ESPEY MFG & ELECTRONICS CORP
Form 10QSB
February 14, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-QSB

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

For the Quarterly Period Ended December 31, 2007

[ ] TRANSISTION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from __________ to __________

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)

Issuer's telephone number, including area code 518-584-4100

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act during the past 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 a shell company (as defined in Rule 12b-2 of the Exchange Act). YES [ ] NO [X]

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

Class	Outstanding at February 14, 2008
Common stock, $.33-1/3 par value	2,316,773 shares

Transitional Small Business Disclosure Format YES [ ] NO [X]

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

PART I: FINANCIAL INFORMATION

ESPEY MFG. & ELECTRONICS CORP.
Balance Sheet (Unaudited)
December 31, 2007

ASSETS:

Cash and cash equivalents	$ 8,563,481
Short term investments	6,847,000
Trade accounts receivable, net	4,357,655

Other receivables	4,165
Income taxes receivable	5,273
Inventories:	
Raw materials	1,665,173
Work-in-process	2,238,297
Costs relating to contracts in process, net of advance payments of $50,000 at December 31, 2007	6,222,892
Total inventories	10,126,362
Deferred income taxes	184,068
Prepaid expenses and other current assets	300,807
Total current assets	30,388,811
Property, plant and equipment, net	2,974,792
Loan receivable	80,000
Total assets	$ 33,443,603
LIABILITIES AND STOCKHOLDERS' EQUITY:	
Accounts payable	$ 850,176
Accrued expenses:	
Salaries, wages and commissions	130,732
Vacation	476,854
ESOP payable	175,966
Other	49,560
Payroll and other taxes withheld and accrued	37,636
Income taxes payable	--
Total current liabilities	1,720,924
Deferred income taxes	158,324
Total liabilities	1,879,248
Common stock, par value $.33-1/3 per share. Authorized 10,000,000 shares; issued 3,029,874 shares on December 31, 2007. Outstanding 2,312,773 (includes 237,084 Unearned ESOP Shares) on December 31, 2007	1,009,958
Capital in excess of par value	13,124,911
Retained earnings	27,720,425
Less: Unearned ESOP Shares	(3,600,459)
Cost of 717,101 Treasury shares on December 31, 2007	(6,690,480)
Total stockholders' equity	31,564,355
Total liabilities and stockholders' equity	$ 33,443,603

See accompanying notes to the financial statements.

ESPEY MFG. & ELECTRONICS CORP.
Statements of Income (Unaudited)
Three and Six Months Ended December 31, 2007 and 2006

	Three Months 2007	Three Months 2006	Six Months 2007	Six Months 20
Net sales	$ 6,732,144	$ 6,119,320	$13,033,930	$12,19
Cost of sales	5,049,559	4,861,099	10,002,235	9,53
Gross profit	1,682,585	1,258,221	3,031,695	2,65
Selling, general and administrative expenses	701,819	712,743	1,369,372	1,43
Operating income	980,766	545,478	1,662,323	1,21
Other income (expense)				
Interest and dividend income	203,324	149,878	399,445	29
Other	29,077	30,725	48,562	3
	232,401	180,603	448,007	32
Income before income taxes	1,213,167	726,081	2,110,330	1,54
Provision for income taxes	416,081	246,170	721,661	52
Net income	$ 797,086	$ 479,911	$ 1,388,669	$ 1,02
Net income per share:				
Basic	$ .38	$ .23	$ .67	$
Diluted	$ .37	$ .23	$ .65	$
Weighted average number of shares outstanding:				
Basic	2,074,789	2,047,803	2,070,334	2,04
Diluted	2,109,650	2,071,693	2,125,632	2,06
Dividends per share:	$ .1750	$ .1300	$ .3500	$

See accompanying notes to the financial statements.

ESPEY MFG. & ELECTRONICS CORP.
Statements of Cash Flows (Unaudited)
Six Months Ended December 31, 2007 and 2006

	December 31 2007
Cash Flows From Operating Activities:	
Net income	$ 1,388,669
Adjustments to reconcile net income to net cash provided by operating activities:	
Excess tax benefits from share-based compensation	83,471
Stock-based compensation	83,331
Depreciation	246,473
ESOP compensation expense	263,174
Loss on disposal of assets	5,681
Deferred income tax	(26,979)
Changes in assets and liabilities:	
(Increase) decrease in trade receivables, net	(1,337,174)
(Increase) decrease in other receivables	(717)
Increase in income taxes receivable	(5,273)
Decrease (increase) in inventories	1,022,965
Decrease (increase) in prepaid expenses and other current assets	247,405
(Decrease) increase in accounts payable	(130,775)
(Decrease) increase in accrued salaries, wages and commissions	(31,470)
Decrease in vacation accrual	(105,627)
Increase in other accrued expenses	3,512
Decrease in payroll & other taxes withheld and accrued	(4,417)
Decrease in income taxes payable	(283,414)
Decrease in ESOP payable	(87,208)
Net cash provided by operating activities	1,331,627
Cash Flows From Investing Activities:	
Additions to property, plant & equipment	(292,436)
Payment for issuance of loan receivable	(80,000)
Purchase of short term investments	(4,543,000)
Maturity of short term investments	2,016,000
Net cash used in investing activities	(2,899,436)
Cash Flows From Financing Activities:	
Dividends on common stock	(722,569)
Purchase of treasury stock	(571,763)
Proceeds from exercise of stock options	246,040
Excess tax benefits from share-based compensation	83,471
Net cash used in financing activities	(964,821)
(Decrease) increase in cash and cash equivalents	(2,532,630)
Cash and cash equivalents, beginning of period	11,096,111
Cash and cash equivalents, end of period	8,563,481

Supplemental disclosures of cash flow information:		
Income Taxes Paid	$ 880,000	$
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See accompanying notes to the financial statements.

ESPEY MFG. & ELECTRONICS CORP.
Notes to Financial Statements (Unaudited)

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 report on Form 10-KSB for the year ended June 30, 2007.

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. As Unearned ESOP shares are released or committed-to-be-released the shares become outstanding for earnings-per-share computations.

Note 3. Stock Based Compensation

Effective July 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (Revised 2004),"Share-Based Payment" ("SFAS No. 123 (R)"), which amends SFAS No. 123 and supersedes Accounting Principles Board Opinion ("APB") No. 25 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 maybe settled by the issuance of those equity instruments. SFAS No. 123(R) 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. SFAS No.123(R) 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. As allowed under SFAS No. 123(R), the Company elected the modified prospective method of adoption, under which compensation cost is recognized in the financial statements beginning with the effective date of SFAS No. 123(R) for all share-based payments granted after that date, and for all unvested awards granted prior to the effective date of SFAS No. 123(R). Accordingly, prior period amounts have not been restated.

Total stock-based compensation expense recognized in the Statement of Income for the three months ended December 31, 2007 and 2006, was $32,491 and $36,831, respectively, before income taxes. The related total deferred tax benefit was approximately $2,487 and $2,923, for the three months ended December 31, 2007 and 2006, respectively. Total stock-based compensation expense recognized in the Statement of Income for the six months ended December 31, 2007 and 2006, was $83,331 and $76,020, respectively, before income taxes. The related total deferred tax benefit was approximately $6,504 and $5,992, for the six months ended December 31, 2007 and 2006, respectively. Prior to the adoption of SFAS No. 123(R), the Company presented all tax benefits for deductions resulting from the exercise of stock options as operating cash flows in the Statements of Cash Flows. SFAS No. 123(R) requires the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options to be classified and reported as both an operating cash outflow and a financing cash inflow on a prospective basis upon adoption.

As of December 31, 2007, there was approximately $87,692 of unrecognized compensation cost related to stock option awards that is expected to be recognized as expense over a period of 1.25 years.

The Company has one employee stock option plan under which options may be granted, the 2007 Stock Option and Restricted Stock Plan (the "2007 Plan"). The Board of Directors may grant options to acquire shares of common stock to employees of the Company at the fair market value of the common stock on the date of grant. Generally, options granted have a two-year vesting period based on two years of continuous service and have a ten-year

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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. The 2007 Plan was approved by the Company's shareholders at the Company's Annual Meeting on November 30, 2007 and supercedes the Company's 2000 Stock Option Plan (the "2000 Plan"). Options covering 400,000 shares are authorized for issuance under the 2007 Plan, of which zero have been granted as of December 31, 2007. While no further grants of options may be made under the 2000 Plan, as of December 31, 2007, 115,600 options were outstanding of which 48,200 are vested and exercisable.

SFAS No. 123(R) 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 stock-based employee compensation for the three and six months ended December 31, 2007:

	Three Months Ended December 31, 2007	Six Months Ended December 31, 2007
Dividend yield	2.59%	2.40%
Expected stock price volatility	20.50%	22.29%
Risk-free interest rate	4.80%	4.54%
Expected option life (in years)	5	5
Weighted average fair value per share of options granted during the period	$3.95	$4.04

The Company pays dividends quarterly and does plan to pay dividends in the foreseeable future. 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 the safe harbor calculation under SFAS No. 123.

The following table summarizes stock option activity during the six months ended December 31, 2007:

	Employee Stock Options Plan		
	Number of Shares Subject To Option	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Balance at July 1, 2007	138,800	$15.77	7.63
Granted	--	--	--
Exercised	(21,600)	$11.39	--
Forfeited or expired	(1,600)	$18.05	--
Balance at December 31, 2007	115,600	$16.55	7.97
Exercisable at December 31, 2007	48,200	$14.47	6.86

The intrinsic value of stock options exercised was $35,521, during the six months ended December 31, 2007. The intrinsic value of stock options outstanding and exercisable as of December 31, 2007 and 2006 was $207,917 and $436,975, respectively.

Note 4. 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 December 31, 2007. As a government contractor, the Company is continually subject to audit by various agencies of the U.S. Government to determine compliance with various procurement laws and regulations. As a result of such audits and as part of normal business operations of the Company, various claims and charges can be asserted against the Company. It is not possible to predict the outcome of such actions. Currently the Company has no claims or assertions against it.

Note 5. Recently Issued Accounting Standards

In July 2006, the FASB issued Interpretation No. ("FIN") 48, Accounting for Uncertainty in Income Taxes-An Interpretation of FASB Statement No. 109, which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In particular, this interpretation requires uncertain tax positions to be recognized only if they are "more-likely-than-not" to be upheld based on their technical merits. Additionally, the measurement of the tax position will be based on the largest amount that is determined to have greater than a 50% likelihood of realization upon ultimate settlement. Any resulting cumulative effect of applying the provisions of FIN 48 upon adoption would be reported as an adjustment to the beginning balance of retained earnings in the period of adoption. FIN 48 was effective beginning July 1, 2007. The adoption of FIN 48 did not have a material effect on the Company's financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standard ("SFAS") No. 157, Fair Value Measurements. SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements, but does not require any new fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those years. The Company is currently evaluating the effect of the guidance contained in SFAS 157 and does not expect the implementation to have a material effect on the Company's financial statements.

Note 6. 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 Statement of Position 93-6. 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 $128,927 for the quarter ended December 31, 2007 and $263,174 for the six-month period ending December 31, 2007. The ESOP shares as of December 31, 2007 were as follows:

Allocated Shares	425,576
Committed-to-be-released shares	12,083
Unreleased shares	237,084
Total shares held by the ESOP	674,743
Fair value of unreleased shares at December 31, 2007	$4,452,438

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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 and does not have a product line. 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 agency 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 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.

In the first half of fiscal 2008, the Company received approximately $8.2 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. The Company has received a preliminary agreement to commence performance on a contract for military power supplies expected to be in the approximate amount of $6 million. A definitive agreement is expected by April 30, 2008. Excluding the above preliminary contract, the Company's backlog is $34.5 million at February 12, 2008.

The sales backlog of approximately $31.4 million at December 31, 2007 gives the Company a solid base of future sales and, therefore, management expects sales for fiscal 2008 to equal or exceed sales for fiscal 2007. In addition to the backlog, the Company currently has outstanding quotations and expected business representing approximately $38.0 million in the aggregate for both repeat and new programs.

Sales to two significant customers in the first half of fiscal 2008 represented 57.7%, while sales to three significant customers in the first half of fiscal 2007 represented 69.0%, respectively, of the Company's total sales. While the Company has always had a small number of customers that account for a large percentage of its total sales in any given year, management is pursuing business opportunities involving significant product programs with new and current customers with an overall objective of lowering the concentration of sales and minimizing the impact of a significant customer or excessive reliance upon a single major product program of a particular customer. The current backlog at December 31, 2007 of $31.4 million includes $21.9 million from the two most significant customers in the first half of fiscal 2008.

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.

The total backlog for the Company of $31.4 million at December 31, 2007, down $2.3 million from December 31, 2006, represents the estimated remaining sales value of work to be performed under firm contracts. These contracts include significant orders for military and industrial power supplies, and contracts to manufacture certain customer products in accordance with pre-engineered requirements.

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 any 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 of Directors continues to evaluate potential strategic options on a periodic basis.

Critical Accounting Policies and Estimates

Management believes our most critical accounting policies include revenue recognition and estimates to completion.

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

Net sales for the three months ended December 31, 2007 were $6,732,144 as compared to $6,119,320 for the same period in 2006, representing a 10.0% increase. Net sales for the six months ended December 31, 2007 were $13,033,930 as compared to $12,191,226 for the same period in 2006, representing a 6.9% increase. Generally, these increases can be attributed to the contract specific nature of the Company's business. The Company continues to deliver product on its single largest order for power supplies and the increase in sales for the six months is largely attributable to an increase in shipments on this order. New orders received in the first six months of fiscal 2008 were approximately $8.2 million, the same as the amount of new orders received in the first six months of fiscal 2007. The sales order backlog has been over $30 million for eleven consecutive fiscal quarters and expectations are this trend will continue.

The primary factor in determining gross profit and net income is product mix. The gross profits on mature products and build to print contracts are higher as compared to products which are still in the engineering development stage or in the early stages of production. In any given accounting period the mix of product shipments between higher margin mature programs and less mature programs including loss contracts, has a significant impact on gross profit and net income.

For the three months ended December 31, 2007 and 2006 gross profits were $1,682,585 and $1,258,221, respectively. Gross profit as a percentage of sales was 25.0% and 20.6%, for the three months ended December 31, 2007 and 2006, respectively. For the six months ended December 31, 2007 and 2006 gross profits were $3,031,695 and $2,655,529, respectively. Gross profit as a percentage of sales was 23.3% and 21.8%, for the six months ended December 31, 2007 and 2006, respectively. The improved gross profit and gross profit percentage in the three and six months ended December 31, 2007, was the result of increased net sales and a favorable mature product mix on those shipments. Management continues to evaluate the Company's workforce to ensure that production and overall execution of the backlog orders and additional anticipated orders are successfully obtained and executed. Employment of full time equivalents at December 31, 2007 was 175 compared to 174 people at December 31, 2006.

Selling, general and administrative expenses were $701,819 for the three months ended December 31, 2007, a decrease of $10,924 compared to the three months ended December 31, 2006. Selling, general and administrative

expenses were $1,369,372 for the six months ended December 31, 2007, a decrease of $70,351 compared to the six months ended December 31, 2006. The decrease is primarily due to lower selling costs due to reduced headcount.

Other income for three and six months ended December 31, 2007 increased as compared to the three months ended December 31, 2006 due to increased interest income on the Company's cash and cash equivalents and short-term investments due to higher balances in each category. The Company does not believe that there is a significant risk associated with its investment policy, since at December 31, 2007 all of the investments are primarily represented by short-term liquid investments including certificates of deposit and money market funds.

The effective income tax rate at December 31, 2007 and 2006 was 34.3% and 33.9%, respectively. The effective tax rate is less than the statutory tax rate mainly due to the foreign exportation benefit the Company receives on its international sales, the Qualified Production Activities benefit, and the benefit derived from the ESOP dividends paid on allocated shares.

Net income for the three months ended December 31, 2007, was $797,086 or $.38 and $.37 per share, basic and diluted, compared to $479,911 or $.23 per share, both basic and diluted, for the three months ended December 31, 2006. Net income for the six months ended December 31, 2007, was $1,388,669 or $.67 and $.65 per share, basic and diluted, compared to $1,022,961 or $.50 and $.49 per share, basic and diluted, for the six months ended December 31, 2006. The increase in net income per share was due to higher gross profit as a percentage of sales, a decrease in selling, general and administrative expenses, and increased interest income.

Liquidity and Capital Resources

The Company's working capital is an appropriate indicator of the liquidity of its business, and during the past three fiscal years, the Company, when possible, has funded all of its operations with cash flows resulting from operating activities and when necessary from its existing cash and investments. The Company did not borrow any funds during the last three fiscal years.

Management had available a $3,000,000 line of credit to help fund further growth or working capital needs, but did not anticipate the need for any borrowed funds in the foreseeable future and therefore did not renew the line of credit which expired November 30, 2007.

The Company's working capital as of December 31, 2007 was approximately $28.7 million. During the three months ended December 31, 2007 and 2006 the Company repurchased 8,977 and 4,307 shares, respectively, of its common stock from the Company's Employee Retirement Plan and Trust ("ESOP"), for a total purchase price of $200,905 and $79,077, respectively. During the six months ended December 31, 2007 and 2006 the Company repurchased 25,720 and 6,073 shares, respectively, of its common stock for a total purchase price of $571,763 and $110,202, respectively. Under existing authorizations from the Company's Board of Directors, as of December 31, 2007, management is authorized to purchase an additional $1,428,237 million of Company stock.

	Six Months Ended December 31, 2007	2006
Net cash provided by operating activities	$ 1,331,627	$ 1,973,689
Net cash used in investing activities	(2,899,436)	(488,871)
Net cash used in financing activities	(964,821)	(439,740)

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. Net cash used in investing activities increased in the first half of fiscal 2008 due to the increase in purchases of short-term investments. The increase in cash used in financing activities is due primarily to the increase in purchases of treasury stock and the increase in dividends paid.

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 for the foreseeable future.

During the six months ended December 31, 2007 and 2006, the Company expended $292,436 and $200,871, respectively, for plant improvements and new equipment. The Company has budgeted approximately $400,000 for new equipment and plant improvements in fiscal 2008, and expects to spend the remaining amount in the second half of the year. Management presently anticipates that the funds required will be available from current operations.

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 December 31, 2007.

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. 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-QSB. 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

None

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

(a) None

(c) Securities Repurchased

Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Program	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plan or Program (1)
December 1 to December 31, 2007	8,977	$22.38	8,977	$1,428,237

(1) Pursuant to a prior Board of Directors authorization, as of December 31, 2007 the Company can repurchase up to $1,428,237 of

its common stock pursuant to an ongoing plan.

Item 3 Defaults on Senior Securities

None

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 30, 2007.

(b) Barry Pinsley and Seymour Saslow were re-elected as Class B directors each to serve for a three-year term. Continuing as directors after the Annual Meeting were:

Class A (term expiring 2009):	Howard Pinsley Alvin Sabo Carl Helmetag
Class B (term expiring 2010):	Barry Pinsley Seymour Saslow
Class C (term expiring 2008):	Paul J. Corr Michael W. Wool

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

The election of two Class B directors. The votes were cast as follows:

Nominee:	Voted For:	Voted Against or Withheld:	Broker Non-Votes:
Barry Pinsley	2,050,942	14,221	0
Seymour Saslow	1,782,564	282,599	0

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Ratification of Rotenberg & Company LLP, as independent auditors for the Corporation for the fiscal year ending June 30, 2008. The votes were cast as follows:

Shares in favor	2,036,566
Shares against	8,033
Abstentions	20,565
Broker non-votes	0

Approval of the adoption of the Espey Mfg. & Electronics Corp. 2007 Stock Option and Restricted Stock Plan. The votes were cast as follows:

Shares in favor	1,135,721
Shares against	550,665
Abstentions	14,212
Broker non-votes	0

Item 5. Other Information

None

Item 6. Exhibits

(a) Exhibits

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

Howard Pinsley, President and
Chief Executive Officer

/s/ David O'Neil

David O'Neil, Treasurer and
Principal Financial Officer

February 14, 2008

Date