

Eaton Vance Tax-Managed Global Buy-Write Opportunities Fund
Form N-Q
November 28, 2018

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form N-Q

**QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED
MANAGEMENT INVESTMENT COMPANIES**

811-21745

Investment Company Act File Number

Eaton Vance Tax-Managed Global Buy-Write Opportunities Fund

(Exact Name of Registrant as Specified in Charter)

Two International Place, Boston, Massachusetts 02110

(Address of Principal Executive Offices)

Maureen A. Gemma

Two International Place, Boston, Massachusetts 02110

(Name and Address of Agent for Services)

(617) 482-8260

(Registrant's Telephone Number, Including Area Code)

December 31

Date of Fiscal Year End

September 30, 2018

Date of Reporting Period

Item 1. Schedule of Investments

Eaton Vance**Tax-Managed Global Buy-Write Opportunities Fund****September 30, 2018****PORTFOLIO OF INVESTMENTS (Unaudited)****Common Stocks 100.6%**

Security	Shares	Value
Aerospace & Defense 2.1%		
Airbus SE ⁽¹⁾	56,122	\$ 7,045,705
General Dynamics Corp. ⁽¹⁾	6,866	1,405,608
L3 Technologies, Inc. ⁽¹⁾	5,966	1,268,491
Northrop Grumman Corp. ⁽¹⁾	13,028	4,134,696
Raytheon Co. ⁽¹⁾	33,521	6,927,450
Rolls-Royce Holdings PLC	156,584	2,014,515
Textron, Inc. ⁽¹⁾	30,061	2,148,460
		\$ 24,944,925
Air Freight & Logistics 0.3%		
Deutsche Post AG ⁽¹⁾	61,060	\$ 2,170,949
Expeditors International of Washington, Inc. ⁽¹⁾	16,714	1,228,980
		\$ 3,399,929
Airlines 0.0%		
International Consolidated Airlines Group SA	65,562	\$ 563,625
		\$ 563,625
Auto Components 0.8%		
Aisin Seiki Co., Ltd.	10,200	\$ 496,937
Cie Generale des Etablissements Michelin SCA ⁽¹⁾	26,277	3,136,311
Denso Corp.	60,300	3,185,526
Toyoda Gosei Co., Ltd.	12,800	316,112
Toyota Industries Corp.	6,400	378,798
Yokohama Rubber Co., Ltd. (The)	75,500	1,627,332
		\$ 9,141,016
Automobiles 1.0%		
Daimler AG ⁽¹⁾	132,059	\$ 8,322,656
Honda Motor Co., Ltd.	29,800	897,464
Isuzu Motors, Ltd.	99,500	1,568,571

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Mazda Motor Corp.	46,900	563,738
Toyota Motor Corp.	14,400	897,160
Volkswagen AG, PFC Shares	1,805	316,981
		\$ 12,566,570

Banks 5.9%

Banco Bilbao Vizcaya Argentaria SA	41,559	\$ 263,494
Banco Santander SA ⁽¹⁾	1,466,812	7,343,825
Bank of America Corp. ⁽¹⁾	50,000	1,473,000
BNP Paribas SA ⁽¹⁾	100,600	6,160,403
Citigroup, Inc.	10,022	718,978
Credit Agricole SA ⁽¹⁾	243,088	3,494,387
Danske Bank A/S ⁽¹⁾	72,886	1,910,526
Fifth Third Bancorp ⁽¹⁾	112,006	3,127,208
First Horizon National Corp.	9,470	163,452
Hiroshima Bank, Ltd. (The)	43,500	294,358

Security	Shares	Value
HSBC Holdings PLC ⁽¹⁾	802,083	\$ 6,998,480
Huntington Bancshares, Inc. ⁽¹⁾	307,053	4,581,231
ING Groep NV ⁽¹⁾	426,434	5,534,729
Intesa Sanpaolo SpA ⁽¹⁾	2,091,453	5,328,883
JPMorgan Chase & Co. ⁽¹⁾	47,825	5,396,573
KBC Group NV	22,722	1,689,572
KeyCorp ⁽¹⁾	218,919	4,354,299
Lloyds Banking Group PLC	927,572	713,384
PNC Financial Services Group, Inc. (The)	6,406	872,433
Shinsei Bank, Ltd.	31,400	512,986
Societe Generale SA ⁽¹⁾	130,261	5,593,458
SunTrust Banks, Inc. ⁽¹⁾	19,446	1,298,798
Wells Fargo & Co. ⁽¹⁾	51,808	2,723,029
		\$ 70,547,486

Beverages 1.3%

Coca-Cola Co. (The) ⁽¹⁾	24,571	\$ 1,134,934
Constellation Brands, Inc., Class A ⁽¹⁾	29,994	6,467,306
Heineken Holding NV	24,773	2,246,329
Heineken NV	7,692	721,899
Kirin Holdings Co., Ltd.	59,000	1,513,228
PepsiCo, Inc. ⁽¹⁾	24,854	2,778,677
Takara Holdings, Inc.	20,500	301,426
		\$ 15,163,799

Biotechnology 3.4%

AbbVie, Inc. ⁽¹⁾	47,758	\$ 4,516,952
Amgen, Inc. ⁽¹⁾	64,759	13,423,893
BioMarin Pharmaceutical, Inc. ⁽¹⁾⁽³⁾	19,589	1,899,545
Celgene Corp. ⁽¹⁾⁽³⁾	92,074	8,239,702
Gilead Sciences, Inc. ⁽¹⁾	143,508	11,080,253
Shire PLC ⁽¹⁾	22,601	1,365,460
		\$ 40,525,805

Building Products 0.6%

Daikin Industries, Ltd.	53,200	\$ 7,081,111
		\$ 7,081,111

Capital Markets 1.6%

CME Group, Inc.	2,281	\$ 388,249
GAM Holding AG	23,549	167,449
Moody's Corp ⁽¹⁾	18,539	3,099,721
Morgan Stanley ⁽¹⁾	65,092	3,031,334
S&P Global, Inc. ⁽¹⁾	27,142	5,303,275

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Schroders PLC ⁽¹⁾	62,659	2,523,802
St. James s Place PLC ⁽¹⁾	209,534	3,123,231
State Street Corp. ⁽¹⁾	17,058	1,429,119

\$ 19,066,180

Chemicals 2.8%

AdvanSix, Inc. ⁽³⁾	1,261	\$ 42,811
Air Products and Chemicals, Inc. ⁽¹⁾	31,040	5,185,232
Akzo Nobel NV	10,908	1,020,371
BASF SE ⁽¹⁾	108,986	9,670,675
Daicel Corp. ⁽¹⁾	51,000	592,418
DowDuPont, Inc. ⁽¹⁾	14,120	908,057

Security	Shares	Value
Eastman Chemical Co. ⁽¹⁾	20,943	\$ 2,004,664
Johnson Matthey PLC ⁽¹⁾	77,449	3,593,882
Linde AG ⁽¹⁾	16,210	3,347,920
Mitsubishi Gas Chemical Co., Inc.	23,700	504,526
Nitto Denko Corp.	35,200	2,639,111
Shin-Etsu Chemical Co., Ltd.	22,800	2,015,707
Sumitomo Chemical Co., Ltd.	25,000	146,309
Toray Industries, Inc.	56,000	420,170
Tosoh Corp.	86,500	1,332,267
		\$ 33,424,120
Commercial Services & Supplies		
0.3%		
SECOM Co., Ltd.	36,900	\$ 3,007,042
Waste Management, Inc. ⁽¹⁾	10,662	963,419
		\$ 3,970,461
Communications Equipment		
1.5%		
Cisco Systems, Inc. ⁽¹⁾	333,665	\$ 16,232,802
Nokia Oyj	245,912	1,367,213
		\$ 17,600,015
Construction & Engineering		
0.1%		
Ferrovial SA	84,907	\$ 1,756,994
		\$ 1,756,994
Construction Materials 0.2%		
CRH PLC	62,332	\$ 2,039,153
Imerys SA	4,825	356,300
		\$ 2,395,453
Consumer Finance 0.4%		
American Express Co. ⁽¹⁾	42,280	\$ 4,502,397
Navient Corp.	50,603	682,129
		\$ 5,184,526
Containers & Packaging 0.1%		
International Paper Co.	16,999	\$ 835,501
Sealed Air Corp.	20,464	821,630
		\$ (2,750) (2,191)

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Total comprehensive income	\$3,073,047	\$1,133,545
Net income per share:		
Basic	\$1.32	\$0.49
Diluted	\$1.31	\$0.49
Weighted average number of shares outstanding:		
Basic	2,333,885	2,312,870
Diluted	2,348,307	2,324,838

The accompanying notes are an integral part of the financial statements.

Espey Mfg. & Electronics Corp.

Statements of Changes in Stockholders' Equity

Years Ended June 30, 2018 and 2017

	Outstanding Shares	Common Amount	Capital in Excess of Par Value	Accumulated Other Comprehensive Income (Loss)	Retained Earnings
Balance as of June 30, 2016	2,364,684	\$ 1,009,958	\$ 17,253,072	\$ (1,408)	\$ 22,820,938
Comprehensive income:					
Net income					1,135,736
Other comprehensive loss, net of tax of \$(1,179)				(2,191)	
Total comprehensive income					
Stock options exercised	8,300		82,442		
Stock-based compensation			129,167		
Dividends paid on common stock \$1.00 per share					(2,307,445)
Tax effect of stock options exercised			9,070		
Tax effect of dividends on unallocated ESOP shares					20,967
Purchase of treasury stock	(1,663)				
Reduction of unearned ESOP shares			176,584		
Balance as of June 30, 2017	2,371,321	\$ 1,009,958	\$ 17,650,335	\$ (3,599)	\$ 21,670,196
Comprehensive income:					
Net income					3,075,797
Other comprehensive loss, net of tax of \$(394)				(2,750)	
Total comprehensive income					
Stock options exercised	20,601		269,157		
Stock-based compensation			123,112		
Dividends paid on common stock \$1.00 per share					(2,329,593)
Purchase of treasury stock	(4,798)				
Reduction of unearned ESOP shares			159,087		
Balance as of June 30, 2018	2,387,124	\$ 1,009,958	\$ 18,201,691	\$ (6,349)	\$ 22,416,400

The accompanying notes are an integral part of the financial statements.

Espey Mfg. & Electronics Corp.

Statements of Changes in Stockholders' Equity

Years Ended June 30, 2018 and 2017

	Treasury Stock		Unearned ESOP	Total Stockholders' Equity
	Shares	Amount	Shares	
Balance as of June 30, 2016	665,190	\$(7,803,239)	\$(891,083)	\$32,388,238
Comprehensive income:				
Net income				1,135,736
Other comprehensive loss, net of tax of \$(1,179)				(2,191)
Total comprehensive income				1,133,545
Stock options exercised	(8,300)	68,475		150,917
Stock-based compensation				129,167
Dividends paid on common stock \$1.00 per share				(2,307,445)
Tax effect of stock options exercised				9,070
Tax effect of dividends on unallocated ESOP shares				20,967
Purchase of treasury stock	1,663	(44,335)		(44,335)
Reduction of unearned ESOP shares			240,835	417,419
Balance as of June 30, 2017	658,553	\$(7,779,099)	\$(650,248)	\$31,897,543
Comprehensive income:				
Net income				3,075,797
Other comprehensive loss, net of tax of \$(394)				(2,750)
Total comprehensive income				3,073,047
Stock options exercised	(20,601)	169,958		439,115
Stock-based compensation				123,112
Dividends paid on common stock \$1.00 per share				(2,329,593)
Purchase of treasury stock	4,798	(109,694)		(109,694)
Reduction of unearned ESOP shares			228,795	387,882
Balance as of June 30, 2018	642,750	\$(7,718,835)	\$(421,453)	\$33,481,412

The accompanying notes are an integral part of the financial statements.

Espey Mfg. & Electronics Corp.

Statements of Cash Flows

Years Ended June 30, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities:		
Net income	\$3,075,797	\$1,135,736
Adjustments to reconcile net income to net cash provided by operating activities:		
Excess tax benefits from share-based compensation	—	(9,070)
Tax effect of dividends on unallocated ESOP shares	—	20,967
Stock-based compensation	123,112	129,167
Depreciation	429,679	435,557
ESOP compensation expense	387,882	417,419
Loss on disposal of assets	—	4
Deferred income tax expense (benefit)	115,075	(46,488)
Changes in assets and liabilities:		
(Increase) decrease in trade receivables, net	(978,113)	1,557,851
(Increase) decrease in income tax receivable	(41,796)	218,189
(Increase) decrease in inventories, net	(1,627,191)	1,054,870
Increase in prepaid expenses and other current assets	(1,065,269)	(7,618)
(Decrease) increase in accounts payable	(427,518)	1,697,328
Increase (decrease) in accrued salaries and wages	356,960	(185,865)
Increase (decrease) in vacation accrual	51,413	(48,562)
(Decrease) increase in other accrued expenses	(145,620)	53,652
Increase (decrease) in payroll and other taxes withheld	6,496	(2,414)
Net cash provided by operating activities	\$260,907	\$6,420,723
Cash Flows from Investing Activities:		
Additions to property, plant and equipment	(1,923,220)	(352,132)
Purchase of investment securities	(11,199,339)	(8,922,097)
Proceeds from sale/maturity of investment securities	9,102,457	5,071,818
Net cash used in investing activities	(4,020,102)	(4,202,411)
Cash Flows from Financing Activities:		
Dividends paid on common stock	(2,329,593)	(2,307,445)
Purchase of treasury stock	(109,694)	(44,335)
Proceeds from exercise of stock options	439,115	150,917
Excess tax benefits from share-based compensation	—	9,070
Net cash used in financing activities	(2,000,172)	(2,191,793)
(Decrease) increase in cash and cash equivalents	(5,759,367)	26,519
Cash and cash equivalents, beginning of the year	10,058,163	10,031,644
Cash and cash equivalents, end of the year	\$4,298,796	\$10,058,163

Supplemental Schedule of Cash Flow Information:

Income taxes paid	\$920,000	\$323,000
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The accompanying notes are an integral part of the financial statements.

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Espey Mfg. & Electronics Corp.

Notes to Financial Statements

Note 1. Nature of Operations

Espey Mfg. & Electronics Corp. (the Company) is a manufacturer of electronic equipment used primarily in military and industrial applications. The principal markets for the Company's products are companies that provide electronic support to both military and industrial applications across the United States and at some international locations.

Note 2. Summary of Significant Accounting Policies

Revenue Recognition

The Company recognizes revenue in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 605 "Revenue Recognition". Product sales represent the majority of the Company's revenue. The Company recognizes revenue from these product sales when persuasive evidence of an arrangement exists, transfer of title and risk of loss has occurred, the sale price is fixed or determinable, and collectability is reasonably assured. The Company sells its products on terms which transfer title and risk of loss at a specified location, typically shipping point. Accordingly, revenue recognition from product sales occurs when all factors are met. If these conditions are not met, the Company will defer revenue recognition until such time as these conditions have been satisfied. The Company collects and remits sales taxes in certain jurisdictions and reports revenue net of any associated sales taxes. The provision for product returns and price adjustments is assessed for adequacy at each quarter end and is based on recent historical experience and known customer claims and was not material as of June 30, 2018 or 2017.

A portion of our revenue, primarily for development contracts, is recognized using the milestone method of accounting. Each milestone for which revenue is recognized is considered substantive. In determining this the Company considered whether the consideration associated with the milestone was commensurate with the performance to achieve the milestone, relates solely to past performance, and reasonable relative to the other deliverables and payment terms within the agreement.

Inventory Valuation and Cost Estimation

Raw materials are valued at the lower of cost (average cost) or net realizable value. Balances for slow-moving and obsolete inventory are reviewed on a regular basis by analyzing estimated demand, inventory on hand, sales levels, market conditions, and other information and reduce inventory balances based on this analysis.

Inventoried work relating to contracts in process and work in process is valued at actual production cost, including factory overhead incurred to date. Contract costs include material, subcontract costs, labor, and an allocation of

overhead costs. Work in process represents spare units; parts and other inventory items acquired or produced to service units previously sold or to meet anticipated future orders. Provision for losses on contracts is made when the existence of such losses becomes probable and estimable. The provision for losses on contracts is included in other accrued expenses on the Company's balance sheet. The costs attributed to units delivered under contracts are based on the estimated average cost of all units expected to be produced. Certain contracts are expected to extend beyond twelve months.

The estimation of cost at completion of a contract is subject to numerous variables involving contract costs and estimates as to the length of time to complete the contract. Given the significance of the estimation processes and judgments described above, it is possible that materially different amounts of expected sales and contract costs could be recorded if different assumptions were used, based on changes in circumstances, in the estimation process. When a change in expected sales value or estimated cost is determined, changes are reflected in current period earnings.

Depreciation

Depreciation of plant and equipment is computed on a straight-line basis over the estimated useful lives of the assets.

Estimated useful lives of depreciable assets are as follows:

Buildings and improvements	10 – 40 years
Machinery and equipment	3 – 20 years
Furniture and fixtures	7 – 10 years

Espey Mfg. & Electronics Corp.

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies, *Continued*

Income Taxes

The Company follows the provisions of Accounting Standards Codification (“ASC”) Topic 740-10, “Accounting for Income Taxes.”

Under the provisions of ASC 740-10, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred taxes and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and money market funds. The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Investment Securities

The Company accounts for its investment securities in accordance with ASC 320-10-25, “Accounting for Certain Investments in Debt and Equity Securities.” Investment securities at June 30, 2018 and 2017 consist of certificates of deposit and municipal bonds. The Company classifies investment securities as available-for-sale. Unrealized holding gains and losses, net of related tax effect, on available-for-sale securities are excluded from earnings and are reported as a separate component of stockholders’ equity until realized. Realized gains and losses for securities classified as available-for-sale are included in earnings and are determined using the specific identification method. Interest income is recognized when earned. Fair values are based on quoted market prices available as of the balance sheet date, and are therefore considered a Level 1 valuation.

Fair Value of Financial Instruments

ASC 820 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

§ Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

§ Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

§ Level 3: Significant unobservable inputs that reflect a reporting entity’s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The carrying amounts of financial instruments, including cash and cash equivalents, short term investments, accounts receivable, accounts payable and accrued expenses, approximated fair value as of June 30, 2018 and 2017 because of the immediate or short-term maturity of these financial instruments.

Accounts Receivable and Allowance for Doubtful Accounts

The Company extends credit to its customers in the normal course of business and collateral is generally not required for trade receivables. Exposure to credit risk is controlled through the use of credit approvals, credit limits, and monitoring procedures. Accounts receivable are reported net of an allowance for doubtful accounts. The Company estimates the allowance based on its analysis of specific balances. Interest is not charged on past due balances. Based on these factors, there was an allowance for doubtful accounts of \$3,000 at June 30, 2018 and 2017. Changes to the allowance for doubtful accounts are charged to expense and reduced by charge-offs, net of recoveries.

Per Share Amounts

ASC 260-10 "Earnings Per Share (EPS)" requires the Company to calculate net income (loss) per share based on basic and diluted net income (loss) per share, as defined. Basic EPS excludes dilution and is computed by dividing net income (loss) by the weighted average number of shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. The dilutive effect of outstanding options issued by the Company are reflected in diluted EPS using the treasury stock method. Under the treasury stock method, options will only have a dilutive effect when the average market price of common stock during the period exceeds the exercise price of the options.

Espey Mfg. & Electronics Corp.

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies, *Continued*

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income for fiscal years ended June 30, 2018 and 2017 consists of unrealized holding gains and losses on available-for-sale securities.

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 amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investment Tax Credits

Investment tax credits are accounted for as a reduction of income tax expense in the year taxes payable are reduced. Unused credits are reflected as a deferred tax asset.

Reclassifications

Certain reclassifications may have been made to the prior year financial statements to conform to the current year presentation.

Recently Issued Accounting Standards

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers,” which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU No. 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU No. 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP.

In subsequent periods, the FASB issued additional ASUs intended to clarify specific aspects related to the interpretation and implementation of ASU No. 2014-09. In March 2016, the FASB issued ASU No. 2016-08, “Revenue from Contracts with Customers – Principal versus Agent Considerations (Reporting Revenue Gross versus Net)” to provide guidance on principal versus agent considerations by an entity as discussed in ASU No. 2014-09. ASU No. 2016-08 provides criteria to be assessed by an entity when determining whether it is the principal or agent in relation to the goods or services which the Company is contractually obligated to provide to the customer. Among these considerations are: identifying the unit of account at which the entity should assess whether it is a principal or an agent; identifying the nature of the good or service provided to the customer; applying the control principle to certain types of transactions; and, interaction of the control principle with the indicators provided to assist in the principle versus agent evaluation. In April 2016, the FASB issued ASU No. 2016-10, “Revenue from Contracts with Customers – (Topic 606): Identifying Performance Obligations and Licensing” to provide implementation guidance related to the necessary judgements required in identifying performance obligations of a contract and guidance related to recognition of licensing revenues. In May 2016, the FASB issued ASU No. 2016-12, “Revenue from Contracts with Customers – (Topic 606): Narrow-Scope Improvements and Practical Expedients” to provide guidance related to the implementation of ASU No. 2014-09 in the following areas; assessing collectability for contracts that do not meet Step 1 of revenue recognition, presentation of sales taxes, noncash consideration, contract modifications at transition, and completed contracts at transition.

These standards are effective for annual periods beginning after December 15, 2017, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU No. 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). Early adoption is permitted for annual periods beginning after December 15, 2016 and interim periods therein. We evaluated the impact of adopting of ASU No. 2014-09; this will not have a material impact on the Company’s financial statements aside from increased disclosures. The Company used the modified retrospective method when adopting the standard beginning July 1, 2018.

Espey Mfg. & Electronics Corp.

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies, *Continued*

In July 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2015-11, “Inventory (Topic 330): Simplifying the Measurement of Inventory.” ASU No. 2015-11 requires inventory measured using any method other than last-in, first out or the retail inventory method to be subsequently measured at the lower of cost and net realizable value, rather than at the lower of cost or market. Net realizable value is defined as the estimated selling price, less the estimated costs to complete, dispose, and transport such inventory. ASU No. 2015-11 was effective for fiscal years and interim periods beginning after December 15, 2016. ASU No. 2015-11 was required to be applied prospectively and early adoption was permitted. The Company adopted ASU No. 2015-11 and it did not have a material impact on the Company’s financial position or results of operations.

In November 2015, the FASB issued ASU No. 2015-17, “Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes”. The guidance requires the classification of deferred tax assets and liabilities as non-current in a classified balance sheet. The current requirement that deferred tax assets and liabilities of a tax-paying component of an entity be offset and presented as a single amount is not affected by this update. We adopted ASU 2015-17 during the first quarter of fiscal year 2018 on a prospective basis. Prior periods were not retrospectively adjusted. Accordingly, for the twelve-month period ended June 30, 2018 we decreased current deferred tax assets by \$310,650 netted against noncurrent deferred tax liabilities of \$328,343; resulting in a noncurrent deferred tax liability balance of \$17,693. Adoption of ASU No. 2015-17 for the prior period presented would have the following impact on the Company’s financial statements for June 30, 2017; a decrease in current assets of \$317,559, a decrease in non-current liabilities of \$220,571 and an increase in non-current assets of \$96,988.

In January 2016, the FASB issued ASU No. 2016-01, “Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities”. The amendments in this Update address certain aspects of recognition, measurement, presentation and disclosure of financial instruments (primarily equity securities) in order to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. ASU No. 2016-01 will be effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. The Company will be adopting ASU No. 2016-01 and it will not have a material impact on the Company's financial statements.

In March 2016, the FASB issued ASU No. 2016-09, “Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting”. The areas for simplification in this update involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. We adopted ASU 2016-09 during the first quarter of fiscal year 2018 on a prospective basis. We have elected to follow an accounting policy to estimate the number of awards that are expected to vest (consistent with ASU and prior GAAP). Adoption of ASU No. 2016-09 resulted in certain tax benefits of equity transactions being shown in the tax provision rather than in equity. The adoption of the ASU did not have a material impact on the Company’s financial statements.

In February 2018, the FASB issued ASU No. 2018-02, “Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income”. Under current accounting guidance, the income tax effects for changes in income tax rates and certain other transactions are recognized in income from continuing operations resulting in income tax effects recognized in Accumulated Other Comprehensive Income that do not reflect the current tax rate of the entity (“stranded tax effects”). The new guidance allows the Company the option to reclassify these stranded tax effects to retained earnings that relate to the change in the federal tax rate resulting from the passage of the Tax Cuts and Jobs Act (the “Tax Act”). This update is effective for fiscal years beginning after December 15, 2018, including interim periods therein, and early adoption is permitted. The Company is evaluating the impact that ASU No. 2018-02 will have on the Company's financial statements.

Espey Mfg. & Electronics Corp.

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies, *Continued*

Impairment of Long-Lived Assets

Long-lived assets, including property, plant, and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. There were no impairments of long-lived assets in fiscal years 2018 and 2017. Assets to be disposed of are separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and no longer depreciated. The assets and liabilities of a disposed group classified as held for sale are presented separately in the appropriate asset and liability sections of the balance sheet, if applicable.

Concentrations of Risk

The market for our defense electronics products is largely dependent on the availability of new contracts from the United States and foreign governments to prime contractors to which we provide components. Any decline in expenditures by the United States or foreign governments may have an adverse effect on our financial performance.

Generally, U.S. Government contracts are subject to procurement laws and regulations. Some of the Company's contracts are governed by the Federal Acquisition Regulation (FAR), which lays out uniform policies and procedures for acquiring goods and services by the U.S. Government, and agency-specific acquisition regulations that implement or supplement the FAR. For example, the Department of Defense implements the FAR through the Defense Federal Acquisition Regulation (DFAR).

The FAR also contains guidelines and regulations for managing a contract after award, including conditions under which contracts may be terminated, in whole or in part, at the government's convenience or for default. If a contract is terminated for the convenience of the government, a contractor is entitled to receive payments for its allowable costs and, in general, the proportionate share of fees or earnings for the work done. If a contract is terminated for default, the government generally pays for only the work it has accepted. These regulations also subject the Company to financial audits and other reviews by the government of its costs, performance, accounting and general business practices relating to its contracts, which may result in adjustment of the Company's contract-related costs and fees.

Note 3. Investment Securities

Investment securities at June 30, 2018 and 2017 consist of certificates of deposit and municipal bonds which are classified as available-for-sale securities and have been determined to be level 1 assets. The cost, gross unrealized gains, gross unrealized losses and fair value of available-for-sale securities by major security type at June 30, 2018 and 2017 are as follows:

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	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>2018</u>				
Certificates of deposit	\$ 10,440,000	\$ —	\$ —	\$ 10,440,000
Municipal bonds	1,085,754	635	(5,683)	1,080,706
2018 Total investment securities	\$ 11,525,754	\$ 635	\$ (5,683)	\$ 11,520,706
<u>2017</u>				
Certificates of deposit	\$ 8,557,000	\$ —	\$ —	\$ 8,557,000
Municipal bonds	871,872	258	(2,162)	869,968
2017 Total investment securities	\$ 9,428,872	\$ 258	\$ (2,162)	\$ 9,426,968

The portfolio is diversified and highly liquid and primarily consists of investment grade fixed income instruments. At June 30, 2018, the Company did not have any investments in individual securities that have been in a continuous loss position considered to be other than temporary.

Espey Mfg. & Electronics Corp.

Notes to Financial Statements

Note 3. Investment Securities, *Continued*

As of June 30, 2018 and 2017, the remaining contractual maturities of available-for-sale securities were as follows:

	Years to Maturity		
	Less than One Year	One to Five Years	Total
2018			
Available-for-sale	\$ 10,967,300	\$ 553,406	\$ 11,520,706
2017			
Available-for-sale	\$ 8,829,542	\$ 597,426	\$ 9,426,968

Note 4. Contracts in Process

Contracts in process at June 30, 2018 and 2017 are as follows:

	2018	2017
Unrecognized gross contract value	\$48,100,984	\$43,140,921
Costs related to contracts in process, net of progress payments of \$102,924 and \$1,366,504 at June 30, 2018 and 2017, respectively	\$8,777,079	\$7,863,538

Included in costs relating to contracts in process at June 30, 2018 and 2017 are costs of \$1,597,739 and \$1,635,661, respectively, relative to contracts that may not be completed within the ensuing year. Under the units-of-delivery method, the related sale and cost of sales will not be reflected in the statements of comprehensive income until the units under contract are shipped.

Note 5. Property, Plant and Equipment

Property, plant and equipment at June 30, 2018 and 2017 is as follows:

	2018	2017
Land	\$45,000	\$45,000
Building and improvements	4,378,866	4,304,366
Machinery and equipment	10,877,555	9,028,835
Furniture and fixtures	170,120	170,120
	15,471,541	13,548,321
Accumulated depreciation	(11,712,904)	(11,283,225)
Property, plant and equipment, net	\$3,758,637	\$2,265,096

Machinery and equipment includes \$763,367 that was not placed in service as of June 30, 2018. Depreciation expense was \$429,679 and \$435,557 for the years ended June 30, 2018 and 2017, respectively.

Note 6. Pension Expense

Under terms of a negotiated union contract which expires on June 30, 2022, the Company is obligated to make contributions to a union-sponsored International Brotherhood of Electrical Workers Local 1799 defined benefit

pension plan (Plan identifying number is 14-6065199) covering eligible employees. Such contributions and expenses are based upon hours worked at a specified rate and amounted to \$99,031 in fiscal year 2018 and \$89,023 in fiscal year 2017. These contributions represent more than five percent of the total contributions made into the Plan. For the years beginning January 1, 2018 and 2017, the Plan was in the “green zone” which means it is neither endangered nor critical status. A Funding Improvement Plan, entered into by Plan Trustees in fiscal year 2013, when the Plan was in “critical status,” calls for an increase in contributions starting January 1, 2016 of \$0.04 per hour for each year for five years thereafter. The increase did not and will not have a material impact on the Company’s financial statements.

The Company sponsors a 401(k) plan for non-union workers with employee and employer matching contributions. The employer match is 10% of the employee contribution and was \$52,225 and \$49,247, for fiscal years 2018 and 2017, respectively.

Espey Mfg. & Electronics Corp.

Notes to Financial Statements

Note 7. Provision for Income Taxes

The Tax Cuts and Jobs Act ("Tax Act") was enacted on December 22, 2017. The legislation significantly changes U.S. tax law by, among other things, lowering the U.S. federal corporate tax rate, bonus depreciation that allows for full expensing of qualified property, and limiting the deductibility of interest expense and executive compensation. The Tax Act permanently reduces the U.S. corporate income tax rate to a flat 21% rate, effective January 1, 2018. Pursuant to Section 15 of the Internal Revenue Code, the Company applied a blended corporate tax rate of 28.1 percent for fiscal year 2018, which was based on the applicable tax rates before and after the Tax Reform Act and the number of days in the year.

The Company re-measured certain U.S. deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is generally 21%, and provisionally recorded an increase to the provision for income taxes of \$35,200 related to the re-measurement in the second quarter of fiscal year 2018. However, as of June 30, 2018 the impact from the Tax Act related to the re-measurement of the company's deferred tax assets and liabilities was a \$4,553 increase to the provision for income taxes. The year-end amount differed from the provisional amount booked in the second quarter due to variances in timing adjustments from those forecasted, mainly the accelerated expensing of property, plant and equipment placed in service in the third and fourth quarter.

A summary of the components of the provision for income taxes for the years ended June 30, 2018 and 2017 is as follows:

	2018	2017
Current tax expense - federal	\$880,213	\$559,171
Current tax (benefit) expense - state	(2,009)	2,986
Deferred tax expense (benefit)	115,075	(46,488)
Provision for income taxes	\$993,279	\$515,669

Deferred income taxes reflect the impact of "temporary differences" between the amount of assets and liabilities for financial reporting purposes and such amounts measured by tax laws and regulations. These "temporary differences" are determined in accordance with ASC 740-10.

The combined U.S. federal and state effective income tax rates of 24.4% and 31.2%, for 2018 and 2017 respectively, differed from the statutory U.S. federal income tax rate for the following reasons:

	2018	2017
U.S. federal statutory income tax rate	28.1 %	34.0 %
Increase (reduction) in rate resulting from:		
State franchise tax, net of federal income tax benefit	(0.1)	0.1
ESOP cost versus Fair Market Value	1.1	3.6
Dividend on allocated ESOP shares	(2.9)	(7.2)
Qualified production activities	(2.1)	(2.8)
Stock-based compensation	0.1	1.8

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Other	0.2	1.7
Effective tax rate	24.4%	31.2%

For the years ended June 30, 2018 and 2017 deferred income tax expense (benefit) of \$115,075 and (\$46,488), respectively, results from the changes in temporary differences for each year. The tax effects of temporary differences that give rise to deferred tax assets and deferred tax liabilities as of June 30, 2018 and 2017 are presented as follows:

	2018	2017
Deferred tax assets:		
Accrued expenses	\$203,150	\$195,915
ESOP	32,875	73,696
Stock-based compensation	51,140	81,659
Inventory - effect of uniform capitalization	53,863	36,935
Unrealized loss (gain) on investment securities	1,060	666
Other	1,437	2,384
Total deferred tax assets	\$343,525	\$391,255
Deferred tax liability:		
Property, plant and equipment - principally due to differences in depreciation methods	\$361,218	\$294,267
Total deferred tax liability	361,218	294,267
Net deferred tax (liability) asset	\$(17,693)	\$96,988

Espey Mfg. & Electronics Corp.

Notes to Financial Statements

Note 7. Provision for Income Taxes, *Continued*

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projection for future taxable income over the period in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these temporary differences without consideration of a valuation allowance.

As the result of the implementation of the FASB interpretation No. 48 (“FIN 48”), Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109, the Company recognized no material adjustments to unrecognized tax benefits. As of June 30, 2018 and 2017, the Company has no unrecognized tax benefits.

The Company recognizes interest and penalties in general and administrative expense. As of June 30, 2018 and 2017, the Company has not recorded any provision for accrued interest and penalties.

By federal and state tax statute, federal and state tax returns are subject to audit for three years from date of filing, unless the return was audited within that period. As such, federal returns for tax years ending June 30, 2018, 2017, 2016, and 2015 remain open to examination by the IRS. State returns for tax years ending June 30, 2018, 2017, 2016 and 2015 remain open to examination by the State of New York.

Note 8. Significant Customers

A significant portion of the Company's business is the production of military and industrial electronic equipment for use by the U.S. and foreign governments and certain industrial customers. Sales to two domestic customers accounted for approximately 60% of total sales in fiscal year 2018. Sales to two domestic customers accounted for approximately 45% of total sales in fiscal year 2017.

Export sales in fiscal years 2018 and 2017 were approximately \$3,112,000 and \$1,730,000, respectively.

Note 9. Stock Rights Plan

The Company has a Shareholder Rights Plan that expires on December 31, 2019. Under this plan, common stock purchase rights were distributed as a dividend at the rate of one right for each share of common stock outstanding as of or issued subsequent to April 14, 1989. Each right entitles the holder thereof to buy one-half share of common stock of the Company at an exercise price of \$25 per share subject to adjustment. The rights are exercisable only if a person or group acquires beneficial ownership of 15% or more of the Company's common stock or commences a tender or exchange offer which, if consummated, would result in the offeror individually or, together with all affiliates and associates thereof, being the beneficial owner of 15% or more of the Company's common stock.

If a 15% or larger shareholder should engage in certain self-dealing transactions or a merger with the Company in which the Company is the surviving corporation and its shares of common stock are not changed or converted into equity securities of any other person, or if any person were to become the beneficial owner of 15% or more of the

Company's common stock, then each right not owned by such shareholder or related parties of such shareholder (all of which will be void) will entitle its holder to purchase, at the right's then current exercise price, shares of the Company's common stock having a value of twice the right's exercise price. In addition, if the Company is involved in any other merger or consolidation with, or sells 50% or more of its assets or earning power to another person, each right will entitle its holder to purchase, at the right's then current exercise price, shares of common stock of such other person having a value of twice the right's exercise price.

The Company generally is entitled to redeem the rights at one cent per right at any time until the 15th day (or 25th day if extended by the Company's Board of Directors) following public announcement that a 15% position has been acquired or the commencement of a tender or exchange offer which, if consummated, would result in the offeror, together with all affiliates and associates thereof, being the beneficial owner of 15% or more of the Company's common stock.

Espey Mfg. & Electronics Corp.

Notes to Financial Statements

Note 10. Employee Stock Ownership Plan

The Company sponsors a leveraged employee stock ownership plan (the "ESOP") that covers all nonunion employees who work 1,000 or more hours per year and are employed on June 30. The Company makes annual contributions to the ESOP equal to the ESOP's debt service less dividends on unallocated shares received by the ESOP. All dividends on unallocated shares received by the ESOP are used to pay debt service. Dividends on allocated ESOP shares are recorded as a reduction of retained earnings. As the debt is repaid, shares are released and allocated to active employees, based on the proportion of debt service paid in the year. The Company accounts for its ESOP in accordance with FASB ASC 718-40. Accordingly, the shares purchased by the ESOP are reported as Unearned ESOP Shares in the statement of financial position. As shares are released or committed-to-be-released, the Company reports compensation expense equal to the current average market price of the shares, and the shares become outstanding for earnings-per-share (EPS) computations. ESOP compensation expense was \$387,882 and \$417,419 for the years ended June 30, 2018 and 2017, respectively. The ESOP shares as of June 30, 2018 and 2017 were as follows:

	2018	2017
Allocated shares	459,032	456,099
Unreleased shares	29,166	45,000
Total shares held by the ESOP	488,198	501,099
Fair value of unreleased shares	\$782,524	\$1,008,900

The Company may at times be required to repurchase shares at the ESOP participants' request at the fair market value. During the twelve months ended June 30, 2018, the Company repurchased 4,798 shares previously held in the ESOP for \$109,694. During the twelve months ended June 30, 2017 the Company repurchased 1,663 shares previously held by the ESOP for \$44,335.

The ESOP allows for eligible participants to take whole share distributions from the plan on specific dates in accordance with the provision of the plan. Share distributions from the ESOP during the twelve months ended June 30, 2018 and 2017 totaled 8,103 shares and 0 shares, respectively.

Note 11. Stock-based Compensation

The Company follows ASC 718 in establishing standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services, as well as transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. ASC 718 requires that the cost resulting from all share-based payment transactions be recognized in the financial statements based on the fair value of the share-based payment. ASC 718 establishes fair value as the measurement objective in accounting for share-based payment transactions with employees, except for equity instruments held by employee share ownership plans.

Total stock-based compensation expense recognized in the statements of comprehensive income for the fiscal years ended June 30, 2018 and 2017, was \$123,112 and \$129,167, respectively, before income taxes. The amount of this stock-based compensation expense related to non-qualified stock options ("NQSO") for the fiscal years ended June 30, 2018 and 2017, was \$32,564 and \$34,136, respectively. The total deferred tax benefit related to the NQSO's as of June 30, 2018 and 2017 was approximately \$6,839 and \$11,606, respectively. The remaining stock option expense in each year related to incentive stock options ("ISO") which are not deductible by the corporation when exercised, assuming a

qualifying disposition and as such no deferred tax benefit was established related to these amounts.

As of June 30, 2018, there was approximately \$129,983 of unrecognized compensation cost related to stock option awards that is expected to be recognized as expense over the next 2.0 years, of which \$31,923 relates to NQSO's and \$98,060 relates to ISO's. The total deferred tax benefit related the NQSO's in future years will be approximately \$6,704.

The Company has one employee stock option plan under which options or stock awards may be granted, the 2017 Stock Option and Restricted Stock Plan (the "2017 Plan"), approved by the Company's shareholders at the Company's Annual Meeting on December 1, 2017. The Board of Directors may grant options to acquire shares of common stock to employees and non-employee directors of the Company at the fair market value of the common stock on the date of grant. The maximum aggregate number of shares of Common Stock subject to options or awards to non-employee directors is 133,000 and the maximum aggregate number of shares of Common Stock subject to options or awards granted to non-employee directors during any single fiscal year is the lesser of 13,300 and 33 1/3% of the total number of shares subject to options or awards granted in such fiscal year. The maximum number of shares subject to options or awards granted to any individual employee may not exceed 15,000 in a fiscal year. Generally, options granted have a two-year vesting period based on two years of continuous service and have a ten-year contractual life. Option grants provide for accelerated vesting if there is a change in control. Shares issued upon the exercise of options are from those held in Treasury. Options covering 400,000 shares are authorized for issuance under the 2017 plan, of which 54,715 have been granted as of June 30, 2018. While no further grants of options may be made under the Company's 2007 Stock Option and Restricted Stock Plan, as of June 30, 2018, 171,949 options were outstanding under such plan of which 135,249 are vested and exercisable.

Espey Mfg. & Electronics Corp.

Notes to Financial Statements

Note 11. Stock-based Compensation, *Continued*

ASC 718 requires the use of a valuation model to calculate the fair value of stock-based awards. The Company has elected to use the Black-Scholes option valuation model, which incorporates various assumptions including those for volatility, expected life, and interest rates.

The table below outlines the weighted average assumptions that the Company used to calculate the fair value of each option award for the year ended June 30, 2018 and 2017.

	2018	2017
Dividend yield	4.54 %	3.85 %
Expected stock price volatility	24.07 %	29.70 %
Risk-free interest rate	2.04 %	1.84 %
Expected option life (in years)	4.8 yrs	4.6 yrs
Weighted average fair value per share of options granted during the period	\$2.95	\$4.64

The Company pays dividends quarterly and paid cash dividends totaling \$1.00 per share for the twelve months ended June 30, 2018 and 2017. Expected stock price volatility is based on the historical volatility of the Company's stock. The risk-free interest rate is based on the implied yield available on U.S. Treasury issues with an equivalent term approximating the expected life of the options. The expected option life (in years) represents the estimated period of time until exercise and is based on actual historical experience.

The following table summarizes stock option activity during the twelve months ended June 30, 2018:

	Employee Stock Options Plan			
	Number of Shares Subject to Option	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Balance at July 1, 2017	197,800	\$ 24.57	5.86	
Granted	54,715	\$ 22.14	9.32	
Exercised	(20,601)	\$ 21.32	—	
Forfeited or expired	(9,060)	\$ 24.25	—	
Outstanding at June 30, 2018	222,854	\$ 24.29	6.26	\$581,319
Vested or expected to vest at June 30, 2018	209,754	\$ 24.31	6.09	\$541,996
Exercisable at June 30, 2018	135,249	\$ 24.56	4.52	\$316,848

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the difference between the closing sale price of the Company's common stock as reported on the NYSE American on June 30, 2018 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders if all option holders had exercised their options on June 30, 2018. This amount changes based on the fair market value of the Company's common stock. The total intrinsic values of the options exercised during the twelve

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months ended June 30, 2018 and 2017 was \$26,691 and \$20,769, respectively.

The following table summarizes changes in non-vested stock options during the twelve months ended June 30, 2018:

	Weighted Number of Shares Subject to Option	Average Grant Date Fair Value (per Option)
Non-Vested at July 1, 2017	42,900	\$ 4.59
Granted	54,715	2.92
Vested	(3,000)	3.87
Forfeited or expired	(7,010)	3.64
Non-Vested at June 30, 2018	87,605	\$ 3.65

Note 12. Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, short-term investments and accounts receivable. The Company maintains cash and cash equivalents with various financial institutions. At times such investments may be in excess of FDIC insurance limits. As disclosed in Note 8, a significant portion of the Company's business is the production of military and industrial electronic equipment for use by the U.S. and foreign governments and certain industrial customers. The related accounts receivable balance, as a percentage of the Company's total trade accounts receivable balance, was 61% represented by one customer at June 30, 2018 and 41% represented by two customers at June 30, 2017.

Espey Mfg. & Electronics Corp.

Notes to Financial Statements

Note 12. Concentration of Credit Risk, *Continued*

Although the Company's exposure to credit risk associated with nonpayment of these concentrated balances is affected by the conditions or occurrences within the U.S. and foreign governments, the Company believes that its trade accounts receivable credit risk exposure is limited. The Company performs ongoing credit evaluations of its customer's financial conditions and requires collateral, such as progress payments, in certain circumstances. The Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends and other information.

Note 13. Related Parties

The administration of the shares of common stock held by the ESOP Trust is subject to the Amended and Restated Plan and a Trust Agreement, each effective as of July 1, 2016. The Trustees' rights with respect to the disposition of shares are governed by the terms of the Plan and the Trust Agreement. As to shares that have been allocated to the accounts of participants in the ESOP Trust, the Plan provides that the Trustees are required to vote such shares in accordance with instructions received from the participants. As to unallocated shares and allocated shares for which voting instructions have not been received from participants, the Plan provides that the Trustees are required to vote such shares in accordance with the direction of the Board of Directors of the Company under the terms of the Plan and Trust Agreement. See Note 10 for additional information regarding the ESOP.

Note 14. Commitments and Contingencies

The Company at certain times enters into standby letters of credit agreements with financial institutions primarily relating to the guarantee of future performance on certain contracts. Contingent liabilities on outstanding standby letters of credit agreements aggregated to zero at June 30, 2018 and 2017. The Company, as a U.S. Government contractor, is subject to audits, reviews, and investigations by the U.S. Government related to its negotiation and performance of government contracts and its accounting for such contracts. Failure to comply with applicable U.S. Government standards by a contractor may result in suspension from eligibility for award of any new government contract and a guilty plea or conviction may result in debarment from eligibility for awards. The government may, in certain cases, also terminate existing contracts, recover damages, and impose other sanctions and penalties. As a result of contract audits the Company will determine a range of possible outcomes and in accordance with ASC 450 "Contingencies" the Company will accrue amounts within a range that appears to be its best estimate of a possible outcome. Adjustments are made to accruals, if any, periodically based on current information.

We are party to various litigation matters and claims arising from time to time in the ordinary course of business. While the results of such matters cannot be predicted with certainty, we believe that the final outcome of such matters will not have a material adverse effect on our business, financial condition, results of operations or cash flows.

Note 15. Stockholders' Equity

Reservation of Shares

The Company has reserved common shares for future issuance as follows as of June 30, 2018:

Stock options outstanding	222,854
Stock options available for issuance	349,095
Number of common shares reserved	571,949

Espey Mfg. & Electronics Corp.

Notes to Financial Statements

Note 15. Stockholders' Equity, *Continued*

The following table sets forth the reconciliation of the numerators and denominators of the basic and diluted earnings per share computations for continuing operations for the years ended June 30:

	2018	2017
Numerator:		
Net income	\$3,075,797	\$1,135,736
Denominator:		
Basic EPS:		
Common shares outstanding, beginning of period	2,371,321	2,364,684
Unearned ESOP shares	(45,000)	(61,667)
Weighted average common shares issued during the period	4,685	4,465
Weighted average common shares purchased during the period	(3,075)	(879)
Weighted average ESOP shares earned during the period	5,954	6,267
Denominator for basic earnings per common shares – Weighted average common shares	2,333,885	2,312,870
Diluted EPS:		
Common shares outstanding, beginning of period	2,371,321	2,364,684
Unearned ESOP shares	(45,000)	(61,667)
Weighted average common shares issued during the period	4,685	4,465
Weighted average common shares purchased during the period	(3,075)	(879)
Weighted average ESOP shares earned during the period	5,954	6,267
Weighted average dilutive effect of stock options	14,422	11,968
Denominator for diluted earnings per common shares – Weighted average common shares	2,348,307	2,324,838

Not included in this computation of earnings per share for the year ended June 30, 2018 and 2017 were options to purchase 2,500 and 151,800 shares, respectively, of the Company's common stock. These options were excluded because their inclusion would have been anti-dilutive due to the average strike price exceeding the average market price of those shares.

The Company paid cash dividends on common stock of \$1.00 per share for the fiscal year ended June 30, 2018 and 2017. Subsequent to June 30, 2018, the Board of Directors has authorized the payment of a fiscal year 2019 first quarter regular dividend of \$0.25, and a special dividend of \$1.00, payable October 1, 2018 to shareholders of record on September 24, 2018. Our Board of Directors assesses the Company's dividend policy periodically. There is no assurance that the Board of Directors will either maintain the amount of the regular cash dividend or declare a special dividend during any future years.

Note 16. Line of Credit

At June 30, 2018, the Company has an uncommitted and unused Line of Credit with a financial institution. The agreement provides that the Company may borrow up to \$3,000,000. The line provides for interest payments equal to the LIBOR Daily Floating Rate plus 2.00%. Any borrowing under the line of credit will be collateralized by accounts receivable. The line will be reviewed annually in November for renewal on December 1st. All outstanding balances are payable no later than the expiration date of the agreement, unless other terms are agreed to by the lender.

Espey Mfg. & Electronics Corp.

Notes to Financial Statements

Note 17. Quarterly Financial Information (Unaudited)

	First	Second	Third	Fourth
	Quarter	Quarter	Quarter	Quarter
2018				
Net sales	\$7,496,423	\$11,531,105	\$5,663,161	\$7,827,194
Gross profit	1,461,154	3,075,598	1,255,204	1,870,296
Net income	442,764	1,614,871	317,764	700,398
Net income per share -				
Basic	0.19	0.69	0.14	0.30
Diluted	0.19	0.69	0.14	0.29
2017				
Net sales	\$6,068,684	\$5,667,624	\$5,324,104	\$5,460,600
Gross profit	1,343,748	1,080,145	1,128,505	1,162,170
Net income	420,825	244,079	279,173	191,659
Net income per share -				
Basic	0.18	0.11	0.12	0.08
Diluted	0.18	0.11	0.12	0.08

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure
None

Item 9A. Controls and Procedures
Evaluation of Controls and Procedures

(a) The Company's management, with the participation of the Company's chief executive officer and chief financial officer, carried out an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this Annual Report on Form 10-K. Based on such evaluation, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

(b) There have been no changes in our internal controls over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Management's Report on Internal Control over Financial Reporting

Management of our Company is responsible for establishing and maintaining adequate internal control over financial reporting, as that term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Our internal control over financial reporting is a process designed 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.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including the principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting using the criteria set forth in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Based on our evaluation using the criteria set forth in Internal Control-Integrated Framework, management has concluded that our internal control over financial reporting was effective as of June 30, 2018.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Our report was not subject to attestation by our registered public accounting firm pursuant to rules of the SEC that permit us to provide only management's report in this annual report.

Item 9B. Other information
None

PART III

The information called for by "Item 10. Directors, Executive Officers, and Corporate Governance", "Item 11. Executive Compensation", "Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters", "Item 13. Certain Relationships and Related Transactions, and Director Independence" and "Item 14. Principal Accountant Fees and Services", is hereby incorporated by reference to the Company's Proxy Statement for its Annual Meeting of Shareholders, (scheduled to be held on December 7, 2018) to be filed with the SEC pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended.

PART IV

Item 15. Exhibits, Financial Statement Schedules, Signatures

3.1 Certificate of incorporation and all amendments thereto (incorporated by reference to Exhibit 3.1 to Espey's Report on Form 10 -K for the year ended June 30, 2004 and Report on Form 10-Q for the quarter ended December 31, 2004)

3.2 Amended and Restated By-Laws (incorporated by reference to Exhibit 3.2 to Espey's Report on Form 8 -K dated February 26, 2009)

4.1 Second Amended and Restated Rights Agreement, dated December 18, 2009, between Espey Mfg. & Electronics Corp. and Registrar and Transfer Company (incorporated by reference to Exhibit 4.01 to Espey's Report on Form 8-K dated December 18, 2009)

4.2 Description of Capital Stock (incorporated by reference to Espey's Report on Form 8-K dated October 7, 2005)

10.3 2007 Stock Option and Restricted Stock Plan (incorporated by reference to Espey's Proxy Statement dated October 23, 2007 for the November 30, 2007 Annual Meeting)

10.4 2017 Stock Option and Restricted Stock Plan (incorporated by reference to Espey's Proxy Statement dated October 27, 2017 for the December 1, 2017 Annual Meeting)

10.5 Retired Director Compensation Program and Mandatory Retirement Agreement (amended effective June 2, 2017) (incorporated by reference to Espey's Report on Form 10-K dated September 14, 2017 for the year ended June 30, 2017)

10.6 Director Contingent Severance Compensation Agreement - Paul J. Corr dated March 2, 2018 (incorporated by reference to Espey's Report on Form 8-K dated March 2, 2018)

10.7 Director Contingent Severance Compensation Agreement – Carl Helmetag dated March 2, 2018 (incorporated by reference to Espey's Report on Form 8-K dated March 2, 2018)

10.8 Retired Director Compensation Program and Mandatory Retirement Agreement – Barry Pinsley (incorporated by reference to Exhibit 10.8 to Espey's Report on Form 10-Q dated May 12, 2011) and (incorporated by reference 10.5 to Espey's Report on Form 10-K dated September 14, 2017 for the year end June 30, 2017)

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- 10.9 Director Contingent Severance Compensation Agreement – Howard Pinsley dated March 2, 2018 (incorporated by reference to Epsey’s Report on Form 8-K dated March 2, 2018)
- 10.10 Director Contingent Severance Compensation Agreement – Alvin Sabo dated March 2, 2018 (incorporated by reference to Epsey’s Report on Form 8-K dated March 2, 2018)
- 10.11 Director Contingent Severance Compensation Agreement – Michael Wool dated March 2, 2018 (incorporated by reference to Epsey’s Report on Form 8-K dated March 2, 2018)
- 10.13 Executive Employment Agreement with David O’Neil (incorporated by reference to Exhibit 10.13 on Epsey’s Report on Form 8 –K dated March 4, 2013)
- 10.14 Executive Employment Agreement with Peggy Murphy (incorporated by reference to Exhibit 10.14 on Epsey’s Report on Form 8 –K dated March 4, 2013)
- 10.16 Employment Agreement dated January 16, 2018 with Patrick Enright, Jr. (incorporated by reference to Exhibit 10.16 on Epsey’s Report on Form 8-K dated January 16, 2018)
- 10.17 Settlement Agreement dated July 31, 2018, by and among Espey Mfg. & Electronics Corp., The Article 6 Marital Trust Under The First Amended and Restated Jerry Zucker Revocable Trust Dated April 2, 2007, and Paul J. Corr, Michael W. Wool, Barry Pinsley, Carl Helmetag, Howard Pinsley, and Alvin O. Sabo. (incorporated by reference to Exhibit on 10.16 on Epsey’s Report on Form 8-K dated July 31, 2018)

11.1 Statement re: Computation of Per Share Net income (filed herewith)

14.1 Code of ethics (incorporated by reference to Espey’s website www.espey.com)

23.1

Consent of Freed Maxick CPAs, P.C. (filed herewith)

- 31.1 Certification of the Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- 31.2 Certification of the Principal Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- 32.1 Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- 32.2 Certification of the Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)

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SIGNATURES

Pursuant to the requirements of Section 13 and 15 (d) 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.

ESPEY MFG. & ELECTRONICS CORP.

/s/Patrick Enright Jr.
Patrick Enright Jr.
President and Chief Executive Officer
September 12, 2018

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/Patrick Enright Jr. President and Chief Executive Officer
Patrick Enright Jr. September 12, 2018

/s/David O'Neil Principal Financial Officer and Executive Vice President
David O'Neil September 12, 2018

/s/Katrina Sparano Assistant Treasurer
Katrina Sparano September 12, 2018

/s/Howard Pinsley Chairman of the Board
Howard Pinsley September 12, 2018

/s/Barry Pinsley Director
Barry Pinsley September 12, 2018

/s/Michael W. Wool Director

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Michael W. Wool September 12, 2018

/s/Paul J. Corr Director
Paul J. Corr September 12, 2018

/s/Carl Helmetag Director
Carl Helmetag September 12, 2018

/s/Roger Sexauer Director
Roger Sexauer September 12, 2018

/s/ Alvin Sabo Director
Alvin Sabo September 12, 2018