DEWEY ELECTRONICS CORP
Form 10-Q
February 14, 2005

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10 - Q

Quarterly Report Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

For the quarter ended December 31, 2004
Commission File No 0-2892

THE DEWEY ELECTRONICS CORPORATION

A New York Corporation

I.R.S. Employer Identification
No. 13-1803974

27 Muller Road
Oakland, New Jersey 07436
(201) 337-4700

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No .

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No X.

The number of shares outstanding of the registrant's common stock, $.01 par value was 1,362,031 at February 4, 2005.

THE DEWEY ELECTRONICS CORPORATION

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PART I: FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

The following unaudited, consolidated balance sheets, statements of operations, and statements of cash flows are of The Dewey Electronics Corporation. These consolidated financial statements reflect all adjustments of a normal recurring nature, which are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods reflected herein. The results reflected in the unaudited statements of operations for the period ended December 31, 2004 are not necessarily indicative of the results to be expected for the entire year. The following unaudited consolidated financial statements should be read in conjunction with the notes thereto, and Management's Discussion and Analysis of Financial Condition and Results of Operations set forth in Item 2 of Part I of this report, as well as the audited consolidated financial statements and related notes thereto contained in the Form 10-K filed for the fiscal year ended June 30, 2004.

THE DEWEY ELECTRONICS CORPORATION
BALANCE SHEETS

	DECEMBER 31, 2004 (UNAUDITED)	JUNE 30, 2004
ASSETS:		

CURRENT ASSETS:		
CASH AND CASH EQUIVALENTS	$1,495,333	$1,604,475
ACCOUNTS RECEIVABLE, NET	924,913	810,051
INVENTORIES	822,855	925,501
CONTRACT COSTS AND RELATED ESTIMATED PROFITS IN EXCESS OF BILLINGS	1,125,275	965,606
DEFERRED TAX ASSET	25,192	24,743
PREPAID EXPENSES AND OTHER CURRENT ASSETS	186,961	242,182
TOTAL CURRENT ASSETS	4,580,529	4,572,558
PLANT, PROPERTY AND EQUIPMENT - NET	545,458	575,455
CAPITALIZED DEVELOPMENT COSTS	690,704	684,566
DEFERRED FEES	46,172	143,215
LAND AND RELATED COSTS HELD FOR SALE	553,317	506,345
TOTAL OTHER ASSETS	1,290,193	1,334,126
TOTAL ASSETS	6,416,180	6,482,139
LIABILITIES AND STOCKHOLDERS' EQUITY:		
CURRENT LIABILITIES:		
TRADE ACCOUNTS PAYABLE	$ 182,742	$255,029
ACCRUED EXPENSES AND OTHER LIABILITIES	248,234	251,921
ACCRUED CORPORATE INCOME TAXES	33,677	32,384
ACCRUED PENSION COSTS	8,818	8,818
MORTGAGE NOTE PAYABLE	297,266	327,735
DUE TO RELATED PARTY	200,000	200,000
TOTAL CURRENT LIABILITIES	970,737	1,075,887
LONG-TERM PENSION LIABILITY	247,363	247,363
DEFERRED INCOME TAXES	13,535	-
STOCKHOLDERS' EQUITY:		
COMMON STOCK, par value $.01; authorized 3,000,000 shares; issued and outstanding 1,693,397 shares	16,934	16,934
PAID-IN CAPITAL	2,817,474	2,817,474
ACCUMULATED EARNINGS	3,005,852	2,980,196
ACCUMULATED OTHER COMPREHENSIVE LOSS-PENSION	(165,013)	(165,013)
	5,675,247	5,649,591
LESS: TREASURY STOCK 333,866 SHARES AT COST	(490,702)	(490,702)
TOTAL STOCKHOLDERS' EQUITY	5,184,545	5,158,889
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$6,416,180	$6,482,139

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THE DEWEY ELECTRONICS CORPORATION
STATEMENTS OF OPERATIONS (UNAUDITED)

	THREE MONTHS ENDED DECEMBER 31		SIX MONTHS ENDED DECEMBER 31	
	2004	2003	2004	2003
REVENUES	$1,853,382	$1,387,072	$3,138,457	$2,573,846
COST OF REVENUES	1,561,153	1,101,436	2,450,238	2,014,002

GROSS PROFIT	292,229	285,636	688,219	559,844
SELLING & ADMIN. EXPENSES	334,901	324,435	632,792	576,828
OPERATING INCOME	(42,672)	(38,799)	55,427	(16,984)
INTEREST EXPENSE	9,146	10,060	18,522	22,461
OTHER (INCOME) - NET	(3,564)	2,745	(5,855)	(391)
INCOME BEFORE INCOME TAXES	(48,254)	(51,604)	42,760	(39,054)
INCOME TAX BENEFIT/(EXPENSE)	19,302	20,642	(17,104)	15,622
NET (LOSS)/INCOME	($28,952)	($30,962)	$25,656	($23,432)
NET (LOSS)/INCOME PER SHARE:				
BASIC	($0.02)	($0.02)	$0.02	($0.02)
DILUTED	($0.02)	($0.02)	$0.02	($0.02)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:				
BASIC	1,359,531	1,359,531	1,359,531	1,359,531
DILUTED	1,367,671	1,367,664	1,367,556	1,367,719

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THE DEWEY ELECTRONICS CORPORATION
STATEMENTS OF CASH FLOWS (UNAUDITED)

	SIX MONTHS ENDED DECEMBER 31, 2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
NET INCOME/(LOSS)	$ 25,656	($23,432)
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH USED IN OPERATING ACTIVITIES:		
DEPRECIATION	53,700	37,141
AMORTIZATION OF FEES	97,043	4,950
DEFERRED INCOME TAXES	13,086	-
(INCREASE) IN ACCOUNTS RECEIVABLE	(114,862)	(511,227)
DECREASE/(INCREASE) IN INVENTORIES	102,646	(429,207)
(INCREASE)/DECREASE IN CONTRACT COSTS AND RELATED ESTIMATED PROFITS IN EXCESS OF APPLICABLE BILLINGS	(159,669)	388,408

DECREASE IN PREPAID EXPENSES AND OTHER CURRENT ASSETS	55,221	17,872
(DECREASE)/INCREASE IN ACCOUNTS PAYABLE	(72,287)	93,114
(DECREASE) IN ACCRUED LIABILITIES	(3,687)	(79,548)
INCREASE/(DECREASE) IN CORPORATE INCOME TAXES	1,293	(15,223)
INCREASE IN ACCRUED PENSION COSTS	-	30,000
TOTAL ADJUSTMENTS	(27,516)	(463,720)
NET CASH USED IN OPERATING ACTIVITIES	(1,860)	(487,152)
CASH FLOWS FROM INVESTING ACTIVITIES:		
EXPENDITURES FOR PLANT, PROPERTY AND EQUIPMENT	(23,703)	(191,967)
EXPENDITURES FOR CAPITALIZED DEVELOPMENT COSTS	(6,138)	(120,628)
COSTS CAPITALIZED WITH LAND HELD FOR SALE	(46,972)	-
NET CASH USED IN INVESTING ACTIVITIES	(76,813)	(312,595)
CASH FLOWS FROM FINANCING ACTIVITIES:		
PRINCIPAL PAYMENTS OF DEBT	(30,469)	(30,469)
NET CASH USED IN FINANCING ACTIVITIES	(30,469)	(30,469)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(109,142)	(830,216)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,604,475	1,989,703
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 1,495,333	$1,159,487
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
INTEREST PAID	$18,628	$22,564
INTEREST RECEIVED	3,785	3,944
CORPORATE INCOME TAXES PAID	2,825	325

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THE DEWEY ELECTRONICS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2004

NOTE 1: STOCK BASED COMPENSATION

The Company applies Accounting Principles Board (APB) Opinion 25 and related interpretations in accounting for its Stock Option Plans. The compensation cost for the stock-based employee compensation plan is recognized using the intrinsic value method. The following table illustrates the effect on net income and net income per share if the Company had applied the fair value method to recognize stock-based employee compensation.

	3 Months Ended December 31	
	2004	2003
Net (loss), as reported	($28,952)	($30,962)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax Effects	4,935	4,979
Pro forma net (loss)	($33,887)	($35,941)
Earnings per share:		
Basic - as reported	($.02)	($.02)
Basic - pro forma	($.02)	($.03)
Diluted - as reported	($.02)	($.02)
Diluted - pro forma	($.02)	($.03)

	6 Months Ended December 31	
	2004	2003
Net income/(loss), as reported	$25,656	($23,432)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax Effects	9,870	8,565
Pro forma net income/(loss)	$15,786	($31,997)
Earnings per share:		
Basic - as reported	$.02	($.02)
Basic - pro forma	$.01	($.02)
Diluted - as reported	$.02	($.02)
Diluted - pro forma	$.01	($.02)

THE DEWEY ELECTRONICS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2004

NOTE 2: REVENUE RECOGNITION

Revenues and estimated earnings under 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 for each contract. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. 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 are determined.

Since substantially all of the Company's electronics business comes from contracts with various agencies of the United States Government or subcontracts with prime Government contractors, the loss of Government business would have a material adverse effect on this segment of business.

In the Leisure and Recreation segment, revenues and earnings are recorded when deliveries are made and title and risk of loss have been transferred to the customer and collection is probable.

NOTE 3: CASH AND CASH EQUIVALENTS

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

NOTE 4: FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of the Company's long-term debt and line of credit borrowings are estimated based upon interest rates currently available for borrowings with similar terms and maturities and approximate the carrying values.

Due to the short-term nature of cash, accounts receivable, accounts payable, accrued expenses and other current liabilities, their carrying value is a reasonable estimate of fair value.

NOTE 5: INVENTORIES

Inventories are valued at lower of cost (first-in, first-out method) or market. Components of cost include materials, direct labor and plant overhead.

As there is no segregation of inventories as to raw materials, work in progress and finished goods for interim reporting periods (this information is available at year end when physical inventories are taken and recorded), estimates have been made for the interim period. These estimates are made following a physical review of existing materials at various stages including specific identification of major cost elements. This process of estimating inventory at various stages of production is consistent with prior periods.

THE DEWEY ELECTRONICS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2004

FOR THE SIX MONTHS ENDED DECEMBER 31, 2004

	December 31, 2004	June 30, 2004
Finished Goods	$345,144	$223,969
Work In Progress	190,822	300,474
Raw Materials	286,889	401,058
Total	$822,855	$925,501
	========	========

NOTE 6: 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. Actual results could differ from those estimates.

NOTE 7: PLANT, PROPERTY AND EQUIPMENT

Plant, property 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.

NOTE 8: CAPITALIZED DEVELOPMENT COSTS

Capitalized costs are for costs for efforts to improve and enhance the 2kW generator set product line and involve, primarily, the adaptation of existing technology, as well as, engineering and design to meet specific customer requests. The scope of these efforts includes the development of a product which is in accordance with current customer requests and future requirements. Company efforts are to address areas of sound reduction, reduced weight and environmental requirements.

NOTE 9: LOAN FEES

Loan fees are capitalized by the Company and amortized utilizing the straight-line method over the term of the loan.

THE DEWEY ELECTRONICS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2004

NOTE 10: INCOME TAXES

The income tax expense for the three and six month periods ended

December 31, 2004 and 2003 was at an effective tax rate of 40%.

NOTE 11: IMPAIRMENT OF LONG-LIVED ASSETS

The Company reviews the recoverability of all long-term assets, including the related useful lives, whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset might not be recoverable. If required, the Company compares the estimated undiscounted future net cash flows to the related asset's carrying value to determine whether there has been an impairment. If an asset is considered impaired, the asset is written down to fair value, which is based either on discounted cash flows or appraised values in the period the impairment becomes known. Management believes that, as of December 31, 2004, the carrying value of such assets are not impaired.

NOTE 12: EARNINGS PER SHARE

Basic net(loss)/income per share is computed by dividing reported net (loss)/income available to common shareholders by the weighted average 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 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 table below sets forth the reconciliation of the numerators and denominators of the basic and diluted net (loss)/income per common share computations.

	Three Months Ended December 31, 2004			2003		
	Loss	Shares	Per Share Amount	Loss	Shares	Per Share Amount
Basic Net (loss) per common share	($28,952)	1,359,531	($.02)	($30,962)	1,359,531	($.02)
Effect Of dilutive Securities	-	8,140	--	--	8,133	--
Diluted Net (loss) per common share	($28,952)	1,367,671	($.02)	($30,962)	1,367,664	($.02)

THE DEWEY ELECTRONICS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2004

	Six Months Ended December 31, 2004			2003		
	Income	Shares	Per Share Amount	Loss	Shares	Per Share Amount
Basic Net income/ (loss) per common share	$25,656	1,359,531	$.02	($23,432)	1,359,531	($.02)
Effect Of dilutive Securities	-	8,025	--	--	8,188	--
Diluted Net income/ (loss) per common share	$25,656	1,367,556	$.02	($23,432)	1,367,719	($.02)

NOTE 13: RECENT PRONOUNCEMENTS

On December 15, 2004, the Financial Accounting Standards Board ("FASB") released its final revised standard entitled FASB Statement No. 123R, Share-Based Payment ("SFAS No. 123R"). SFAS No. 123R requires that a public entity measure the cost of equity based service awards based on the grant date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award or the requisite service period. SFAS No. 123R is effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. The Company is currently assessing the impact SFAS No. 123R will have on our financial position and results of operations and does not anticipate that the adoption of this statement will have a material impact on the Company's results of operations or financial condition.

On November 24, 2004, the FASB issued Statement No. 151, Inventory Costs, an Amendment of ARB No. 43, Chapter 4 ("SFAS No. 151"). The standard requires that abnormal amounts of idle capacity and spoilage costs within inventory should be excluded from the cost of inventory and expensed when incurred. The provisions of SFAS No. 151 are applicable to inventory costs incurred during fiscal years beginning after June 15, 2005. The Company expects the adoption of SFAS No. 151 will not have a material impact on our financial position or results of operations.

THE DEWEY ELECTRONICS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2004

On December 15, 2004 the FASB issued Statement No. 153 ("SFAS No. 153"), Exchanges of Nonmonetary Assets - an Amendment of Accounting Principles Board Opinion No. 29. This standard requires exchanges of productive assets to be accounted for at fair value, rather than at carryover basis, unless (1) neither the asset received nor the asset surrendered has a fair value that is determinable within reasonable limits or (2) the transactions lack commercial substance. The new standard is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The Company expects the adoption of SFAS No. 153 will not have a material impact on our financial position or results of operations.

On October 22, 2004, the President signed the American Jobs Creation Act of 2004 (the "Act"). The Act raises a number of issues with respect to accounting for income taxes. For companies that pay U.S. income taxes on manufacturing activities in the U.S., the Act provides a deduction from taxable income equal to a stipulated percentage of qualified income. The Act also provides for other changes in tax law that will affect a variety of taxpayers. On December 21, 2004, the Financial Accounting Standards Board ("FASB") issued two FASB Staff Positions ("FSP") regarding the accounting implications of the Act related to (1) the deduction for qualified domestic production activities and (2) the one-time tax benefit for the repatriation of foreign earnings. The FASB decided that the deduction for qualified domestic production activities should be accounted for as a special deduction under FASB Statement No. 109, Accounting for Income Taxes. The FASB also confirmed, that upon deciding that some amount of earnings will be repatriated, a company must record in that period the associated tax liability. The guidance in the FSPs applies to financial statements for periods ending after the date the Act was enacted. The Company adopted these positions and determined that they do not have a material impact on the Company's results of operations or financial condition.

NOTE 14: SEGMENT INFORMATION

Information about the Company's operations in its two segments for the three and six month periods ended December 31, 2004 and 2003 are as follows:

	Three months ended December 31,	Six months ended December 31

	2004	2003	2004	2003
Electronics Segment				
Revenues	$1,702,439	$1,031,839	$2,948,568	$2,208,665
Operating Income/ (Loss)	18,413	(35,718)	130,952	14,916
Leisure and Recreation				
Revenues	150,943	355,233	189,889	365,181
Operating (Loss)	(61,085)	(3,081)	(75,525)	(31,900)
Total				
Revenues	1,853,382	1,387,072	3,138,457	2,573,846
Operating (Loss /Income	(42,672)	(38,799)	55,427	(16,984)
Interest Expense	(9,146)	(10,060)	(18,522)	(22,461)
Other Income	3,564	(2,745)	5,855	391
Income Tax Benefit(Expense)	19,302	20,642	(17,104)	15,622
Net (Loss)/Income	($28,952)	($30,962)	$25,656	($23,432)

NOTE 15: PENSION PLAN

	Three months ended December 31,		Six months ended December 31,	
	2004	2003	2004	2003
Service cost	$7,066	$7,109	$14,133	$14,217
Interest cost	15,709	14,690	31,417	29,380
Expected return on plan assets	(13,550)	(11,956)	(27,100)	(23,912)
Amortization of prior service cost	--	--	--	--
Amortization of net (gain) loss	4,786	5,848	9,572	11,696
Net periodic benefit Cost	$14,011	$15,691	$28,022	$31,381

Employer Contributions

The Company previously disclosed in its financial statements for the year ended June 30, 2004, that it expects to continue to contribute within the range of legally acceptable contributions as identified by the Plan's enrolled actuary. As of December 31, 2004, $30,000 of contributions have been made. The Company presently expects to continue to contribute within the range of legally acceptable contributions as identified by the Plan's enrolled actuary.

NOTE 16: LAND AND RELATED COSTS HELD FOR SALE

On December 29, 2004, the Company agreed to sell approximately 68 acres of land. Completion of the proposed land sale depends, among other things, on a number of conditions being satisfied, including extensive regulatory and rezoning approvals from New Jersey state and local entities, and approval by the Company's stockholders. Accordingly, there can be no assurance that the sale will be completed or, if completed, the timing thereof. This land and related costs held for sale are recorded on the Company's Balance sheet at $553,317

NOTE 17: RECLASSIFICATIONS

Certain prior period information has been reclassified to conform to the current period's presentation.

THE DEWEY ELECTRONICS CORPORATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the unaudited consolidated financial statements, including the notes thereto, appearing elsewhere in this Form 10-Q, and with the audited consolidated financial statements, including the notes thereto, appearing in the Company's Form 10-K for the fiscal year ended June 30, 2004. Certain statements in this report may be deemed "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934. All statements, other than statements of historical fact, that address activities, events or developments that the Company or management intends, expects, projects, believes or anticipates will or may occur in the future are forward-looking statements. Such statements are based upon certain assumptions and assessments made by management of the Company in light of its experience and its perception of historical trends, current conditions, expected future developments and other factors it believes to be appropriate. The forward-looking statements included in this report are also subject to a number of material risks and uncertainties, including but not limited to economic, governmental, competitive and technological factors affecting the Company's operations, markets, products, services and prices and, specifically, the factors discussed below under "Government Defense Business" and "Company Strategy". Such forward-looking statements are not guarantees of future performance and actual results, developments and business decisions may differ from those envisaged by such forward-looking statements.

Operating Segments

The Company is organized into two operating segments on the basis of the types of products offered. Each segment is comprised of separate and distinct businesses: the electronics segment - primarily business with the Department of Defense, and the leisure and recreation segment - primarily business with ski areas and resorts.

In the electronics segment, the Company is a producer of electronic and electromechanical systems for the Armed Forces of the United States. The Company provides its products in this segment either as a prime contractor or as a subcontractor for the Department of Defense.

The electronics segment is comprised primarily of the 2kW generator product line, two research and development contracts, and other various orders, more limited in scope and duration. The 2kW generator product line is provided to the various branches of the Armed Forces of the United States. Production is for a long-term contract as well as short-term orders for limited quantities. The Company also provides speed and measurement instrumentation primarily for the U.S. Navy and other prime contractors such as shipbuilders. Orders are also received for replacement parts and equipment for previous Company contracts with the Department of Defense as well as other projects performed as a sub-contractor. In past years, the Company had various long-term contracts to provide the U.S. Navy with equipment.

Under the 2kW diesel operated tactical generator set contract, the Company has been the sole source producer for the Department of Defense since 1997. The original contract was awarded in 1996 and final deliveries were made under that award in March 2002. Deliveries were made to the various branches of the Armed Forces of the United States.

A new contract was awarded in September 2001, to provide the U.S. Army and other Department of Defense Agencies with this same 2kW diesel operated generator set. This new contract is a ten-year indefinite delivery, indefinite quantity contract which replaces the initial contract awarded in 1996. The total amount of orders under the September 2001 contract placed through December 31, 2004 amount to approximately $12.6 million. As with the prior contract, this contract allows for the Army to place annual production orders and to place additional interim orders. However, no assurances can be made that further orders will be placed or, if they are placed, the timing and amount of such orders.

In the leisure and recreation segment, the Company, through its HEDCO Division, designs, manufactures and markets advanced, sophisticated snowmaking equipment. It also supplies replacement parts for items no longer covered under warranty.

There are no intersegment sales.

Some operating expenses, including general corporate expenses, have been allocated to each segment by specific identification or based on labor for items which are not specifically identifiable.

Results of Operations

The Company's operating cycle is long-term and includes various types of products and varying delivery schedules. Accordingly, results of a particular period or period-to-period comparison of recorded revenues and earnings may not be indicative of future operating results. The following comparative analysis should be viewed in this context.

Consolidated Summary

For the three-month period ended December 31, 2004, consolidated revenues were $1,853,382 and operations resulted in a loss of $42,672. During the same period last year, consolidated revenues were $1,387,072 and the operating loss was $38,799.

For the six-month period ended December 31, 2004, consolidated revenues were $3,138,457 and operations resulted in a profit of $55,427. During the same six-month period last year, consolidated revenues were $2,573,846 and operations resulted in a loss of $16,984.

This year's revenues were higher in the electronics segment and lower in the leisure and recreation segment compared to the same three and six month periods last year. Results of operations by business segment are discussed below in more detail. Also, information about the Company's operations in its two segments for the three and six moth periods this year and last year can be found in Note 14 of the Notes to Consolidated Financial Statements.

Electronics Segment

In the electronics segment, revenues are recorded under defense contracts using the percentage of completion method of accounting. Revenues are recorded as work is performed based on the percentage that actual incurred costs bear in comparison to estimated total costs utilizing the most recent estimates of costs and funding. Since contracts typically extend over multiple reporting periods, revisions in costs and estimates during the progress of work have the effect of adjusting earnings applicable to performance in prior periods in the current period. When the estimated costs to complete a project indicate a loss, provision is made for the anticipated loss in the current period. For further information see Note 2 and Note 6 of the Notes to Consolidated Financial Statements.

For the three-month period ended December 31, 2004, revenues in the electronics segment were $670,600 higher than the same three-month period last year. During the three month period this year, the production of 2kW generator sets provided 39% of electronics segment revenues, the Company's research and development contracts provided 23% of electronics segment revenues and various orders which are generally for replacement parts provided 38% of such revenues. During the same three month period last year, the production of 2kW generator sets provided 52% of electronics segment revenues, the Company's research and development contract provided 6% of electronics segment revenues and various orders generally for replacement parts provided 42% of such revenues.

The increase in revenues during the three-month period ended December 31, 2004 resulted from increased efforts in all categories of the electronics segment when compared to the same period last year. Revenues in the electronics segment during the same period last year were negatively affected by the Company initiating an alternate delivery schedule for its generator set orders to allow the Company to focus on production of snowmaking machines for sales and inventory purposes. Generator set production efforts have resumed. The Company's efforts towards the research and development contract awarded in September 2003 (the "2003 R&D Contract) have also contributed to increased revenues compared to the same period last year.

For the six-month period ended December 31, 2004, revenues in the electronics segment were $739,903 higher than the same six-month period last year. During the six month period this year, the production of 2kW generator sets provided 39% of electronics segment revenues, the Company's research and development contracts provided 23% of electronics segment revenues and various orders which are generally for replacement parts provided 38% of such revenues. During the same six month period last year, the production of 2kW generator sets provided 64% of electronics segment revenues, the Company's research and development contract provided 3% of electronics segment revenues and various orders generally for replacement parts provided 33% of such revenues.

The increase in revenues during the six month period ended December 31, 2004, resulted from increased efforts in the Company's research and development contracts and its various orders which are generally for replacement parts. Revenues resulting from the Company's generator set contract was approximately the same as the same six month period last year.

The 2003 R&D Contract is for work to be performed towards the further development of the current 2kW diesel operated generator set. This contract includes efforts which are similar to those that the Company had previously invested in specifically at the request of the U.S. Army. On September 28, 2004, the Company was awarded a second research and development contract by the U.S. Army for work to be performed towards similar objectives. Both of these research and development contracts are cost plus fixed fee contracts. For additional information, see "Company Strategy" below.

As of December 31, 2004, the aggregate value of the Company's backlog of electronics segment not previously recorded as revenues was approximately $4.1 million. It is estimated that approximately $3.3 million of this backlog will be recognized as revenues during this fiscal year ending June 30, 2005.

As of December 31, 2003, the aggregate value of the Company's backlog of electronics product not previously recorded as revenues was approximately $4.7 million.

Leisure and Recreation Segment

In the HEDCO Division, revenues were lower by $204,290 and $175,292 for the three and six month period ended December 31, 2004 when compared to the same periods last year as a result of fewer sales of snowmaking machines. The sale of snowmaking machines are recorded when machinery has been delivered which historically has been during the second fiscal quarter. A lower margin was recognized during this three and six month periods when compared to last year due to a change in product mix of spare parts sold and the introduction of new enhancements to the general product line.

Liquidity and Capital Resources

The Company's principal capital requirements are to fund working capital needs and any debt servicing requirements and capital expenditures. The Company's borrowing capacity has remained above its use of outside financing. Management believes that the Company's future cash flow from operations, combined with its existing line of credit will be sufficient to support working capital requirements and capital expenditures at their current or expected levels.

Management also believes that it can continue to meet the Company's short-term liquidity needs through a combination of progress payments on government contracts (based on costs incurred) and billings at the time of delivery of products.

At December 31, 2004, the Company's working capital was $3,609,792 compared to $3,496,671 at June 30, 2004.

The ratio of current assets to current liabilities was 4.78 to 1 at

December 31, 2004 and 4.25 to 1 at June 30, 2004.

The following table is a summary of the Statements of Cash Flows in the Company's Financial Statements:

	Six Months ended December 31,	
	2004	2003
Net Cash used in		
Operating activities	($1,860)	($487,152)
Investing activities	($76,813)	($312,595)
Financing activities	($30,469)	($30,469)

Operating Activities

Adjustments to reconcile net earnings to net cash used in operating activities are presented in the Statements to Cash Flows in the Company's Financial Statements.

Net cash used in operating activities in the six month period ended December 31, 2004 was comprised primarily of net income before depreciation and amortization, an increase in accounts receivable offset by a decrease in inventories, an increase in contract costs and related estimated profits in excess of applicable billings, and a decrease in capitalized development costs.

The Company has begun expensing these capitalized development costs. A portion of these costs, $220,000, have been reclassified as pre-paid expenses and deferred fees. They are being expensed as the corresponding licensing period expires. For the six-month period ended December 31, 2004, the Company has expensed $60,000 of these fees and $120,000 has been classified as a current asset.

For the six-month period ended December 31, 2003, operating activities used net cash of $487,152. This was the result primarily of several factors. Net billings of contract costs and related estimated profits in excess of applicable billings generated $388,408 of net billings. As a result, accounts receivable increased by $511,227. Inventories increased using cash in the amount of $429,207. This was the result of the Company's efforts to produce snowmaking machines to be available for sales. The Company had also begun to produce a small quantity of 2kW generator sets for inventory purposes. The government sector had begun to order small quantities of 2kW generator sets for specific uses pursuant to short term orders independent of the Company's 2kW contract.

Company sponsored research and development costs are expensed as incurred. These costs consist primarily of material and labor costs. For the three month period ended December 31, 2004, the Company expensed $14,962 of these costs. For the same six month period last year, the Company expensed $97,487 of research and development costs.

Investing Activities

During the six-month period ended December 31, 2004, investing activities used $76,813. Of this amount, $23,703 was used for plant, property and equipment, and $46,972 was used for costs associated with undeveloped land owned by the Company and described below under "Financing Activities". The Company has also used $6,138 to continue to invest in its efforts to improve its products and existing technologies in its generator product line. See 'Company Strategy' below for further information on this effort.

During the six month period ended December 31, 2003, net cash used in investing activities amounted to $312,595. Of this amount, $191,967 was used for plant, property and equipment, and $120,628 was used by the Company to continue to invest in its efforts to improve its technologies in its generator product line.

Financing Activities

Financing activities during the six month periods ended December 31, 2004 and 2003 used $30,469 for principal reduction payments made toward the Company's Mortgage Note agreement.

On December 27, 2001, the Company and Sovereign Bank had agreed to revised terms of its Mortgage Note agreement. The renewed agreement, among other items, revised the interest rate from a fixed rate of 8.25% to the Bank's prime rate plus .5% with a floor of 6%. In addition, the maturity date was extended from October 2002 to January 2005. The Company is currently in negotiations with Sovereign Bank to restructure the remaining balance of $297,266 due on the Mortgage Note Agreement.

The Company also has a line of credit agreement with Sovereign Bank in the amount of $500,000 at an annual interest rate equal to the Bank's prime rate plus .25%, which may be renewed on October 31 of each year. Effective November 1, 2004, this line of credit agreement was renewed through October 31, 2005 on the same terms and conditions. As of December 31, 2004, there were no outstanding borrowings against this line of credit facility.

During 1988, Gordon C. Dewey, the Company's co-founder, lent the Company a total of $200,000. The loans, which are unsecured, provide for the payment of interest at the fixed rate of 9%. The loans are repayable upon demand by Frances D. Dewey, his widow, but are subordinate to the Company's Mortgage Note Agreement with Sovereign Bank, its principal lender.

The Company owns approximately 90 acres of land and the building, which it occupies in Bergen County, New Jersey, adjacent to an interchange of Interstate Route 287. On December 29, 2004, Company agreed to sell approximately 68 acres of this land to K. Hovnanian North Jersey Acquisitions, L.L.C. K. Hovnanian is a wholly-owned subsidiary of Hovnanian Enterprises, Inc., a large residential real estate developer and homebuilder with projects in New Jersey and other parts of the United States. Completion of the proposed land sale depends, among other things, on a number of conditions being satisfied, including extensive regulatory and rezoning approvals from New Jersey state and local entities, and approval by the Company's stockholders. Accordingly, there can be no assurance that the sale will be completed or, if completed, the timing thereof. A copy of the Agreement of Sale between the Company and K. Hovnanian is attached as Exhibit 10(a) hereto and is incorporated herein by reference.

Government Defense Business

The electronics segment of business provides most of the Company's revenues and is comprised of business with the U.S. Department of Defense or with other government contractors. It consists of long-term contracts and short-term business such as replacement parts.

Long-term contracts have been dependent upon single projects and until 1997, a single program, the ADCAP torpedo program with the U.S. Navy was the primary source of the Company's revenues. In 1996, the Company was awarded a contract with the U.S. Army to provide diesel operated tactical generator sets. This program has since become the Company's primary source of revenues.

On September 7, 2001, the Company was awarded a ten-year contract to provide the U.S. Army and other Department of Defense Agencies with 2kW diesel operated generator sets. This ten-year indefinite delivery, indefinite quantity contract replaced the initial contract. The Company has been the sole source producer of this generator for the Army since 1997. These generators are currently being fielded by both active and reserve components of the U.S. Armed Forces.

As with the prior contract, this new contract to supply 2kW diesel operated generator sets allows for the U.S. Army to place production orders annually and to place additional interim orders. The amount of orders received under this contract is approximately $12.6 million through December 31, 2004. Deliveries for existing orders are scheduled to continue through October 2005.

The Army has been ordering 2kW generators at a reduced volume when compared to previous years. Thus, the Company is currently delivering at a reduced rate. The reduction in orders results from many factors. It appears that our main customer, the Army, has satisfied the majority of its outstanding requirements. It has been placing orders as new requirements emerge, and this is a slower process. Moreover, we now believe there is competition in part of our market, from a larger 3kW generator that operates more quietly than our current model. However, this 3kW generator does not compete in the 'man-portable' segment of our market since this competing product is twice as heavy. The customer is interested in a product which is smaller, lighter and quieter and the Company is working towards developing the 2kW generators to address its customer's interest. See below under "Company Strategy." The Company's production contract for 2kW generators prohibits changes to the unit's design and performance characteristics. This allows the military procurement and logistics infrastructure to standardize on a single set of requirements, and avoid incremental change. Traditionally this has been advantageous to both customer and supplier. However, with evolving requirements and competition, this can be less advantageous.

As the contract allows, additional orders may be made by the Army, although no assurances can be made that it will do so, or if there are additional orders, the amount and timing thereof. Moreover, periods of heightened national security and war have often introduced new priorities and demands, external delays, and increased uncertainty into the defense contracting marketplace. Management is continuing to explore additional sources of revenue as discussed below in the section "Company Strategy".

It should be recognized that Department of Defense business is subject to changes in military procurement policies and objectives and to government budgetary constraints and that the Company bids for Department of Defense business in competition with many defense contractors, including firms that are larger in size and have greater financial resources.

All of the Company's contracts with the United States Government (the "Government") are subject to the standard provision for termination at the convenience of the Government.

Since substantially all of the Company's electronics business has been derived from contracts with various agencies of the Government or subcontracts with prime Government contractors, the loss of substantial Government business (including a material reduction of orders under existing contracts) would have a material adverse effect on the business.

Company Strategy

On September 9, 2003, the Company was awarded a "cost plus fixed fee" research and development contract. This contract with the U.S. Army Communications - Electronic Command, CECOM Acquisition Center, Washington is in the amount of approximately $1.8 million. The contract is for the research and development of improvements to the current 2kW diesel operated generator set specifically at the request of the Army for lighter, quieter models. The Company is in the development stage, and some components are being tested. Work on this contract is being performed at the Company's location in Oakland, New Jersey and is expected to continue through the current fiscal year ending June 2005. There are no assurances of future production orders as a result of this contract. However, the contract requires the Company to present improvements to the government.

On September 28, 2004, the Company was awarded another 'cost plus fixed fee' research and development contract. This contract, also with the U.S. Army Communications - Electronic Command, CECOM Acquisition Center, Washington, DC, is in the amount of approximately $1.5 million. This contract is for the further development of improvements to the 2kW generator set provided to the U.S. Armed Forces. Efforts towards this contract are expected to continue through August 2006.

The Company has continued to invest in its efforts to improve its products and existing technologies. This effort is focused on the enhancement of the existing generator set product line and involves, primarily, the adaptation of existing technology, as well as engineering and design to meet customer needs. The scope of these efforts includes the development of an improved product, which is in accordance with current customer requests and future requirements. The Company is engaging in efforts to address these requests in the areas of sound reduction, reduced weight, fuel and environmental requirements.

Other companies have announced intentions of developing similar products. Some of these companies have greater financial and/or technical resources than we do. However, management believes that despite inherent risks and uncertainties in all of these type of projects, these efforts are important to the Company's business. As with all projects of this nature, no assurances can be made that such product development work will be successful or that the Company will achieve its desired results.

The Department of Defense budgeting process is one of an extended time frame. The process of including expenditures in its budget could take a minimum of 12 to 24 months. In addition, approval of this budget does not guarantee the expenditure actually being made and particularly the receipt of an award by the Company.

The Company has many years of experience in contracting with the Department of Defense and has received many contracts to provide various types of products and services. Utilizing some of this experience, the Company is continuing to explore other areas of business, which are capable of providing continued stability and growth.

The Company's primary sources of revenue include products with long manufacturing lead times. These products, in particular, are its 2kW generator sets, and its HEDCO snowmaking machines. Recognizing this, the Company has committed some of its resources to making a quantity of these products readily available by producing them for inventory and sales. The government sector has begun to order small quantities of 2kW generator sets for specific uses pursuant to short term orders independent of the Company's 2kW contract.

The market for snowmaking machines has changed in recent years. Rather than order machinery months ahead of time, customers are expecting product to be readily available for immediate use. In order to remain competitive in this market, the Company has produced some models of snowmaking machines for inventory purposes. It is also enhancing the technical capabilities as optional items for these machines.

Despite the inherent risks and uncertainties of investing in inventory, management believes that the investments in inventory described above are important to the Company's business and future growth.

Critical Accounting Policies and Estimates

Our financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America. Preparing financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. These estimates and assumptions affect the application of our accounting policies. Actual results could differ from these estimates. Our significant accounting policies are described in the Notes to the Consolidated Financial Statements herein and contained within the Company's Form 10-K for the fiscal year ended June 30, 2004. Critical accounting policies are those that require application of management's most difficult, subjective or complex judgments, often as a result of matters that are inherently uncertain and may change in subsequent periods. The Company's critical accounting policies include revenue recognition on contracts and contract estimates, long-lived assets, pensions, impairment of long-lived assets, capitalized development costs and valuation of deferred tax assets and liabilities. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Estimates", contained within the Company's Form 10-K for the fiscal year ended June 30, 2004.

In the electronics segment, revenues and estimated earnings are recorded under defense contracts using the percentage of completion method of accounting, measured as the percentage of costs incurred to estimated total costs at completion of each contract. See Note 2 to the Consolidated Financial Statements.

For interim reporting periods, the Company does not segregate inventories as to raw materials, work in progress and finished goods (this information is available at year end when physical inventories are taken and recorded). Estimates are made for interim reporting periods. See Note 5 to the Consolidated Financial Statements.

The Company estimates its income taxes using an estimated annual effective tax rate for the annual period. See Note 10 of the Notes to the Consolidated Financial Statements.

ITEM 4. Controls and Procedures

The Company carried out, under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Treasurer, an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the fiscal quarter covered by this report. Based upon that evaluation, the Chief Executive Officer and Treasurer concluded that, as of December 31, 2004, the design and operation of these disclosure controls and procedures were effective. During the fiscal quarter covered by this report, there have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On January 14, 2005, the Company sold 2,500 shares of its common stock, par value $.01 per share ("Common Stock"), for a total price of $1,445.31, to an employee upon exercise of stock options granted to such employee under the Company's stockholder-approved 1998 Stock Option Plan. The proceeds of such sale will be used for general corporate purposes. As the basis for exemption from registration under the Securities Act of 1933, as amended (the "Act"), the Company is relying on Section 4(2) of the Act such that the aforementioned transaction does not involve any public offering.

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 6. Exhibits

See the accompanying Index to Exhibits to this quarterly report on Form 10-Q.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE DEWEY ELECTRONICS CORPORATION

	/s/ John H.D. Dewey
Date: February 14, 2005	John H.D. Dewey
	President and Chief Executive
Officer	

	/s/ Thom A. Velto
Date: February 14, 2005	Thom A. Velto
Treasurer	

THE DEWEY ELECTRONICS CORPORATION

INDEX TO EXHIBITS

The following exhibits are included with this report. For convenience of reference, exhibits are listed according to the numbers assigned in the Exhibit table to Regulation S-K.

Number

10(a) Agreement of Sale, dated December 29, 2004, between The Dewey Electronics Corporation and K. Hovnanian North Jersey Acquisitions, L.L.C.

31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Treasurer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of Treasurer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002