DEWEY ELECTRONICS CORP
Form 10-Q
May 13, 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 March 31, 2005
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 May 12, 2005.

THE DEWEY ELECTRONICS CORPORATION

INDEX

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 March 31, 2005 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
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	MARCH 31, 2005	JUNE 30, 2004
ASSETS:		
CURRENT ASSETS:		
CASH AND CASH EQUIVALENTS	$1,615,276	$1,604,475
ACCOUNTS RECEIVABLE, NET	930,240	810,051

INVENTORIES	934,333	925,501
CONTRACT COSTS AND RELATED ESTIMATED PROFITS IN EXCESS OF BILLINGS	811,850	965,606
DEFERRED TAX ASSET	25,192	24,743
PREPAID EXPENSES AND OTHER CURRENT ASSETS	259,423	242,182
TOTAL CURRENT ASSETS	4,576,314	4,572,558
PLANT, PROPERTY AND EQUIPMENT - NET	561,330	575,455
CAPITALIZED DEVELOPMENT COSTS	735,704	684,566
DEFERRED FEES	10,000	143,215
LAND AND RELATED COSTS HELD FOR SALE	591,667	506,345
TOTAL OTHER ASSETS	1,337,371	1,334,126
TOTAL ASSETS	6,475,015	6,482,139
LIABILITIES AND STOCKHOLDERS' EQUITY:		
CURRENT LIABILITIES:		
TRADE ACCOUNTS PAYABLE	$ 289,148	$255,029
ACCRUED EXPENSES AND OTHER LIABILITIES	190,158	251,921
ACCRUED CORPORATE INCOME TAXES	33,332	32,384
ACCRUED PENSION COSTS	8,818	8,818
NOTE PAYABLE	167,489	327,735
DUE TO RELATED PARTY	200,000	200,000
TOTAL CURRENT LIABILITIES	888,946	1,075,887
LONG-TERM PENSION LIABILITY	262,363	247,363
DEFERRED INCOME TAXES	13,535	--
LONG-TERM PORTION OF NOTE PAYABLE	124,698	--
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	2,815,245	2,817,474
ACCUMULATED EARNINGS	3,005,335	2,980,196
ACCUMULATED OTHER COMPREHENSIVE LOSS-PENSION	(165,013)	(165,013)
	5,672,501	5,649,591
LESS: TREASURY STOCK 331,366 SHARES AT COST AT MARCH 31, 2005 AND 333,866 SHARES AT COST AT JUNE 30, 2004	(487,028)	(490,702)
TOTAL STOCKHOLDERS' EQUITY	5,185,473	5,158,889
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$6,475,015	$6,482,139

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THE DEWEY ELECTRONICS CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	THREE MONTHS ENDED MARCH 31		NINE MONTHS ENDED MARCH 31	
	2005	2004	2005	2004
REVENUES	$1,267,727	$1,605,040	$4,406,184	$4,178,886
COST OF REVENUES	987,673	1,222,864	3,437,911	3,236,866

GROSS PROFIT	280,054	382,176	968,273	942,020
SELLING & ADMIN. EXPENSES	275,559	292,582	908,351	869,410
OPERATING INCOME	4,495	89,594	59,922	72,610
INTEREST EXPENSE	8,348	10,446	26,870	32,907
OTHER INCOME - NET	(2,991)	(457)	(8,846)	(848)
(LOSS)/INCOME BEFORE INCOME TAXES	(862)	79,605	41,898	40,551
INCOME TAX BENEFIT/(EXPENSE)	345	(31,842)	(16,759)	(16,220)
NET (LOSS)/INCOME	($517)	$47,763	$25,139	$24,331
NET INCOME PER SHARE:				
BASIC	($0.00)	$0.04	$0.02	$0.02
DILUTED	($0.00)	$0.03	$0.02	$0.02
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:				
BASIC	1,362,031	1,359,531	1,362,031	1,359,531
DILUTED	1,402,420	1,402,031	1,403,827	1,402,031

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THE DEWEY ELECTRONICS CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	NINE MONTHS ENDED MARCH 31, 2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
NET INCOME	$25,139	$24,331
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY/(USED BY) OPERATING ACTIVITIES:		
DEPRECIATION	80,550	55,710
AMORTIZATION OF FEES	133,215	7,425
DEFERRED INCOME TAXES	13,086	-
(INCREASE) IN ACCOUNTS RECEIVABLE	(120,189)	(404,081)
(INCREASE) IN INVENTORIES	(8,832)	(477,366)
DECREASE/(INCREASE) IN CONTRACT COSTS		

AND RELATED ESTIMATED PROFITS IN EXCESS OF APPLICABLE BILLINGS	153,756	(31,587)
(INCREASE)/DECREASE IN PREPAID EXPENSES AND OTHER CURRENT ASSETS	(17,241)	5,666
INCREASE IN ACCOUNTS PAYABLE	34,119	17,896
(DECREASE) IN ACCRUED LIABILITIES	(61,763)	(27,960)
INCREASE/(DECREASE) IN ACCRUED CORPORATE INCOME TAXES	948	(6,524)
INCREASE IN ACCRUED PENSION COSTS	15,000	15,000
TOTAL ADJUSTMENTS	222,649	(845,821)
NET CASH PROVIDED BY(USED IN) OPERATING ACTIVITIES	247,788	(821,490)
CASH FLOWS FROM INVESTING ACTIVITIES:		
EXPENDITURES FOR PLANT, PROPERTY AND EQUIPMENT	(66,425)	(241,360)
EXPENDITURES FOR CAPITALIZED DEVELOPMENT COSTS	(51,138)	(184,854)
COSTS DEFERRED WITH LAND HELD FOR SALE	(85,322)	--
NET CASH USED IN INVESTING ACTIVITIES	(202,885)	(426,214)
CASH FLOWS FROM FINANCING ACTIVITIES:		
PRINCIPAL PAYMENTS OF DEBT	(35,547)	(45,703)
TREASURY STOCK SOLD	1,445	--
NET CASH USED IN FINANCING ACTIVITIES	(34,102)	(45,703)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	10,801	(1,293,407)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,604,475	1,989,703
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 1,615,276	$696,296
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
INTEREST PAID	$27,204	$31,586
INTEREST RECEIVED	7,880	5,268
CORPORATE INCOME TAXES PAID	2,825	20,950

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THE DEWEY ELECTRONICS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2005

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 March 31 2005	2004
Net (loss)income, as reported	($517)	$47,763
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	14,161	4,935
Pro forma net (loss)/income	($14,678)	$42,828
Earnings per share:		
Basic - as reported	($.00)	$.04
Basic - pro forma	($.01)	$.03
Diluted - as reported	($.00)	$.03
Diluted - pro forma	($.01)	$.03

	9 Months Ended March 31 2005	2004
Net income, as reported	$25,139	$24,331
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	24,031	14,847
Pro forma net income	$1,108	$9,484
Earnings per share:		
Basic - as reported	$.02	$.02
Basic - pro forma	$.00	$.01
Diluted - as reported	$.02	$.02
Diluted - pro forma	$.00	$.01

THE DEWEY ELECTRONICS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2005

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 NINE MONTHS ENDED MARCH 31, 2005

FOR THE NINE MONTHS ENDED MARCH 31, 2005

	March 31, 2005	June 30, 2004
Finished Goods	$367,644	$223,969
Work In Progress	165,077	300,474
Raw Materials	401,612	401,058
Total	$934,333	$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 development 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 related to the Company's mortgage note (which was replaced by a term loan agreement on February 24, 2005) were capitalized by the Company and amortized utilizing the straight-line method over the term of the loan. As of March 31, 2005 the loan fees were fully amortized.

THE DEWEY ELECTRONICS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2005

NOTE 10: INCOME TAXES

The income tax expense for the three and nine month periods ended March 31, 2005 and 2004 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 March 31, 2005, 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 March 31,					
	2005			2004		
	Loss	Shares	Per Share Amount	Income	Shares	Per Share Amount
Basic Net (loss)/ income per common share	($517)	1,362,031	($.00)	$47,763	1,359,531	$.04
Effect of dilutive Securities	-	40,389	--	--	42,500	($.01)
Diluted net (loss) per common share	($517)	1,402,420	($.00)	$47,763	1,402,031	$.03

THE DEWEY ELECTRONICS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2005

	Nine Months Ended March 31, 2005			2004		
	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount
t						
Basic net income per common share	$25,139	1,362,031	$.02	$24,331	1,359,531	$.02
Effect of dilutive Securities	-	41,796	--	--	42,500	--
Diluted net income per common share	$25,139	1,403,827	$.02	$24,331	1,402,031	$.02

NOTE 13: RECENT ACCOUNTING 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 Company's first fiscal year beginning after December 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 NINE MONTHS ENDED MARCH 31, 2005

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 nine month periods ended March 31, 2005 and 2004 are as follows:

	Three months ended March 31,		Nine months ended March 31	
	2005	2004	2005	2004
Electronics Segment				
Revenues	$1,257,704	$1,597,660	$4,206,272	$3,806,325
Operating Income	29,587	117,230	160,539	132,146

THE DEWEY ELECTRONICS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2005

Leisure and Recreation				
Revenues	10,023	7,380	199,912	372,561
Operating (Loss)	(25,092)	(27,636)	(100,617)	(59,536)

Total

Revenues	1,267,727	1,605,040	4,406,184	4,178,886
Operating Income	4,495	89,594	59,922	72,610
Interest Expense	8,348	10,446	26,870	32,907
Other Income	2,991	457	8,846	848
Income Tax Benefit(Expense)	345	(31,842)	(16,759)	(16,220)
Net (Loss)/Income	($517)	$47,763	$25,139	$24,331

NOTE 15: PENSION PLAN

	Three months ended March 31,		Nine months ended March 31,	
	2005	2004	2005	2004
Service cost	$7,067	$7,108	$21,200	$21,325
Interest cost	15,708	14,690	47,125	44,070
Expected return on plan assets	(13,551)	(11,956)	(40,651)	(35,868)
Amortization of prior service cost	--	--	--	--
Amortization of net (gain) loss	4,786	5,848	14,358	17,544
Net periodic benefit Cost	$14,010	$15,690	$42,032	$47,071

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 March 31, 2005, $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 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. The Company's stockholders approved the sale of this land at the Annual Stockholders meeting which was held on March 8, 2005. 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 $591,667.

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 March 31, 2005 amount to approximately $12.8 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 March 31, 2005, consolidated revenues were $1,267,727 and operations resulted in a profit of $4,495. During the same period last year, consolidated revenues were $1,605,040 and the operating profit was $89,594.

For the nine-month period ended March 31, 2005, consolidated revenues were $4,406,184 and operations resulted in a profit of $59,922. During the same nine-month period last year, consolidated revenues were $4,178,886 and operations resulted in a profit of $72,610.

Compared to the same three-month period last year, this year's revenues were lower in the electronics segment and higher in the leisure and recreation segment. When compared to the same nine-month period last year, this year's revenues were higher in the electronics segment and lower in the leisure and recreation segment. 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 nine-month 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 March 31, 2005, revenues in the electronics segment were $339,956 lower than the same three-month period last year. During the three month period this year, the production of 2kW generator sets provided 23% of electronics segment revenues, the Company's research and development contracts provided 37% of electronics segment revenues and various orders which are generally for replacement parts provided 40% of such revenues. During the same three month period last year, the production of 2kW generator sets provided 68% 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 29% of such revenues.

The decrease in revenues during the three-month period ended March 31, 2005 compared to March 31, 2004 is the result of lower production efforts particularly in the generator set contract. A portion of these efforts had been redirected towards the Company's research and development contracts and various orders for replacement parts. Efforts in these areas have resulted in increased revenues compared to the same three-month period last year.

For the nine-month period ended March 31, 2005, revenues in the electronics segment were $399,947 higher than the same nine-month period last year. During the nine-month period this year, the production of 2kW generator sets provided 34% of electronics segment revenues, the Company's research and development contracts provided 27% of electronics segment revenues and various orders which are generally for replacement parts provided 39% of such revenues. During the same nine-month period last year, the production of 2kW generator sets provided 66% 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 31% of such revenues.

The increase in revenues during the nine-month period ended March 31, 2005, 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 were lower than the same nine-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 March 31, 2005, the aggregate value of the Company's backlog of electronics segment not previously recorded as revenues was approximately $3.6 million. It is estimated that approximately $2.8 million of this backlog will be recognized as revenues during this fiscal year ending June 30, 2005.

As of March 31, 2004, the aggregate value of the Company's backlog of electronics product not previously recorded as revenues was approximately $4.1 million.

Leisure and Recreation Segment

In the HEDCO Division, revenues were $2,643 higher for the three-month period ended March 31, 2005 when compared to the same period last year. This reflects a stable market for replacement parts for the previously sold snowmaking machinery. Revenues for the nine-month period ended March 31, 2005 were $172,649 lower than the same nine-month period last year as a result of fewer sales of snowmaking machines. The HEDCO Division has been operating at a loss as a result of revenues not exceeding its basic operating costs The Company has been enhancing the technical capabilities as optional items for these machines. The cost of developing these enhancements is being expensed as incurred. The sale of snowmaking machines are recorded when machinery has been delivered which historically has been during the second fiscal quarter.

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 March 31, 2005, the Company's working capital was $3,687,368 compared to $3,496,671 at June 30, 2004.

The ratio of current assets to current liabilities was 5.15 to 1 at March 31, 2005 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:

	Nine Months ended March 31,	
	2005	2004
Net Cash provided by/(used in)		
Operating activities	$247,788	($821,490)
Investing activities	($202,885)	($426,214)
Financing activities	($34,102)	($45,703)

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 provided by operating activities in the nine-month period ended March 31, 2005 was comprised primarily of net income before depreciation and amortization.

The Company has been amortizing its prepaid licensing fees. They are being expensed as the corresponding licensing period expires. For the nine-month period ended March 31, 2005, the Company has expensed $90,000 of these fees and $120,000 has been classified as a current asset.

For the nine-month period ended March 31, 2004, operating activities used net cash of $821,490. This was the result primarily of two factors. Accounts receivable increased by $404,081 and inventories increased using cash of $477,366. Of the increase in inventories, $403,548 is the result of the Company's efforts to produce snowmaking machines to be available for sales. The Company has also begun to produce a small quantity of 2kW generator sets for inventory purposes. The government sector has begun to order limited 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 nine-month period ended March 31, 2005, the Company expensed $50,943 of these costs. For the same nine-month period last year, the Company expensed $122,909 of research and development costs.

Investing Activities

During the nine-month period ended March 31, 2005, investing activities used $202,885. Of this amount, $66,425 was used for plant, property and equipment, and $85,322 was used for costs associated with undeveloped land owned by the Company and described below under "Financing Activities". The Company has also used $51,138 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 nine-month period ended March 31, 2004, net cash used in investing activities amounted to $426,214. Of this amount, $241,360 was used for plant, property and equipment, and $184,854 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 nine-month period ended March 31, 2005 includes $35,547 used for principal reduction payments made toward the Company's Mortgage Note agreement. For the nine-month period ended March 31, 2004, financing activities used $45,703 in principal reduction payments.

On February 24, 2005, the Company and Sovereign Bank (the "Bank") entered into a Term Loan Agreement (the "Loan Agreement") that replaced, and restructured the remaining balance due on, the Company's

Mortgage Note agreement with the Bank, which matured in January 2005. Pursuant to the Loan Agreement, the Company has borrowed $(292,187) from the Bank for a term ending February 23, 2007, at a fixed annual interest rate of 5.56 percent. This loan is secured by a first lien on all of the Company's accounts receivable, machinery, equipment and other personal property (the "Collateral") and is subject to customary representations, covenants, and default provisions in favor of the Bank. A copy of the Term Loan Agreement is attached as Exhibit 10(b) hereto and is incorporated by reference.

The Company also has a line of credit agreement with the Bank in the amount of $500,000 at an annual interest rate equal to the Bank's prime rate plus .25 percent. Effective November 1, 2004, this line of credit agreement was renewed through October 31, 2005. As of March 31, 2005, there were no outstanding borrowings against this line of credit facility. In the event that the Company borrows funds under this line of credit facility, the loan would be co-collateralized by the Collateral.

During 1998, Gordon C. Dewey, the Company's co-founder, lent the Company a total of $200,000. The Company's note payable is unsecured and bears interest at the rate of 9 percent per annum. This note was subordinate to the Company's Mortgage Note with the Bank, but is not subordinate to the new Loan Agreement with the Bank described above. It is repayable upon demand by Frances D. Dewey, Mr. Dewey's widow.

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. The Company's stockholders approved the sale of this land at the Annual Stockholders meeting which was held on March 8, 2005. 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. Accordingly, there can be no assurance that the sale will be completed or, if completed, the timing thereof.

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 $12.8 million through March 31, 2005. Deliveries for existing orders are scheduled to continue through November 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 request. 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 final stage of development and entering a testing stage, with some components being tested. Work on this contract is being performed at the Company's location in Oakland, New Jersey and is expected to continue through September 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 limited 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 March 31, 2005, 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

On March 8, 2005, at the Company's annual meeting of shareholders, the following five directors were elected to serve for the ensuing year. Set forth below are the numbers of votes cast for, or withheld with respect to, each such person (who were the Company's nominees for directors):

Name	For	Withheld
Alexander A. Cameron	1,190,852	1,447
Frances D. Dewey	1,190,788	1,511
John H.D. Dewey	1,190,888	1,411
James M. Link	1,191,069	1,230
Nathaniel Roberts	1,191,069	1,230

Also at this meeting, stockholders approved a proposal to sell approximately 68 acres of undeveloped and unused land owned by the Company. Set forth below are the numbers of votes cast for, against and abstained with respect to this sale:

For	Against	Abstain
1,016,944	1,099	2,504

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: May 13, 2005 John H.D. Dewey
President and Chief Executive Officer

/s/ Thom A. Velto
Date: May 13, 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(b) Term Loan Agreement, dated February 24, 2005, between The Dewey Electronics Corporation and Sovereign Bank.

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