Deferred tax assets	**489,850**	388,057
Security deposits	**31,167**	31,167
Long-term pension asset	**39,488**	8,201
Operating lease right-of-use assets	**113,191**	202,214
Total assets	**$ 6,583,129**	$ 7,274,132
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	**$ 122,886**	$ 154,425
Customer deposits	**66,076**	8,901
Income tax payable	**-**	92,497
Operating lease liabilities, current	**266,818**	254,440
Accrued expenses and other liabilities	**893,058**	1,168,470
Total current liabilities	**1,348,838**	1,678,733
Operating lease liabilities, net of current	**45,349**	312,167
Total liabilities	**1,394,187**	1,990,900
Stockholders' equity:		
Common stock, par value $.01; authorized 3,000,000 shares; issued 1,693,397 shares; outstanding - 939,298 shares	**16,934**	16,934
Additional paid-in capital	**2,883,970**	2,883,970
Retained earnings	**4,646,793**	4,772,370
Accumulated other comprehensive income	**198,251**	166,964
	7,745,948	7,840,238
Less: Treasury stock, 754,099 shares	**(2,557,006)**	(2,557,006)
Total stockholders' equity	**5,188,942**	5,283,232
Total liabilities and stockholders' equity	**$ 6,583,129**	$ 7,274,132

THE DEWEY ELECTRONICS CORPORATION

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

	Year Ended June 30, 2024	Year Ended June 30, 2023
Net sales	**$ 5,216,512**	$ 5,933,279
Cost of goods sold	**3,802,635**	4,173,473
Gross profit	**1,413,877**	1,759,806
Selling, general and administrative expenses	**1,738,196**	1,523,285
(Loss) income from operations	**(324,319)**	236,521
Other income (expense):		
Interest income, net	**49,482**	5,441
Other income (expense)	**(248)**	(31,327)
Total other income (expense)	**49,234**	(25,886)
Net (loss) income before provision for income taxes	**(275,085)**	210,635
Provision for income taxes:		
Current income tax (benefit) expense	**(47,715)**	252,377
Deferred income tax (benefit) expense	**(101,793)**	(182,272)
Total provision for income taxes	**(149,508)**	70,105
Net (loss) income	**$ (125,577)**	$ 140,530

THE DEWEY ELECTRONICS CORPORATION

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

	Year Ended June 30, 2024	Year Ended June 30, 2023
Net (loss) income	**$ (125,577)**	$ 140,530
Other comprehensive income:		
Amortization of actuarial income	**31,287**	338,882
Comprehensive (loss) income	**$ (94,290)**	$ 479,412

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, 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
Net loss	-	-	-	(125,577)	-	-	-	(125,577)
Minimum pension liability adjustment	-	-	-	-	31,287	-	-	31,287
Balance, June 30, 2024	**1,693,397**	**$ 16,934**	**$ 2,883,970**	**$ 4,646,793**	**$ 198,251**	**754,099**	**$ (2,557,006)**	**$ 5,188,942**

THE DEWEY ELECTRONICS CORPORATION

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

	Year Ended June 30, 2024	Year Ended June 30, 2023
Cash flows from operating activities:		
Net (loss) income	**$ (125,577)**	$ 140,530
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Depreciation and amortization	**186,114**	175,916
Loss on disposal of fixed assets	**-**	22,316
Reserve for obsolete inventory	**11,615**	37,622
Change in operating lease right-of-use asset	**89,023**	82,274
Deferred income tax (benefit) expense	**(101,793)**	(182,272)
(Increase) decrease in:		
Accounts receivable	**793,077**	(836,706)
Grant receivable	**-**	211,059
Inventory	**(786,585)**	62,299
Prepaid expenses and other current assets	**16,803**	(36,336)
Income tax receivable	**(49,781)**	44,996
Increase (decrease) in:		
Accounts payable	**(31,539)**	110,753
Income tax payable	**(92,497)**	92,497
Operating lease liabilities	**(254,440)**	(242,800)
Customer deposits	**57,175**	(268,899)
Accrued expenses and other liabilities	**(275,412)**	(19,697)
Net cash used in operating activities	**(563,817)**	(606,448)
Cash flows from investing activities:		
Payments for purchases of property and equipment	**(32,834)**	(10,099)
Payments for purchases of patents	**(25,551)**	(30,594)
Net cash used in investing activities	**(58,385)**	(40,693)
Cash flows from financing activities:		
Net payments on line of credit	**-**	(308,883)
Net cash used in financing activities	**-**	(308,883)
Net change in cash and cash equivalents	**(622,202)**	(956,024)
Cash and cash equivalents - beginning	**2,022,466**	2,978,490
Cash and cash equivalents - ending	**$ 1,400,264**	$ 2,022,466
Supplemental disclosures of cash paid:		
Interest	**$ 4,242**	$ 5,604
Income taxes	**$ 94,562**	$ 547,320
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 price 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] Adoption of new accounting standard – current expected credit loss:

Effective July 1, 2023, the Company adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2016-13, *Financial Instruments – Credit Losses (Topic 326) – Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"), as amended. ASU 2016-13 replaces the "incurred loss" credit losses framework with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology, which requires management's measurement of the allowance for credit losses to be based on a broader range of reasonable and supportable information for lifetime credit loss estimates. The measurement of expected credit losses under the CECL methodology is applied to financial assets measured at amortized cost.

The Company adopted ASU 2016-13 using the modified retrospective method for all financial assets measured at amortized cost, which included accounts receivable. The adoption and application of the standard had no material effect on these financial statements.

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

[6] Accounts receivable and allowance for credit losses:

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 credit losses as of June 30, 2024 and 2023.

[7] 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. Certain components of inventory include allocated costs of direct labor and overhead.

[8] Property, plant, and equipment:

Property, plant, and equipment are stated at cost less accumulated depreciation and amortization. Expenditures for maintenance and repairs are expensed currently, while renewals and betterments that materially extend the life of an asset are capitalized. Depreciation and amortization 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

[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 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.

[10] 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, 2024 and 2023.

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

[11] 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 include 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. The Company's warranties have a one year term, which historically have been immaterial. The warranty reserve was $70,711 and $126,803 as of June 30, 2024 and 2023, respectively.

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.

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 $312,505, $1,105,582 and $268,876 as of June 30, 2024, June 30, 2023 and July 1, 2022, 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 $66,076, $8,901 and $277,800 as of June 30, 2024, June 30, 2023 and July 1, 2022, respectively.

[12] 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 $55,000 and $110,000 of research and development costs for the years ended June 30, 2024 and 2023, respectively.

[13] 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.

[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.

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.

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

[14] Income taxes: (continued)

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, 2024 and 2023.

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, 2024 and 2023.

[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] Leases:

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

Operating leases are recorded as operating lease right-of-use ("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.

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

[16] Leases: (continued)

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.

[17] Recent accounting pronouncements:

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*, which amends the FASB's guidance on disclosures in the financial statements related to income taxes. The ASU requires qualitative disclosures about specific categories of reconciling items and individual jurisdictions that result in a significant difference between the statutory tax rate and the effective tax rate. The ASU also requires disclosure of the amount of income taxes paid, net of refunds received, disaggregated by federal/national, state, and foreign jurisdictions and the amount of income taxes paid, net of refunds received, to each individual jurisdiction in which income taxes paid, net of refunds received, is equal to or greater than 5 percent of total income taxes paid, net of refunds received. The ASU is effective for the Company for the fiscal year beginning after December 15, 2025, and should be applied on a prospective basis, with retrospective application permitted. The Company is currently evaluating the impact of the adoption of this standard on its financial statements and related disclosures.

[18] Subsequent events:

The Company evaluated subsequent events through December 5, 2024, 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 K). 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 Note K).

NOTE C - INVENTORY

Inventory, net of provision, consists of the following:

	June 30, 2024	June 30, 2023
Finished goods	**$ 643,149**	$ 294,582
Work-in-progress	**1,540,756**	1,329,681
Raw materials	**1,714,800**	1,487,857
	3,898,705	3,112,120
Provision for inventory	**(251,617)**	(240,002)
	$ 3,647,088	$ 2,872,118

NOTE D - PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows:

	June 30, 2024	June 30, 2023
Land	**$ 14,638**	$ 14,638
Leasehold improvements	**281,980**	281,980
Furniture and fixtures	**330,322**	329,801
Machinery and equipment	**2,572,354**	2,540,041
	3,199,294	3,166,460
Less: accumulated depreciation and amortization	**(2,933,306)**	(2,811,475)
	$ 265,988	$ 354,985

Depreciation and amortization expense was $121,831 and $118,864 for the years ended June 30, 2024 and 2023, respectively.

NOTE E - INTANGIBLE ASSETS

Intangible assets associated with the assets purchased from INI are being amortized over their estimated useful lives, as described in Note A[9]. Amortization was $64,283 and $57,052 for the years ended June 30, 2024 and 2023, respectively. Amortization expense is expected to be approximately $65,000 in 2025, $30,000 in 2026, $15,000 in 2027, $10,000 in 2028 and $5,000 in 2029.

The Company's intangible assets consist of the following:

	June 30, 2024	June 30, 2023
Patents	**$ 362,443**	$ 336,892
Less: accumulated amortization	**(237,438)**	(173,155)
Intangibles, net	**$ 125,005**	$ 163,737

NOTE F - CREDIT FACILITY

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 G - ACCRUED EXPENSES AND OTHER LIABILITIES

	June 30, 2024	June 30, 2023
Accrued pension costs	**$ 408,893**	$ 418,668
Accrued royalties	**50,606**	146,171
Other accrued expenses	**178,204**	184,181
Accrued compensation and benefits payable	**137,423**	220,635
Accrued audit and accounting	**47,221**	72,012
Accrued warranty reserve	**70,711**	126,803
Accrued expenses and other liabilities	**$ 893,058**	$ 1,168,470

NOTE H - STOCK OPTION PLANS

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, 2024 and 2023, 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, 2024 and 2023. The Company recorded no stock option compensation expense for the fiscal years ended June 30, 2024 and 2023.

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.

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.

As of June 30, 2024 and 2023, there are no stock options outstanding and exercisable.

NOTE I - TAXES ON INCOME

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

	2024	2023
Deferred tax assets (liabilities):		
Vacation accrual	**$ 27,942**	$ 39,330
Inventory reserve	**70,730**	67,464
Prepaid expenses	**(18,814)**	(29,159)
Pension	**103,840**	115,382
Operating lease ROU asset	**(31,818)**	(56,842)
Operating lease liability	**87,750**	162,975
Capitalized research and development	**356,194**	203,404
Property and equipment	**(2,134)**	885
	593,690	503,439
Less: valuation allowance	**(103,840)**	(115,382)
Total deferred tax assets	**$ 489,850**	$ 388,057

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 taxable income for the years ended June 30, 2024 and 2023 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, 2024 and 2023, the valuation allowance decreased by $11,542 and $101,052, 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 (benefit) expense for the years ended June 30, 2024 and 2023 consisted of the following:

	2024	2023
Federal:		
Current	**$ 8,754**	$ 165,805
Deferred	**(87,230)**	(145,936)
State:		
Current	**(56,469)**	86,572
Deferred	**(14,563)**	(36,336)
Income tax (benefit) expense	**$ (149,508)**	$ 70,105

NOTE J - 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 asset on the balance sheet increased over the previous year by approximately $31,000 to approximately $39,000 at June 30, 2024. The primary factor to the change was an increase in the Discount Rate from 5.19% to 5.44%, which resulted in an increase to the asset of approximately $58,000.

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 5.44% as of June 30, 2024, which is higher than the assumed discount rate of 5.19% as of June 30, 2023. 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 $44,000 and $61,000 for the years ended June 30, 2024 and 2023, respectively. The estimated fiscal year 2025 minimum contribution to the Plan is approximately $46,000.

NOTE J - 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:

	2024	2023
Benefit obligation at beginning of year	**$ 2,575,143**	$ 2,965,593
Interest cost	**128,943**	130,670
Actuarial gain	**(65,787)**	(363,700)
Benefits paid plus administrative expenses	**(168,529)**	(157,420)
Benefit obligation at end of year	**$ 2,469,770**	$ 2,575,143
Change in plan assets:		
Fair value of plan assets at beginning of year	**$ 2,164,676**	$ 2,195,820
Actual return on plan assets	**59,900**	65,180
Employer contributions	**44,318**	61,096
Benefits paid plus administrative expenses	**(168,529)**	(157,420)
Fair value of plan assets at end of year	**$ 2,100,365**	$ 2,164,676
Funded status	**$ (369,405)**	$ (410,467)
Unrecognized net gain	**(39,488)**	(8,201)
Accrued pension expense	**$ (408,893)**	$ (418,668)

	July 1, 2023 - June 30, 2024	July 1, 2022 - June 30, 2023
Weighted average assumptions:		
Discount rate	**5.44%**	5.19%
Expected return on plan assets	**4.50%**	4.50%
Rate of compensation increase	**N/A**	N/A
Measurement date	**July 1, 2024**	July 1, 2023

NOTE J - 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:

	2024	2023
Total accrued pension liability	**$ (369,405)**	$ (410,467)
Accumulated other comprehensive income, pre-tax	**(39,488)**	(8,201)
Net amount recognized	**$ (408,893)**	$ (418,668)

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

	June 30,	
	2024	2023
Change in net gain	**$ (31,287)**	$ (333,214)
Amortization of net loss	**-**	(5,668)
Total recognized in other comprehensive income	**$ (31,287)**	$ (338,882)

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

	June 30,	
	2024	2023
Unrecognized net gain	**$ (39,488)**	$ (8,201)

Components of periodic pension costs for the years ended June 30, 2024 and 2023 are as follows:

	2024	2023
Interest cost on projected benefit obligation	**$ 128,943**	$ 130,670
Expected return on plan assets	**(94,400)**	(95,666)
Amortization of actuarial loss	**-**	5,668
Net periodic pension costs	**$ 34,543**	$ 40,672

NOTE J - PENSION PLAN (CONTINUED)

	July 1, 2023 - June 30, 2024	July 1, 2022 - June 30, 2023
Weighted average assumptions:		
Discount rate	**5.44%**	5.19%
Expected return on plan assets	**4.50%**	4.50%
Rate of compensation increase	**N/A**	N/A
Measurement date	**July 1, 2024**	July 1, 2023

The weighted average asset allocations at June 30, 2024 and 2023 by asset category are as follows:

	2024	2023
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, 2024:

	All Fixed Funds
Balance, June 30, 2023	$ 2,164,676
Actual return on plan assets	59,900
Purchases and sales	(124,211)
Transfers in and/or out of Level 3	-
Balance, June 30, 2024	$ 2,100,365

NOTE J - PENSION PLAN (CONTINUED)

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

2025	$ 187,000
2026	190,000
2027	191,000
2028	192,000
2029	194,000
Five years thereafter	954,000

NOTE K - 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 an initial 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 operations.

NOTE K - LEASES (CONTINUED)

The following maturity analysis of the annual undiscounted cash flows of the operating lease liabilities as of June 30, 2024 is approximately as follows:

Year Ending June 30,	Operating Leases
2025	$ 271,574
2026	45,402
2027	-
2028	-
2029	-
Thereafter	-
	316,976
Less: amount representing interest	4,809
Total	$ 312,167

Reported as of June 30, 2024	Operating Leases
Current portion of lease liabilities	$ 266,818
Lease liabilities, net of current portion	45,349
Total	$ 312,167

Cash paid for amounts included in the measurement of lease liabilities relating to operating leases approximated $267,000 and an operating lease cost of approximately $101,000. The Company incurred short-term and variable lease costs of approximately $15,000 and $14,000 for the years ended June 30, 2024 and 2023, respectively. The weighted average remaining lease term is 1.17 years and the weighted average discount rate is 2.8%

The rent expense for the operating lease for the year ended June 30, 2024, excluding the amortization of the gain on sale, was approximately $267,000.

NOTE L - 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 L - CONCENTRATIONS (CONTINUED)

Product concentration risk:

For the year ended June 30, 2024, the Company derived approximately 69% of its revenues from the sale of spare parts and repairs for its power products. For the year ended June 30, 2023, the Company derived approximately 74% of its revenues from sales of these products.

For the year ended June 30, 2024, the Company derived approximately 31% 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, 2023, the Company derived approximately 26% of its revenues from sales of these products.

Supplier concentration risks:

For the year ended June 30, 2024, one vendor accounted for approximately 11% of material purchases. For the year ended June 30, 2023, the Company did not have a significant vendor 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, 2024, the Company had one major customer representing 51% of net sales and 75% of the outstanding accounts receivable balance. For the year ended June 30, 2023, the Company had one major customer representing 53% of net sales and three customers accounting for 81% (42%, 25% and 14%) of outstanding accounts receivable.

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

NOTE M - 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, 2024 and 2023. There were $50,606 and $146,171 of accrued royalties as of June 30, 2024 and 2023, 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, 2024 and determined there were no changes from the original estimated amount. The Company made royalty payments of $95,565 for the year ended June 30, 2024.

Future royalty payments at June 30 are approximately as follows:

2025	$ 33,500
2026	17,106
Future royalty payments	$ 50,606