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ESPEY MFG & ELECTRONICS CORP

Form 10-Q

February 14, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended December 31, 2004

Commission File Number I-4383

ESPEY MFG. & ELECTRONICS CORP.

-----  
(Exact name of registrant as specified in charter)

NEW YORK

14-1387171

-----  
(State of Incorporation)

-----  
(I.R.S. Employer's Identification No.)

233 Ballston Avenue, Saratoga Springs, New York

12866

-----  
(Address of principal executive offices)

-----  
(Zip Code)

Registrant's telephone number, including area code

518-584-4100  
-----

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at February 14, 2005
-----	-----
Common stock, \$.33-1/3 par value	1,011,404 shares

ESPEY MFG. & ELECTRONICS CORP.  
Quarterly Report on Form 10-Q  
I N D E X

PART I FINANCIAL INFORMATION

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Balance Sheets (Unaudited) -

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## PART I: FINANCIAL INFORMATION

### ESPEY MFG. & ELECTRONICS CORP.

#### Balance Sheets (Unaudited)

December 31, 2004 and June 30, 2004

-----  
A S S E T S

#### ASSETS:

	2004 December 31, -----
Cash and cash equivalents	\$12,217,928
Short term investments	1,824,000
Trade accounts receivable, net	2,309,842
Other receivables	8,541
Inventories:	
Raw materials and supplies	1,689,332
Work-in-process	3,637,742
Costs relating to contracts in process, net of advance	

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payments of \$88,830 at December 31, 2004 and \$905,646 at June 30, 2004	4,681,032
	-----
Total inventories	10,008,106
	-----
Deferred income taxes	76,876
Prepaid expenses and other current assets	236,951
	-----
Total current assets	26,682,244
	-----
Property, plant and equipment, net	3,049,062
	-----
Total assets	\$29,731,306
	=====

See accompanying notes to the financial statements.

(Continued)

ESPEY MFG. & ELECTRONICS CORP.

Balance Sheets (Unaudited), Continued

December 31, 2004 and June 30, 2004

-----  
LIABILITIES AND STOCKHOLDERS' EQUITY

	2004 December 31, -----
LIABILITIES AND STOCKHOLDERS' EQUITY:	
Accounts payable	\$ 1,015,005
Accrued expenses:	
Salaries, wages and commissions	83,534
Employee insurance costs	8,510
Vacation	401,563
Other	55,370
Payroll and other taxes withheld and accrued	45,514
Income taxes payable	84,656
	-----
Total current liabilities	1,694,152
	-----
Deferred income taxes	345,778
	-----
Total liabilities	2,039,930
	-----
Common stock, par value \$.33-1/3 per share. Authorized 10,000,000 shares; issued 1,514,937 shares on December 31, 2004 and June 30, 2004 Outstanding 1,011,404 and 1,014,618 on December	

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31, 2004 and June 30, 2004, respectively	504,979
Capital in excess of par value	10,408,095
Retained earnings	24,836,205
	-----
	35,749,279
Less: Cost of 503,533 shares on December 31, 2004 and 500,319 on June 30, 2004 of common stock in treasury	(8,057,903)
	-----
Total stockholders' equity	27,691,376
	-----
Total liabilities and stockholders' equity	\$ 29,731,306
	=====

See accompanying notes to the financial statements.

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ESPEY MFG. & ELECTRONICS CORP.

Statements of Income (Unaudited)

Three and Six Months Ended December 31, 2004 and 2003

	Three Months		Si
	2004	2003	2004
	-----	-----	-----
Net sales	\$4,896,741	\$5,871,675	\$9,627,068
Cost of sales	4,124,354	5,143,799	8,205,539
	-----	-----	-----
Gross profit	772,387	727,876	1,421,529
Selling, general and administrative expenses	580,538	684,594	1,181,217
	-----	-----	-----
Operating income	191,849	43,282	240,312
	-----	-----	-----
Other income (expense)			
Interest and dividend income	43,618	21,865	78,488
Other	3,150	21,574	6,366
	-----	-----	-----
	46,768	43,439	84,854
	-----	-----	-----
Income before income taxes	238,617	86,721	325,166
Provision for income taxes	71,585	25,291	97,550
	-----	-----	-----

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Net income	\$ 167,032	\$ 61,430	\$ 227,616
	=====	=====	=====
Net income per share:			
Basic	\$ .17	\$ .06	\$ .22
Diluted	\$ .16	\$ .06	\$ .22
	-----	-----	-----
Weighted average number of shares outstanding:			
Basic	1,011,378	1,013,077	1,012,269
Diluted	1,024,535	1,023,660	1,022,926
	=====	=====	=====

See accompanying notes to the financial statements.

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ESPEY MFG. & ELECTRONICS CORP.  
 Statements of Cash Flows (Unaudited)  
 Six Months Ended December 31, 2004 and 2003

	Dec 2004
	-----
Cash Flows From Operating Activities:	
Net income	\$ 227,616
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	282,170
Deferred income tax	21,462
Changes in assets and liabilities:	
Increase in receivables	(176,177)
Decrease in inventories	77,191
Decrease in prepaid expenses and other current assets	122,442
Increase (Decrease) in accounts payable	764,330
Increase in accrued salaries, wages and commissions	39,015
Increase in accrued employee insurance costs	1,023
Decrease in vacation accrual	(49,953)
Increase in other accrued expenses	5,000
Increase in payroll & other taxes withheld and accrued	19,514
Decrease in income taxes payable	(49,815)
Increase in ESOP payable	--
	-----
Net cash provided by operating activities	1,283,818
	-----
Cash Flows From Investing Activities:	
Additions to property, plant & equipment	(230,716)
Purchase of short term investments	(1,440,000)
Maturity of short term investments	672,000
	-----

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Net cash used in investing activities	(998,716)
-----	
Cash Flows From Financing Activities:	
Dividends on common stock	(303,331)
Purchase of treasury stock	(90,315)
Proceeds from exercise of stock options	15,500
-----	
Net cash used in financing activities	(378,146)
-----	
Decrease in cash and cash equivalents	(93,044)
Cash and cash equivalents, beginning of period	12,310,972
-----	
Cash and cash equivalents, end of period	12,217,928
-----	
Income Taxes Paid	\$ 125,902
=====	

See accompanying notes to the financial statements.

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ESPEY MFG. & ELECTRONICS CORP.

Notes to Financial Statements (Unaudited)

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Note 1. Basis of Presentation

In the opinion of management the accompanying unaudited financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary for a fair presentation of the results for such periods. The results for any interim period are not necessarily indicative of the results to be expected for the full fiscal year. Certain information and footnote disclosures normally included in financial statements prepared in accordance with United States generally accepted accounting principles have been condensed or omitted. These financial statements should be read in conjunction with the Company's most recent audited financial statements included in its 2004 Form 10-K.

Note 2. Net Income per Share

Basic net income per share excludes dilution and is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted net income per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the income of the Company.

Note 3. Employee Stock Ownership Plan

In fiscal 1989 the Company established an Employee Stock Ownership Plan (ESOP) for eligible non-union employees. The ESOP used the proceeds of a loan from the Company to purchase 316,224 shares of the Company's common stock for approximately \$8.4 million and the Company contributed approximately \$400,000 to the ESOP which was used by the ESOP to purchase an additional 15,000 shares of the Company's common stock. Effective June 30, 2004, the ESOP loan was paid in full and all shares in the ESOP are allocated to participant's accounts. Therefore, in fiscal 2005 no contributions to the ESOP have been made. As of December 31, 2004, there were 235,245 shares allocated to participants.

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### Note 4. Stock Based Compensation

The Company has elected to account for its stock-based compensation plans under the intrinsic value-based method of accounting as permitted by SFAS No. 123 and as prescribed by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations including FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation - An Interpretation of APB No. 25," in accounting for its fixed stock option plans. Under this method, compensation expense would be recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price.

The following table illustrates the effect on net income and net income per share if the Company had applied the fair value recognition provisions of SFAS No. 123, to stock-based employee compensation.

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	3 Months Ended December 31,		6 Months Ended December 31,	
	2004	2003	2004	2003
	-----	-----	-----	-----
Net income as reported	\$ 167,032	\$ 61,430	\$ 227,616	\$ 342,395
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(9,997)	(9,227)	(18,374)	(18,454)
	-----	-----	-----	-----
Pro forma net income	\$ 157,035	\$ 52,203	\$ 209,242	\$ 323,941
	=====	=====	=====	=====
Net Income per share:				
Basic-as reported	\$ .17	\$ .06	\$ .22	\$ .34
	=====	=====	=====	=====
Basic-pro forma	\$ .16	\$ .05	\$ .21	\$ .32
	=====	=====	=====	=====
Diluted-as reported	\$ .16	\$ .06	\$ .22	\$ .34
	=====	=====	=====	=====
Diluted-pro forma	\$ .15	\$ .05	\$ .20	\$ .32
	=====	=====	=====	=====

### Note 5. Commitments and Contingencies

The Company has entered 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 \$39,300 at December 31, 2004. The Company does not expect to fund any of the amounts under the standby letters of credit.

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### Note 6. Recently Issued Accounting Standards

In November 2004, the FASB issued SFAS No. 151, "Accounting for Unexpected Production Defects and Waste." SFAS No. 151 requires that "abnormal freight, handling costs, and amounts of wasted materials (spoilage)" should be treated as current-period costs. Under this concept, if the costs associated with the actual level of spoilage or production defects are greater than the costs associated with the range of normal spoilage or defects, the difference should be charged to current-period expense. SFAS No. 151 is effective for annual periods beginning after June 15, 2005. In December 2004, the FASB issued SFAS No. 123R, "Share Based Payment." SFAS No. 123R requires companies to recognize in the income statement the grant-date fair value of stock options and other equity-based compensation issued to employees. SFAS No. 123R is effective for annual periods beginning after June 15, 2005. The adoption of SFAS No. 151 and SFAS No. 123R are not expected to have a material impact on the Company's results of operations and financial condition.

In December 2004, the FASB issued Staff Position FAS 109-1 regarding Income from Domestic Production Activities which was effective immediately. Staff Position FAS 109-1 clarifies SFAS No. 109's guidance that applies to the new deduction for qualified domestic production activities. The staff position clarifies that the deduction should be accounted for as a special deduction under SFAS No. 109. The adoption of Staff Position FAS 109-1 did not have a material impact on the Company's results of operations or financial condition.

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### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

#### Overview

Espey Mfg. & Electronics Corp. (the "Company") located in Saratoga Springs, New York, is engaged principally in the development, design, production and sale of specialized electronic power supplies, a wide variety of transformers and other types of iron-core components, and electronic system components. In some cases, the Company manufactures such products in accordance with pre-developed mechanical and electrical requirements ("build to print"). In other cases, the Company is responsible for both the overall design and manufacture of the product. The Company does not generally manufacture standardized components. The products manufactured by the Company find application principally in (i) shipboard and land based radar, (ii) locomotives, (iii) aircraft, (iv) short and medium range communication systems, (v) navigation systems, and (vi) land based military vehicles.

Business is solicited from large industrial manufacturers and defense companies, the government of the United States and foreign governments and major foreign electronic equipment companies. In certain countries the Company has external sales representatives to help solicit and coordinate foreign contracts. The Company is also on the eligible list of contractors of the United States Department of Defense and generally is automatically solicited by such agencies for procurement needs falling within the major classes of products produced by the Company. In addition, the Company directly solicits bids from the United States Department of Defense for prime contracts.

There is competition in all classes of products manufactured by the Company from divisions of the largest electronic companies, as well as many small companies. The Company's sales do not represent a significant share of the industry's market for any class of its products. The principal methods of competition for electronic products of both a military and industrial nature include, among



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other factors, price, product performance, the experience of the particular company and history of its dealings in such products. The Company, as well as other companies engaged in supplying equipment for military use, is subject to various risks, including, without limitation, dependence on United States and foreign government appropriations and program allocations, the competition for available military business, and government termination of orders for convenience.

### Business Outlook

Management is optimistic about the future of the Company. In the first half of fiscal 2005, the Company received approximately \$8.3 million in new orders. These orders include both follow-on production quantities for mature products, and engineering development orders which will enable the Company to utilize its engineering expertise in developing new customer specific products. Some of these products, once developed, will be produced in the Company's manufacturing facility and are expected to provide large production order quantities over several years. These orders are in line with the Company's strategy of getting involved in long-term high quantity military and industrial products.

Management expects to receive several more orders in fiscal 2005. These orders will increase the Company's backlog which is approximately \$14.7 million at February 14, 2005. Many potential orders are currently being discussed and negotiated with our customers. Some of these potential orders management expected to receive in the first half of fiscal 2005. The delay in placing these orders may be due to several factors including the war in Iraq. In addition to the backlog, the Company currently has outstanding quotations representing in excess of \$47 million in the aggregate for both repeat and new programs. Based on management's communications with customers, the Company expects to receive substantial orders for spare parts on the various types of transmitters already in service, contracts for the further development and manufacture of power supplies and transformers, as well as additional contracts for pre-engineered hardware. We expect these contracts to increase sales substantially in years after fiscal year 2005. The outstanding quotations encompass various new and previously manufactured power supplies, transformers, and subassemblies. However, there can be no assurance that the Company will acquire any or all of the anticipated orders described above, many of which are subject to allocations of the United States defense spending and factors affecting the defense industry and military procurement generally.

Management, along with the Board of Directors, continues to evaluate the need and use of the Company's working capital. Expectations are that the working capital will be required to fund the expected increase in orders over the next several quarters, dividend payments, and general operations of the business. Also, the Mergers and Acquisitions Committee of the Board continues to evaluate potential strategic alternatives on a periodic basis.

As stated in the Company's 10-K filed for the year ended June 30, 2004, the Company anticipates a decrease in sales for fiscal 2005. During fiscal 2004, while net sales increased, new orders received by the Company did not keep pace with backlog relieved. Thus, while the sales backlog of approximately \$15.4 million at June 30, 2004 gave the Company a solid base of future sales, the Company continues to anticipate a reduction of sales during fiscal 2005.

### Critical Accounting Policies and Estimates

We believe our most critical accounting policies include revenue recognition and estimates to completion.

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### Revenue recognition and estimation

A significant portion of our business is comprised of development and production contracts. Generally, revenues on long-term fixed-price contracts are recorded on a percentage of completion basis using units of delivery as the measurement basis for progress toward completion.

Percentage of completion accounting requires judgment relative to expected sales, estimating costs and making assumptions related to technical issues and delivery schedule. Contract costs include material, subcontract costs, labor and an allocation of overhead costs. 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.

### Results of Operations

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

Net sales for the three months ended December 31, 2004 were \$4,896,741 as compared to \$5,871,675 for the same period in 2003, representing a 16.6% decrease. Net sales for the six months ended December 31, 2004 were \$9,627,068 as compared to \$10,966,992 for the same period in 2003, representing a 12.2% decrease. The Company's decrease in sales for the three month and six month period ended December 31, 2004 is due primarily to a decrease in radar transmitter component shipments offset partially by an increase in power supply shipments. Generally, the decrease also can be attributed to the overall decrease in the Company's backlog.

The backlog at December 31, 2004 was approximately \$14.1 million compared to approximately \$17.3 million at December 31, 2003. New orders for the three months ended December 31, 2004 were approximately \$3.5 million. New orders for the six-month period ended December 31, 2004 were approximately \$8.3 million. Management continues to market the engineering capabilities and products of the Company. Currently, approximately \$47 million in quotations are outstanding to various customers of the Company.

The primary factor in determining gross profit and net income is product mix. In any given accounting period, the mix of product shipments between higher margin mature programs and less mature programs and loss contracts, has a significant impact on gross profit and net income. The table below presents the statement of income line items as a percentage of net sales for period-to-period comparison purposes.

	3 Months Ended December 31, 2004	2003	6 Months 2004
	-----	-----	-----
Net sales	100.0%	100.0%	100.0%
Cost of sales	84.2%	87.6%	85.2%
	-----	-----	-----

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Gross profit	15.8%	12.4%	14.8%
Selling, general and administrative expenses	11.9%	11.7%	12.3%
	-----	-----	-----
Operating income	3.9%	0.7%	2.5%
Other income (expense)			
Interest and dividend income	0.9%	0.3%	0.8%
Other	0.1%	0.5%	0.1%
	-----	-----	-----
	1.0%	0.7%	0.9%
Income before income taxes	4.9%	1.5%	3.4%
Provision for income taxes	1.5%	0.4%	1.0%
	-----	-----	-----
Net income	3.4%	1.0%	2.4%
	=====	=====	=====

For the three months ended December 31, 2004, gross profit as a percentage of net sales was higher as compared to the three months ended December 31, 2003. The improved gross profit percentage relates to the continued investment by the Company in engineering contracts that result in charges to cost of sales for loss contracts, and lower ESOP contribution expense. The engineering contract charges were less for the three-month period ended December 31, 2004 as compared to the same period ended December 31, 2003. These contracts are expected to improve the operating results of the Company when the engineering phase of these contracts are completed and follow-on production orders are received. Gross profit for the three and six month

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periods ended was also positively impacted by a decrease in ESOP contribution expense, which was zero for the three month period ended December 31, 2004, and \$107,530 for the three month period ended December 31, 2003. Net income for the same period improved due to the increase in gross profit and reduced selling, general and administrative expenses. For the six months ended December 31, 2004 gross profit as a percentage of net sales remained the same at 14.8% as compared to the six months ended December 31, 2003. The ESOP contribution expense was zero for the six month period ended December 31, 2004 and \$215,060 for the six month period ended December 31, 2003. This decrease had a positive impact on gross profit which was offset by lower sales and unfavorable product mix. Net income decreased for the same period due to lower sales, partially offset by lower selling, general and administrative expenses.

The Company has encountered performance problems with one customer due to technical problems associated with a product. Several shipments of hardware have been made to this customer. The customer and the Company are working together to resolve the technical problems and to date the customer has not asserted any liability claims against the Company. Shipments made on this customer specific product were \$1,273,824 through December 31, 2004. Shipments to be made for this customer on orders currently included in the Company's backlog at December 31, 2004 are \$ 885,926. Management believes the technical issues can be resolved and has added to contract cost estimates to cover the anticipated work necessary to resolve the technical issues.

Management continues to evaluate the Company's workforce to ensure that

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production and overall execution of the backlog orders and additional anticipated orders are successfully performed. Employment at December 31, 2004 was 171 people compared to 190 people at December 31, 2003.

Selling, general and administrative expenses were \$580,538 for the three months ended December 31, 2004, a decrease of \$104,056 compared to the three months ended December 31, 2003. Selling, general and administrative expenses were \$1,181,217 for the six months ended December 31, 2004, a decrease of \$53,180 compared to the six months ended December 31, 2003. The decrease is primarily due to a decrease in administrative salaries and ESOP contribution expense.

Other income for the three months ended December 31, 2004 was \$46,768 as compared to \$43,439 for the three months ended December 31, 2003. Other income for the six months ended December 31, 2004 increased to \$84,854 as compared to \$68,043 for the six months ended December 31, 2003. The increase for both periods is due to higher returns on short-term investments and cash equivalents. The Company does not believe there is significant risk associated with its investment policy, since at December 31, 2004 all of the investments are primarily represented by short-term liquid investments including certificates of deposit and money market funds.

The Company estimates its income taxes using an estimated effective tax rate for the annual period. The effective income tax rate at December 31, 2004 and 2003 was 30.0% and 25.8%, respectively. The effective tax rate fluctuates between periods and is less than the statutory tax rate mainly due to the foreign exportation benefit the Company receives on its foreign sales.

### Liquidity and Capital Resources

As of December 31, 2004, the Company had working capital of \$25.0 million compared to \$24.4 million at December 31, 2003. The Company meets its short-term financing needs through cash flow from operations and when necessary, from its existing cash and cash equivalents.

The table below presents the summary of cash flow for the periods indicated:

	Six Months Ended December 31, 2004	2003
	-----	-----
Net cash provided by operating activities	\$ 1,283,818	\$ 194,337
Net cash used by investing activities	(998,716)	(174,924)
Net cash used in financing activities	(378,146)	(973,909)

Net cash provided by operating activities fluctuates between periods primarily as a result of differences in net income, the timing of the collection of accounts receivable, purchase of inventory, level of sales and payment of accounts payable. The change in net cash used by investing activities is due to the purchase of short-term certificates of deposit. The decrease in net cash used in financing activities is due mainly to decreased dividends. The first quarter of fiscal year ended June 30, 2004 included the payment of a special dividend in the amount of \$506,357 or \$.50 per share.

The Company currently believes that the cash flow generated from operations and when necessary, from cash and cash equivalents, will be sufficient to meet its long-term funding requirements. Management, if necessary, has at its disposal a \$3,000,000 line of credit to help fund further growth. For the first half of fiscal 2005 capital expenditures were \$230,716.

During the three-month period ended December 31, 2004, 600, and during the six-month period ended December 31, 2004, 800 stock options were exercised under the Company's existing stock option plan. No shares were repurchased during the three-month period ended December 31, 2004. During the six months ended December

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31, 2004, the Company repurchased 4,014 shares of its common stock for a total of \$90,315. As of December 31, 2004, under existing Board authorizations, approximately \$452,251 could be utilized to repurchase the Company's common stock.

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### CAUTIONARY STATEMENT FOR PURPOSES OF THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This report contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. The terms "believe," "anticipate," "intend," "goal," "expect," and similar expressions may identify forward-looking statements. These forward-looking statements represent the Company's current expectations or beliefs concerning future events. The matters covered by these statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those set forth in the forward-looking statements, including the Company's dependence on timely development, introduction and customer acceptance of new products, the impact of competition and price erosion, supply and manufacturing constraints, potential new orders from customers and other risks and uncertainties. The foregoing list should not be construed as exhaustive, and the Company disclaims any obligation subsequently to revise any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events. The Company wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made.

#### Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company is a small business as defined under Security and Exchange Commission rule 12b-2 and therefore files Form 10-Q utilizing the exemption available to small business issuers for Item 305 of Regulation S-K, quantitative and qualitative disclosures about market risk, and therefore does not provide the information for this item.

#### Item 4. 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 Quarterly Report on Form 10-Q. 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.

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### PART II: Other Information and Signatures

#### Item 1. Legal Proceedings

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None

Item 2. Unregistered Sales of Equity Securities and Securities Repurchased

- (a) Securities Sold - For the six-month period ended December 31, 2004, 800 stock options were exercised under the Company's existing stock option plan. The securities were sold for cash and were made without registration under the Securities Act in reliance upon the exemption from registration afforded under Section 4(2) of the Securities Act of 1933. Proceeds were used for general working capital purposes.

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

- (a) The Company's Annual Meeting of Shareholders (the "Annual Meeting") was held on November 12, 2004.
- (b) Seymour Saslow was re-elected as a Class B director to serve for a three-year term. Subsequent to the mailing of the Company's proxy statement for the Annual Meeting, William P. Greene, the other Class B director, passed away. Continuing as directors after the Annual Meeting were:

Class A (term expiring 2006): Howard Pinsley  
Alvin O. Sabo  
Carl Helmetag

Class C (term expiring 2005): Paul J. Corr  
Barry Pinsley  
Michael W. Wool

- (c) The following matters were voted upon at the annual meeting:

The election of one Class B director. The votes were cast as follows:

Nominee:	Voted For:	Voted Against or Withheld:	Broker
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Seymour Saslow	965,050	19,165	9

Approval of an Amendment to the Company's Certificate of Incorporation, to change the number of members of the Board of Directors from nine to a number not less than three, nor more than nine. The votes were cast as follows:

Shares IN FAVOR	975,014
Shares AGAINST	8,300
ABSTENTIONS	901
Broker NON-VOTES	9,542

Ratification of KPMG LLP, as independent auditors for the Corporation for the fiscal year ending June 30, 2005. The votes were cast as follows:

Shares IN FAVOR	982,419
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Shares AGAINST	1,066
ABSTENTIONS	730
Broker NON-VOTES	9,542

Item 5. Other Information

None

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Item 6. Exhibits

- 3.1 Certificate of Amendment of the Certificate of Incorporation (14th Amendment)
- 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
- 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
- 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
- 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

S I G N A T U R E S

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.

ESPEY MFG. & ELECTRONICS CORP.

/s/ Howard Pinsley

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Howard Pinsley, President and  
Chief Executive Officer

/s/ David O'Neil

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David O'Neil, Treasurer and  
Principal Financial Officer

February 14, 2005

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Date

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