

# SECURITIES & EXCHANGE COMMISSION EDGAR FILING

## DEWEY ELECTRONICS CORP

**Form: 10-Q**

**Date Filed: 2017-02-13**

Corporate Issuer CIK: 28561

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10 - Q

(Mark One)

☒ QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2016

☐ TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

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 ☒ NO ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

|                         |                          |                           |                                     |
|-------------------------|--------------------------|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/> | Accelerated filer         | <input type="checkbox"/>            |
| Non-accelerated filer   | <input type="checkbox"/> | Smaller reporting company | <input checked="" type="checkbox"/> |

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ☐ NO ☒

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 1,366,731 at February 1, 2017.

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## ITEM 1.CONDENSED FINANCIAL STATEMENTS

THE DEWEY ELECTRONICS CORPORATION  
CONDENSED BALANCE SHEETS

|  | DECEMBER 31,<br>2016 | JUNE 30,<br>2016    |
|--|----------------------|---------------------|
|  | (unaudited)          |                     |
| <b>ASSETS:</b>   |                      |                     |
| <b>CURRENT ASSETS:</b>   |                      |                     |
| Cash and cash equivalents  | \$ 433,994           | \$ 539,742          |
| Accounts receivable  | 259,624              | 497,862             |
| Inventories  | 2,037,723            | 1,889,908           |
| Prepaid expenses and other current assets  | 79,897               | 106,047             |
| <b>TOTAL CURRENT ASSETS</b>  | <b>2,811,238</b>     | <b>3,033,559</b>    |
| <b>PLANT, PROPERTY AND EQUIPMENT:</b>  |                      |                     |
| Land and improvements  | 651,015              | 651,015             |
| Building and improvements  | 1,963,939            | 1,957,815           |
| Machinery and equipment  | 3,349,393            | 3,342,690           |
| Furniture and fixtures   | 268,700              | 268,700             |
|  | 6,233,047            | 6,220,220           |
| Less: accumulated depreciation   | (5,405,566)          | (5,386,655)         |
|  | 827,481              | 833,565             |
| <b>DEFERRED COSTS</b>  | <b>65,095</b>        | <b>65,095</b>       |
| <b>TOTAL ASSETS</b>  | <b>\$ 3,703,814</b>  | <b>\$ 3,932,219</b> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY:</b>   |                      |                     |
| <b>CURRENT LIABILITIES:</b>  |                      |                     |
| Note payable – current portion   | \$ 450,000           | \$ --               |
| Trade accounts payable   | 23,598               | 123,495             |
| Accrued expenses and other liabilities   | 188,328              | 236,665             |
| Accrued compensation and benefits payable  | 124,516              | 152,573             |
| Accrued pension costs  | 358,240              | 301,229             |
| <b>TOTAL CURRENT LIABILITIES</b>   | <b>1,144,682</b>     | <b>813,962</b>      |
| <b>LONG-TERM PENSION LIABILITY</b>   | <b>951,276</b>       | <b>1,012,005</b>    |
| <b>TOTAL LIABILITIES</b>   | <b>2,095,958</b>     | <b>1,825,967</b>    |
| <b>STOCKHOLDERS' EQUITY:</b>   |                      |                     |
| Preferred stock, par value \$1.00; authorized 250,000 shares, issued and outstanding-none  | --                   | --                  |
| Common stock, par value \$.01; authorized 3,000,000 shares; 1,693,397 shares issued and 1,366,731 shares and 1,362,031 shares outstanding at December 31, 2016 and June 30, 2016, respectively | 16,934               | 16,934              |
| Additional paid-in capital   | 2,883,970            | 2,882,842           |
| Retained earnings  | (20,415)             | 546,747             |
| Accumulated other comprehensive loss   | (792,514)            | (853,243)           |
|  | 2,087,975            | 2,593,280           |
| Less: Treasury stock of 326,666 shares and 331,366 shares at December 31, 2016 and June 30, 2016, respectively, at cost  | (480,119)            | (487,028)           |
| <b>TOTAL STOCKHOLDERS' EQUITY</b>  | <b>1,607,856</b>     | <b>2,106,252</b>    |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>  | <b>\$ 3,703,814</b>  | <b>\$ 3,932,219</b> |

See accompanying notes to condensed financial statements

THE DEWEY ELECTRONICS CORPORATION  
CONDENSED STATEMENTS OF OPERATIONS  
(UNAUDITED)

|  | THREE-MONTHS ENDED<br>DECEMBER 31, |                    | SIX-MONTHS ENDED<br>DECEMBER 31, |                     |
|--|------------------------------------|--------------------|----------------------------------|---------------------|
|  | 2016                               | 2015               | 2016                             | 2015                |
| Revenues                                       | \$ 951,200                         | \$ 1,678,642       | \$ 1,424,425                     | \$ 2,883,674        |
| Cost of revenues                               | 752,787                            | 1,259,054          | 1,288,039                        | 2,061,602           |
| Gross profit                                   | 198,413                            | 419,588            | 136,386                          | 822,072             |
| Selling, general and administrative            | 395,406                            | 488,199            | 712,984                          | 936,563             |
| Operating loss                                 | (196,993)                          | (68,611)           | (576,598)                        | (114,491)           |
| Interest expense                               | (3,194)                            | (5,371)            | (3,194)                          | (8,972)             |
| Other income/(expense)— net                    | 8,164                              | (1,135)            | 12,630                           | (2,005)             |
| Loss before income taxes                       | (192,023)                          | (75,117)           | (567,162)                        | (125,468)           |
| Provision for income tax                       | --                                 | --                 | --                               | --                  |
| Net loss                                       | <u>\$ (192,023)</u>                | <u>\$ (75,117)</u> | <u>\$ (567,162)</u>              | <u>\$ (125,468)</u> |
| Net loss per common share-Basic                | \$ (0.14)                          | \$ (0.06)          | \$ (0.41)                        | \$ (0.09)           |
| Net loss per common share-Diluted              | \$ (0.14)                          | \$ (0.06)          | \$ (0.41)                        | \$ (0.09)           |
| Weighted average number of shares outstanding: |                                    |                    |                                  |                     |
| Basic  | 1,366,731                          | 1,362,031          | 1,366,731                        | 1,362,031           |
| Diluted  | 1,366,731                          | 1,362,031          | 1,366,731                        | 1,362,031           |

CONDENSED STATEMENTS OF COMPREHENSIVE LOSS  
(UNAUDITED)

|                                       | THREE-MONTHS ENDED<br>DECEMBER 31, |                    | SIX-MONTHS ENDED<br>DECEMBER 31, |                    |
|---------------------------------------|------------------------------------|--------------------|----------------------------------|--------------------|
|                                       | 2016                               | 2015               | 2016                             | 2015               |
| Other comprehensive loss – net of tax |                                    |                    |                                  |                    |
| Net loss                              | \$ (192,023)                       | \$ (75,117)        | \$ (567,162)                     | \$ (125,468)       |
| Amortization of actuarial losses      | 30,365                             | 33,566             | 60,730                           | 67,132             |
| Comprehensive loss                    | <u>\$ (161,658)</u>                | <u>\$ (41,551)</u> | <u>\$ (506,432)</u>              | <u>\$ (58,336)</u> |

See accompanying notes to condensed financial statements

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

|   | SIX-MONTHS ENDED |              |
|---|------------------|--------------|
|   | DECEMBER 31,     |              |
|   | 2016             | 2015         |
| CASH FLOWS FROM OPERATING ACTIVITIES                  |                  |              |
| Net loss  | \$ (567,162)     | \$ (125,468) |
| Adjustments to reconcile net loss to                  |                  |              |
| Net cash (used in)/provided by operating activities:  |                  |              |
| Depreciation  | 18,911           | 18,289       |
| Decrease in accounts receivable                       | 238,238          | 535,559      |
| Increase in inventories                               | (236,806)        | (203,559)    |
| Provision for inventory reserve                       | 88,991           | 7,534        |
| Decrease/(Increase) in prepaid expenses and           |                  |              |
| other current assets                                  | 26,150           | (5,443)      |
| Decrease in trade accounts payable                    | (99,897)         | (80,042)     |
| Decrease in accrued expenses and other liabilities    | (48,337)         | (195,227)    |
| Decrease in accrued compensation and benefits payable | (28,057)         | (66,878)     |
| Increase in accrued pension costs                     | 57,011           | 31,303       |
| Total adjustments                                     | 16,204           | 41,536       |
| NET CASH USED IN BY OPERATING ACTIVITIES              | (550,958)        | (83,932)     |
| CASH FLOWS FROM INVESTING ACTIVITIES:                 |                  |              |
| Expenditures for plant, property and equipment        | (12,827)         | (21,860)     |
| NET CASH USED IN INVESTING ACTIVITIES                 | (12,827)         | (21,860)     |
| CASH FLOWS FROM FINANCING ACTIVITIES:                 |                  |              |
| Proceeds from short-term borrowings                   | 450,000          | --           |
| Proceeds from exercise of stock options               | 8,037            | --           |
| NET CASH PROVIDED BY FINANCING ACTIVITIES             | 458,037          | --           |
| NET DECREASE IN CASH AND CASH EQUIVALENTS             | (105,748)        | (105,792)    |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD      | 539,742          | 347,598      |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD            | \$ 433,994       | \$ 241,806   |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION     |                  |              |
| Interest paid   | \$ 3,194         | \$ 8,972     |

See accompanying notes to condensed financial statements

THE DEWEY ELECTRONICS CORPORATION  
NOTES TO CONDENSED FINANCIAL STATEMENTS  
(UNAUDITED)

1. Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed financial statements have been prepared by The Dewey Electronics Corporation (the "Company") pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") for interim reporting. Certain information and disclosures normally included in notes to financial statements have been condensed or omitted pursuant to such rules and regulations, but resultant disclosures are in accordance with accounting principles generally accepted in the United States of America as they apply to interim reporting. The condensed financial statements should be read in conjunction with the financial statements and the notes thereto in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2016 (the "2016 Form 10-K").

In the opinion of the Company's management, the accompanying unaudited condensed financial statements contain all adjustments (consisting of normal recurring adjustments) necessary to present fairly, in all material respects, the Company's financial position as of December 31, 2016, and the results of operations for the three and six months then ended and cash flows for the six months then ended. The results of operations and cash flows for the period ended December 31, 2016 are not necessarily indicative of the results of operations or cash flows to be expected for any subsequent quarter or the full fiscal year ending June 30, 2017.

As of December 31, 2016, there have been no material changes to any of the significant accounting policies described in our 2016 Form 10-K.

Liquidity

During the six months ended December 31, 2016, the Company had a net loss of approximately \$567,000 and net cash outflows from operations of approximately \$551,000. Net cash outflows were principally due to the net loss, an increase in inventory, and a decrease in trade accounts payable, accrued expenses and other liabilities, partially offset by a decrease in accounts receivable.

The Company believes that the Company's current cash and its line of credit, which currently expires November 30, 2017, combined with progress payments as well as billings at the time of delivery of products, will be sufficient to support short-term liquidity requirements, working capital needs and capital expenditures at their current or expected levels. However, if our performance expectations fall short (including our failure to generate expected levels of sales) or our expenses exceed expectations, or if the commitment under the line of credit becomes unavailable, we may need to secure additional financing and/or reduce our expenses to continue our operations. Our failure to do so would have a material adverse impact on our prospects and financial condition. There can be no assurance that any contemplated additional financing will be available on terms acceptable to us, if at all. If required, we believe we would be able to reduce our expenses to a sufficient level to continue to operate as a going concern.

### Revenue Recognition

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

Revenues and estimated earnings under long-term defense contracts (including research and development contracts) are recorded using the percentage-of-completion method of accounting, measured as the percentage of costs incurred to estimated total costs of each contract. These calculations require management to estimate the cost to complete open orders. Changes between those estimates and the actual cost of completion of delivery orders impact the revenue recognition in each reporting period. Estimates are adjusted as necessary on a quarterly basis. For research and development contracts total costs incurred are compared to total expected costs for each contract. As of December 31, 2016 and 2015, the Company had no uncompleted contracts on which revenue has been recognized on a percentage of completion basis.

For those contracts where revenue has been recognized using the percentage-of-completion method of accounting, provisions for estimated losses on uncompleted contracts are made in the period in which such losses 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.

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. These estimates include, among others, lower of cost or market estimates for inventories, realization of deferred tax assets, revenue recognition and certain accrued expenses. Actual results could differ from those estimates.

### Income Taxes

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

The Company accounts for uncertain tax positions in accordance with Generally Accepted Accounting Principles in the U.S. Income tax positions must meet a more-likely-than-not recognition in order to be recognized in the financial statements. The Company recognizes potential accrued interest and penalties related to unrecognized tax benefits within operations as income tax expense. As new information becomes available, the assessment of the recognition threshold and the measurement of the associated tax benefit of uncertain tax positions may result in financial statement recognition or de-recognition.



## 2. Accounting Standards Updates Not Yet Effective

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (ASU) 2014-09 Revenue from Contracts with Customers, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. This ASU requires an entity to recognize revenue depicting the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. It will also result in enhanced revenue related disclosures. ASU 2014-09 originally provided that it would be effective for fiscal years, and interim reporting periods within those years, beginning after December 15, 2016. However, in August 2015, the FASB issued Accounting Standards Update (ASU) 2015-14 Revenue from Contracts with Customers - Deferral of Effective Date, which deferred the effective adoption date of "ASU 2014-09" to apply to fiscal years and interim reporting periods within those years beginning after December 15, 2017.

The Company expects to adopt the ASUs described above when effective and is currently evaluating the effect on its financial statements. Other Accounting Standards Updates not described above (or in the Company's 2016 Form 10-K) and first effective after December 31, 2016 are not expected to have a material effect on the Company's financial position or results of operations.

## 3. Inventories

Inventories consist of:

|                  | December 31,<br>2016 | June 30,<br>2016    |
|------------------|----------------------|---------------------|
| Finished Goods   | \$ 292,792           | \$ 66,652           |
| Work In Progress | 864,172              | 944,267             |
| Raw Materials    | 880,759              | 878,989             |
| Total            | <u>\$ 2,037,723</u>  | <u>\$ 1,889,908</u> |

## 4. Taxes on Income

The Company has provided a valuation allowance against its net deferred tax assets as it believes that it is more likely than not that it will not realize these tax attributes. The Company has approximately \$1,190,000 and \$152,000 of federal and state net deferred tax assets, respectively, primarily arising from net operating loss carry-forwards, expiring beginning in 2017. In the six month period ended December 31, 2016 these federal and state net deferred tax assets increased by approximately \$193,000 and \$35,000, respectively, as a result of a net loss for the period.

## 5. Loss Per Share

Net loss per share has been presented pursuant to ASC Topic 260, "Earnings per Share". Basic net loss per share is computed by dividing reported net loss available to common shareholders by weighted average shares outstanding for the period. Diluted net loss per share is computed by dividing reported net loss available to common shareholders by 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 tables below set forth the reconciliation of the numerators and denominators of the basic and diluted net loss per common share computations. For the three months ended December 31, 2016, outstanding stock options for 16,000 shares were excluded from the calculation of diluted net loss per share as a result of their anti-dilutive effect on the net loss for the period. For the three months ended December 31, 2015, options for 29,200 shares were excluded as a result of their anti-dilutive effect on the net loss per share for the period.

For the six months ended December 31, 2016, outstanding stock options for 16,000 shares were excluded from the calculation of diluted net loss per share as a result of their anti-dilutive effect on the net loss for the period. For the six months ended December 31, 2015, options for 29,200 shares were excluded due to the exercise price of the options exceeding the average share price for the period.

|                                   | Three-months Ended December 31, |                  |                  |                    |                  |                  |
|-----------------------------------|---------------------------------|------------------|------------------|--------------------|------------------|------------------|
|                                   | 2016                            |                  |                  | 2015               |                  |                  |
|                                   | Net Loss                        | Shares           | Per Share Amount | Net Loss           | Shares           | Per Share Amount |
| Basic net loss                    |                                 |                  |                  |                    |                  |                  |
| per common share                  | \$ (192,023)                    | 1,366,731        | \$ (.14)         | \$ (75,117)        | 1,362,031        | \$ (.06)         |
| Effect of dilutive Securities     | --                              | --               | --               | --                 | --               | --               |
| Diluted net loss per common share | <u>\$ (192,023)</u>             | <u>1,366,731</u> | <u>\$ (.14)</u>  | <u>\$ (75,117)</u> | <u>1,362,031</u> | <u>\$ (.06)</u>  |

|                                   | Six-months Ended December 31, |                  |                  |                     |                  |                  |
|-----------------------------------|-------------------------------|------------------|------------------|---------------------|------------------|------------------|
|                                   | 2016                          |                  |                  | 2015                |                  |                  |
|                                   | Net Loss                      | Shares           | Per Share Amount | Net Loss            | Shares           | Per Share Amount |
| Basic net loss                    |                               |                  |                  |                     |                  |                  |
| per common share                  | \$ (567,162)                  | 1,366,731        | \$ (.41)         | \$ (125,468)        | 1,362,031        | \$ (.09)         |
| Effect of dilutive Securities     | --                            | --               | --               | --                  | --               | --               |
| Diluted net loss per common share | <u>\$ (567,162)</u>           | <u>1,366,731</u> | <u>\$ (.41)</u>  | <u>\$ (125,468)</u> | <u>1,362,031</u> | <u>\$ (.09)</u>  |

## 6. Stock Option Plan

On September 22, 2011, the Board of Directors of the Company adopted the Company's 2011 Stock Option Plan, which was approved by the shareholders of the Company on December 8, 2011. Under this plan options to purchase a maximum of 133,000 shares of common stock may be granted to any employee of the Company, including officers. Such options may be either incentive stock options or non-qualified options and must be granted with an exercise price no less than the fair market value of the stock on the date of the grant. No stock options have been granted under this plan.

On December 2, 1998, the Company adopted its Stock Option Plan of 1998 which was amended and restated effective December 5, 2001, pursuant to which options to purchase a maximum of 85,000 shares of common stock may be granted to executives and key employees. Incentive stock options have been granted under this plan with an exercise price no less than fair market value of the stock on the date of grant. Outstanding options generally are exercisable for ten years from the date of grant. Outstanding options have expiration dates ranging from December 2, 2018 to September 21, 2021. No additional options may be granted under this plan.

There were no stock options granted in the first six months of fiscal 2017 (period ended December 31, 2016) or in the first six months of fiscal 2016 (period ended December 31, 2015). The Company recorded no stock option compensation expense for either of the six month periods ended December 31, 2016 or December 31, 2015.

For the full fiscal year ending June 30, 2017, the Company does not expect any stock option compensation expense based on stock options already granted and assuming no further option grants during the remainder of the fiscal year. However, our assessment of the compensation expense will be affected by the number of stock options actually granted (if any) during the remainder of the year as well as the number of outstanding options that are forfeited.

Stock option transactions for the Company's employee stock option plans for the three and six months ended December 31, 2016 are as follows:

|                                      | December 31, 2016 |                                       |            |                                       |
|--------------------------------------|-------------------|---------------------------------------|------------|---------------------------------------|
|                                      | Three Months      |                                       | Six Months |                                       |
|                                      | Shares            | Weighted<br>Average<br>Exercise Price | Shares     | Weighted<br>Average<br>Exercise Price |
| Beginning balance                    | 16,000            | \$ 1.98                               | 20,700     | \$ 1.92                               |
| Granted                              | --                | --                                    | --         | --                                    |
| Exercised                            | --                | --                                    | (4,700)    | 1.71                                  |
| Cancelled or expired                 | --                | --                                    | --         | --                                    |
| Ending balance                       | 16,000            | \$ 1.98                               | 16,000     | \$ 1.98                               |
| Options exercisable at end of period | 16,000            | \$ 1.98                               | 16,000     | \$ 1.98                               |

## 7. Notes Payable

The Company maintains a line of credit (the "Line of Credit") with TD Bank, NA (the "Bank") for \$500,000. On November 4, 2016, the Bank notified the Company that it has extended the Line of Credit, which was due to expire on November 30, 2016, for an additional year ending November 30, 2017. No other terms of the Company's revolving term note to the Bank were changed.

The Line of Credit provides among other things for an annual interest rate on borrowings equal to the Bank's prime rate plus 1.00% and is subject to customary representations, covenants, and default provisions in favor of the Bank. Any loans drawn under the Line of Credit are secured by a first lien on all of the Company's accounts receivable, machinery, equipment, other personal property and Commercial Mortgages on the Company's real property. The rate applicable to the Line of Credit at December 31, 2016 was approximately 4.75%. The Company has previously utilized the Line of Credit during periods of increased production requirements and anticipates that it will continue to utilize this credit facility during future periods of peak production activity. As of December 31, 2016, the Company had \$450,000 of outstanding borrowings against the Line of Credit.

## 8. Pension Plan

The Company has a non-contributory defined benefit retirement plan covering substantially all its employees. The impact of the plan on operations is as follows:

|  | THREE-MONTHS ENDED |                  |
|--|--------------------|------------------|
|  | DECEMBER 31,       |                  |
|  | 2016               | 2015             |
| Service cost-benefits earned during the period | \$ 13,894          | \$ 12,024        |
| Interest cost on projected benefit obligation  | 29,745             | 32,297           |
| Expected return on plan assets                 | (26,623)           | (26,855)         |
| Amortization of actuarial loss                 | 30,365             | 33,566           |
| Net periodic pension cost                      | <u>\$ 47,381</u>   | <u>\$ 51,032</u> |

  

|  | SIX-MONTHS ENDED |                   |
|--|------------------|-------------------|
|  | DECEMBER 31,     |                   |
|  | 2016             | 2015              |
| Service cost-benefits earned during the period | \$ 27,788        | \$ 24,048         |
| Interest cost on projected benefit obligation  | 59,490           | 64,594            |
| Expected return on plan assets                 | (53,245)         | (53,710)          |
| Amortization of actuarial loss                 | 60,730           | 67,132            |
| Net periodic pension cost                      | <u>\$ 94,763</u> | <u>\$ 102,064</u> |

## 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 condensed financial statements, including the notes thereto, appearing elsewhere in this Form 10-Q, and with the audited financial statements, including the notes thereto, appearing in the Company's 2016 Form 10-K. 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 "Financing Activities" and "Long-Term Growth Strategy", and in Item 1 (Business) of the Company's 2016 Form 10-K under the subheading "Operational Risks". 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.

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 comparisons of recorded revenues and earnings may not be indicative of future operating results. The following comparative analysis should be viewed in this context.

Critical Accounting Policies and Estimates:

The Company's 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. 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 and estimates include revenue recognition on contracts and contract estimates, pensions, impairment of long-lived assets, inventory valuation, and valuation of deferred tax assets and liabilities. For additional discussion of the application of these and other accounting policies, see Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Note 1 of the Notes to the Financial Statements included in the Company's 2016 Form 10-K.

### Business Environment:

Automatic budget cuts, known as "sequestration", began in March of 2013 and have resulted in significant contraction of spending across the Department of Defense. They have also created uncertainty in our customers about the continuation of funding for our products and the availability of funding to initiate new programs. This uncertainty has led to a far larger reduction in actual spending than just the legislated or mandated sequestration reduction, primarily due to delays in contract awards and the reduction or elimination of some programs. In addition to sequestration cuts, over the last few years U.S. forces returned from Iraq and Afghanistan with excess generators that lessened the need for replacements. This excess equipment, combined with a strategic regrouping within the Department of Defense around global combat, has continued the uncertainty and contraction of the market for global power products.

The foregoing factors are contributing to a more difficult and more challenging business environment. This uncertainty as well as the reduction in overall Government spending may continue through this Government fiscal year, which began October 1, 2016, and we can give no assurances that this uncertainty or reduction in spending would end after such fiscal year.

For additional information, please refer to Item 1 (Business) of the Company's 2016 Form 10-K.

### Results of Operations:

#### Revenues

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

Revenues and estimated earnings under long-term defense contracts (including research and development contracts) are recorded using the percentage-of-completion method of accounting, measured as the percentage of costs incurred to estimated total costs of each contract. These calculations require management to estimate the cost to complete open orders. Changes between those estimates and the actual cost of completion of delivery orders impact the revenue recognition in each reporting period. Estimates are adjusted as necessary on a quarterly basis. For research and development contracts total costs incurred are compared to total expected costs for each contract. As of December 31, 2016, the Company had no uncompleted contracts on which revenue has been recognized on a percentage of completion basis.

For those contracts where revenue has been recognized using the percentage-of-completion method of accounting, provisions for estimated losses on uncompleted contracts are made in the period in which such losses 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.

For the three months ended December 31, 2016, production efforts to provide power products to the U.S. Department of Defense, Government contractors, and foreign militaries, which includes diesel operated tactical generator sets and associated equipment, were \$522,858 or 55% of revenues compared to \$1,000,975 or 60% of revenues for the three months ended December 31, 2015. Non-power products including replacement parts and other short-term business accounted for \$428,341 or 45% of revenues in the three months ended December 30, 2016 and \$677,692 or 40% of revenues for the same period in fiscal year 2016. Customer funded research and development efforts provided no revenues in either of the second quarters of fiscal years 2017 and 2016.

For the six month period ended December 31, 2016 revenues related to power products were \$876,493 or 62% of revenues compared to \$1,501,915 or 52% of revenues for the same period in fiscal 2016 (six months ended December 31, 2015). Non-power products for the six months ended December 31, 2016 were \$547,932 or 38% of revenues compared to \$1,381,804 or 48% of revenues for the six months ended December 31, 2015.

Overall, revenues for the six month period ended December 31, 2016 were approximately \$1,459,000 lower when compared to the six month period ended December 31, 2015. More than half of the reduction was attributable to non-power products, consisting mostly of orders that were booked to ship in the first quarter of fiscal year 2017 but instead shipped at the end of fiscal year 2016. The rest of this reduction resulted from decreases in customer orders for power products. Management believes that shipments for power and non-power products will increase in the remaining two quarters of fiscal year 2017, but will continue to lag behind fiscal year 2016 levels. These reduced levels are primarily the result of expected customer orders for shipments in fiscal 2017 being delayed into the following fiscal year.

The above estimates for future periods are based on orders that management expects to receive but have not yet been received. No assurances can be made that such orders will be received and, to the extent received, the timing thereof.

For further discussion regarding business environment and management initiatives see "Long-Term Growth Strategy" in the Company's 2016 Form 10-K.

The aggregate value of the Company's backlog of sales orders was \$2.0 million on December 31, 2016. The Company's backlog of sales orders was \$3.1 million on December 31, 2015. Most of the reduction in backlog is due to the decrease in orders for power products discussed above. It is estimated that a significant portion of the present backlog will be billed during the next 6 months and be recognized as fiscal year 2017 revenues with the balance being recognized in fiscal years 2018 through 2020.

#### Gross Profit

Gross profit is affected by a variety of factors including, among other items, sales volume, product mix, product pricing, and product costs.

The Company earned a gross profit of \$198,413 or 21% of revenues for the three months ended December 31, 2016 compared to a gross profit of \$419,588 or 25% of revenues for the same period in fiscal year 2016.

The Company earned a gross profit of \$136,386 or 10% of revenues for the six months ended December 31, 2016 compared to a gross profit of \$822,072 or 29% of revenues for the same period in fiscal 2016. The lower gross profit for both the three and six months ended December 31, 2016 was primarily due to a decrease in overall sales of both power and non-power products resulting in production levels which were below those necessary to absorb overhead. This resulted in unallocated overhead being expensed in the six months ended December 31, 2016. Management expects factory production to increase in the remainder of this fiscal year but to levels below the prior fiscal year, and therefore the gross profit percentage to improve but not fully recover.

### Selling, General and Administrative Expenses

Selling, General and Administrative Expenses for the three months ended December 31, 2016 were \$395,406 or 42% of revenues compared to \$488,199 or 29% of revenues for the three months ended December 31, 2015. The most significant changes in expense and the approximate amounts of the changes were decreases in consulting expense (\$82,000), shows and meetings expense (\$11,000), compensation (\$25,000), outside services (\$4,000) and general corporate expense (\$3,000), partially offset by increases in legal and professional expense \$23,000.

Selling, General and Administrative Expenses for the six months ended December 31, 2016 were \$712,984 or 50% of revenues compared to \$936,563 or 32% of revenues for the six months ended December 31, 2015. The most significant changes in expense and the approximate amounts of the changes were decreases in consulting expense (\$153,000), compensation expense (\$39,000), recruiting expense (\$23,000), shows and meetings (\$13,000), outside services (\$8,000), repairs and maintenance (\$6,000), real estate taxes (\$3,000) and supplies (\$3,000), partially offset by increases in legal and professional expense \$25,000.

### Loss Before Income Taxes

Loss before income taxes was \$192,023 for the three months ended December 31, 2016. Loss before income taxes was \$75,117 for the three months ended December 31, 2015.

Loss before income taxes was \$567,162 for the six months ended December 31, 2016. Loss before income taxes was \$125,468 for the six months ended December 31, 2015.

Loss for both the three months and six months ended December 31, 2016 was higher when compared to the same periods in fiscal 2016 primarily due to a decrease in revenues and an increase in overhead due to low production levels as discussed above.

### Income Taxes

Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their financial statement reported amounts and for tax loss and credit carry-forwards.

A valuation allowance is provided against deferred tax assets when it is determined to be more likely than not that these amounts will not be realized.

The Company has provided a valuation allowance against its net deferred tax assets as it believes that it is more likely than not that it will not realize these tax attributes. The Company had approximately \$1,190,000 and \$152,000 of federal and state net deferred tax assets, respectively, primarily arising from net operating loss carry-forwards, expiring beginning in 2017. In the six month period ended December 31, 2016 these federal and state net deferred tax assets increased by approximately \$193,000 and \$35,000, respectively, as a result of a net loss for the period.



### Liquidity and Capital Resources

Historically, the Company's capital expenditures, debt servicing requirements and working capital needs have been financed by cash flow from operations, progress payments on various Government contracts (based on cost incurred) and a line of credit, described under "Financing Activities" below. As of December 31, 2016, the Company had no material capital expenditure commitments. Management believes that the Company's current cash and its line of credit which (as described under "Financing Activities" below) currently expires on November 30, 2017, combined with progress payments as well as billings at the time of delivery of products will be sufficient to support short-term liquidity requirements, working capital needs and capital expenditures at their current or expected levels. However, if our performance expectations fall short (including our failure to generate expected levels of sales) or our expenses exceed expectations, or if the commitment under the Line of Credit becomes unavailable, we may need to secure additional financing and/or reduce our expenses to continue our operations. Our failure to do so would have a material adverse impact on our prospects and financial condition. There can be no assurance that any contemplated additional financing will be available on terms acceptable to us, if at all. If required, we believe we would be able to reduce our expenses to a sufficient level to continue to operate as a going concern.

At December 31, 2016, the Company's working capital was \$1,666,556 compared to \$2,219,597 at June 30, 2016.

The ratio of current assets to current liabilities was 2.46 to 1 at December 31, 2016 and 3.73 to 1 at June 30, 2016.

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

|                                | Six Months ended December 31, |             |
|--------------------------------|-------------------------------|-------------|
|                                | 2016                          | 2015        |
| Net cash provided by/(used in) |                               |             |
| Operating activities           | \$ (550,958)                  | \$ (83,932) |
| Investing activities           | (12,827)                      | (21,860)    |
| Financing activities           | 458,037                       | --          |

#### Operating Activities:

Adjustments to reconcile net loss to net cash provided by/used in operations are presented in the Condensed Statements of Cash Flows in the Company's Financial Statements.

Net cash used in operating activities for the six month period ended December 31, 2016 was principally due to the net loss, increases in inventory, decrease in trade accounts payable, accrued expenses and other liabilities, and was partially offset by a decrease in accounts receivable.

Net cash used in operating activities for the six month period ended December 31, 2015 was principally due to the net loss, increases in inventory, and decreases in trade accounts payable, accrued expenses and other liabilities, and was partially offset by a decrease in accounts receivable.

The Company expenses its research and development costs as incurred. These costs consist primarily of salaries and material costs. For the six months ended December 31, 2016 and December 31, 2015, the Company did not incur any research and development costs. Research and development projects performed under contract for customers are billed to the customer and are recorded as contract costs as they are incurred.

#### Investing Activities:

During the first six months of fiscal 2017, the Company used net cash of \$12,827 in investing activities. The entire amount was used for capital expenditures, principally for building improvements and the acquisition of computer and production equipment.

During the first six months of fiscal 2016, the Company used net cash of \$21,860 in investing activities. The entire amount was used for capital expenditures, principally for the acquisition of production equipment, tooling, computers and building improvements.

#### Financing Activities:

The Company maintains a \$500,000 line of credit (the "Line of Credit") with TD Bank, NA (the "Bank"). On November 4, 2016, the Bank notified the Company that it has extended the Line of Credit, which was due to expire on November 30, 2016, for an additional year ending November 30, 2017. No other terms of the Company's revolving term note to the Bank were changed.

The Line of Credit provides among other things for an annual interest rate on borrowings equal to the Bank's prime rate plus 1.00% and is subject to customary representations, covenants, and default provisions in favor of the Bank. Any loans drawn under the Line of Credit are secured by a first lien on all of the Company's accounts receivable, machinery, equipment, other personal property and Commercial Mortgages on the Company's real property. The rate applicable to the Line of Credit at December 31, 2016 was approximately 4.75%. The Company has previously utilized the Line of Credit during periods of increased production requirements and anticipates that it will continue to utilize this credit facility during future periods of peak production activity.

As of December 31, 2016 the Company has \$450,000 of outstanding borrowings against the Line of Credit.

#### Accounting Standards Updates

Refer to Note 2. *Accounting Standards Updates* Not Yet Effective in the Notes to the Condensed Financial Statements section of this Quarterly Report.

Evaluation of Disclosure 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 Controller, 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 Form 10-Q. Based upon that evaluation, the Chief Executive Officer and Controller concluded that, as of December 31, 2016, the design and operation of the Company's disclosure controls and procedures were effective.

Nonetheless, a control system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the control system are met, and no evaluation of controls can provide absolute assurance that all control issues have been detected.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the fiscal quarter ended December 31, 2016 that materially affected, or are reasonably likely to affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

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

Date: February 13, 2017

By: /s/ John H.D. Dewey

John H.D. Dewey  
President and Chief Executive Officer

Date: February 13, 2017

By: /s/ Donna Medica

Donna Medica  
Controller  
(acting principal financial officer)

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

- |      |   |
|------|---|
| 31.1 | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  |
| 31.2 | Certification of Controller 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 Controller pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002              |

**CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, John H. D. Dewey, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Dewey Electronics Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 13, 2017

By: /s/ John H.D. Dewey  
John H.D. Dewey, President/CEO

**CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Donna Medica, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Dewey Electronics Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 13, 2017

By: /s/ Donna Medica  
Donna Medica, Controller  
(acting principal financial officer)

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of The Dewey Electronics Corporation (the "Corporation") on Form 10-Q for the period ended December 31, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John H. D. Dewey, Chief Executive Officer of the Corporation, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

/s/ John H.D. Dewey

John H. D. Dewey, Chief Executive Officer

Date: February 13, 2017

A signed original of this written statement required by Section 906 has been provided to The Dewey Electronics Corporation and will be retained by The Dewey Electronics Corporation and furnished to the Securities and Exchange Commission or its staff upon request.



**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of The Dewey Electronics Corporation (the "Corporation") on Form 10-Q for the period ended December 31, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Donna Medica, Controller of the Corporation, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

/s/ Donna Medica

Donna Medica, Controller  
(acting principal financial officer)

Date: February 13, 2017

A signed original of this written statement required by Section 906 has been provided to The Dewey Electronics Corporation and will be retained by The Dewey Electronics Corporation and furnished to the Securities and Exchange Commission or its staff upon request.