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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10 – K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the fiscal year ended June 30, 2012

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from __________ to __________

Commission file number 1-4383

ESPEY MFG. & ELECTRONICS CORP.
(Exact name of registrant as specified in its charter)

NEW YORK	14-1387171
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

233 Ballston Avenue, Saratoga Springs, NY 12866
(Address of principal executive offices including Zip Code)

(Registrant's telephone number including area code) (518)245-4400

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock $.33-1/3 par value	NYSE MKT
Common Stock Purchase Rights	NYSE MKT

Securities registered pursuant to Section 12 (g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
☐ Yes ☒ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
☐ Yes ☒ No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company:
☐ Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒ Smaller reporting company

Indicate by check mark whether the registrant is a shell company.
☐ Yes ☒ No

The aggregate market value of the voting stock held by non-affiliates of the registrant was $36,266,980 million based upon the closing sale price of $23.31 on the NYSE MKT on December 30, 2011.

At September 13, 2012, there were 2,324,422 shares outstanding of the registrant's Common stock, $.33-1/3 par value.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement relating to the 2012 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission, are incorporated by reference in Part III, Items 10 through 14 on Form 10-K as indicated herein.

Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements that are based on management's expectations, estimates, projections and assumptions. Words such as "expects," "anticipates," "plans," "believes," "scheduled," "estimates" and variations of these words and similar expressions are intended to identify forward-looking statements. Forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, as amended. These statements are not guarantees of future performance and involve certain risks and uncertainties that are difficult to predict. Therefore, actual future results and trends may differ materially from what is forecast in forward-looking statements due to a variety of factors, including, without limitation:

- Changing priorities or decreases in the U.S. government's defense budget (including changes in priorities in response to terrorist threats, improvement of homeland security and the overall financial health of the U.S. Government);
- Termination of government contracts due to unilateral government action;
- Differences in anticipated and actual program performance, including the ability to perform under long-term fixed-price contracts within estimated costs, and performance issues with key suppliers and subcontractors;
- Potential of changing prices for energy and raw materials.

All forward-looking statements speak only as of the date of this report or, in the case of any document incorporated by reference, the date of that document. All subsequent written and oral forward-looking statements attributable to the Company or any person acting on the Company's behalf are qualified by the cautionary statements in this section. The Company does not undertake any obligation to update or publicly release any revisions to forward-looking statements to reflect events, circumstances or changes in expectations after the date of this report.

PART I

Item 1. Business

General

Espey Mfg. & Electronics Corp. ("Espey") is a power electronics design and original equipment manufacturing (OEM) company with a long history of developing and delivering highly reliable products for use in military and severe environment applications. All design, manufacturing, and testing is performed in our 150,000+ square foot facility located at 233 Ballston Ave, Saratoga Springs, New York. Espey is classified as a "smaller reporting company" for purposes of the reporting requirements under the Securities Exchange Act of 1934, as amended. Espey's common stock is publicly-traded on the NYSE MKT under the symbol "ESP."

Espey began operations after incorporation in New York in 1928. We strive to remain competitive as a leader in high power energy conversion and transformer solutions through the design and manufacture of new and improved products by using advanced and "cutting edge" electronics technologies.

Espey is ISO 9001:2008 certified and our primary products are power supplies, power converters, filters, power transformers, magnetic components, power distribution equipment, ups systems, antennas and high power radar systems. The applications of these products include AC and DC locomotives, shipboard power, shipboard radar, airborne power, ground-based radar, and ground mobile power.

Espey services include design and development to specification, build to print, design services, design studies, environmental testing services, metal fabrication, painting services, and development of automatic testing equipment. Espey manufacturing is vertically integrated, meaning that the Company produces individual components (including inductors), populates printed circuit boards, fabricates metalwork, paints, wires, qualifies, and fully tests items, mechanically, electrically and environmentally, in house. Portions of the manufacturing process are subcontracted to vendors from time to time.

Espey is on the eligible list of contractors with the United States Department of Defense and generally is automatically solicited by Defense Department procurement agencies for their needs falling within the major classes of products produced by the Company. Espey contracts with the Federal Government under cage code 20950 as Espey Mfg. & Electronics Corp. and cage code 98675 as Espey Mfg. & Electronics Corp., Saratoga Industries Division.

In the fiscal years ended June 30, 2012 and 2011, the Company's total sales were $32,037,357and $29,499,504, respectively. Sales to two customers accounted for 37% and 23% of total sales in 2012. Sales to two customers accounted for 31% and 31% of total sales in 2011. A loss of a significant customer could negatively impact the financial performance of the Company.

Export sales in 2012 and 2011 were approximately $5,085,000 and $4,769,000, respectively.

Sources of Raw Materials

The Company has never experienced any significant delay or shortage with respect to the purchase of raw materials and components used in the manufacture of its products, and has at least two potential sources of supply for a majority of its raw materials. However, certain components used in our products are available from only a limited number of sources, and other components are only available from a single source. Despite the risk associated with limited or single source suppliers, the benefits of higher quality goods and timely delivery minimize and often limit any potential risk and can eliminate problems with part failures during production.

Sales Backlog

At September 13, 2012, the Company's backlog was approximately $46.6 million. The total backlog at June 30, 2012 was approximately $50.8 million compared to approximately $38.7 million at June 30, 2011. The Company's total backlog represents the estimated remaining sales value of work to be performed under firm contracts. The funded portion of this backlog at June 30, 2012 is approximately $48.6 million. This includes items that have been authorized and appropriated by Congress and/or funded by the customer. The unfunded backlog is approximately $2.3 million and represents firm multi-year orders for which funding has not yet been appropriated by Congress or funded by our customer. While there is no guarantee that future budgets and appropriations will provide funding for a given program, management has included in unfunded backlog only those programs that it believes are likely to receive funding based on discussions with customers and program status. The unfunded backlog at June 30, 2011 was zero. The Company's backlog and risks associated with government contracts is discussed in greater detail in Management's Discussion and Analysis of Financial Condition and Results of Operations, contained in Item 7 below.

It is presently anticipated that a minimum of $30 million of orders comprising the June 30, 2012 backlog will be filled during the fiscal year ending June 30, 2013. The minimum of $30 million does not include any shipments, which may be made against orders subsequently received during the fiscal year ending June 30, 2013. The estimate of the June 30, 2012 backlog to be shipped in fiscal 2013 is subject to future events, which may cause the amount of the backlog actually shipped to differ from such estimate.

Marketing and Competition

The Company markets its products primarily through its own direct sales organization. Business is solicited from large industrial manufacturers and defense companies, the government of the United States, 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 agencies 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 pursues opportunities from the United States Department of Defense as a prime contractor.

The Company's sales do not represent a significant portion of market share for any class of its products. We experience competition for all classes of our products ranging from divisions of multi-national electronics manufacturers to single facility businesses similar to the Company. The principal competitive factors for both military and industrial products are price, product performance, and the experience of a particular firm in dealing with a particular product or class of product.

The concentration of our business in equipment for military applications exposes us to on-going associated risks including, without limitation, dependence on appropriations from the United States Government and the governments of foreign nations, program allocations, and the potential of governmental termination of orders for convenience.

Our business is not seasonal. In addition, we believe that general recessionary economic conditions do not adversely affect defense industry business and therefore have not impacted our business. Conversely, however, the political climate in the United States of the past several years, associated with general economic conditions, and the resulting budgetary legislation including, most notably, the Budget Control Act of 2011 which may mandate automatic defense-related spending cuts have, in our view, contributed to a more complex competitive environment than we have experienced previously.

Notwithstanding anticipated cutbacks in spending military as a result of both general budgetary conditions and the reduction of the United States military presence in both Iraq and Afghanistan, we believe that there are factors which may mitigate the impact on the Company such as the following:

- Budget cuts will most likely come from expensive platforms and personnel (especially in overseas deployments) which are not core components of our business strategy. Furthermore, cuts to big budget "marquis" programs tend to favor the legacy programs and upgrades to legacy programs, which are Espey's focus.
- In those situations where an upgrade of a legacy system is regarded as more cost-effective than development of a new system, our experience is that functionality and therefore the electrical power requirement is generally increased, resulting in more demand for Espey's products.
- It is unlikely that the U.S. will cede its leadership role in military affairs worldwide when political stability or sea lanes are at risk, and this fact is likely to mitigate any action leading to more than marginal cuts to defense spending.
- We expect to maintain 20% - 25% of our sales to non-defense applications, which is a hedge against defense spending cuts.

However, our experience in the course of the last fiscal year is that as the prospects of defense spending cuts have increased and the general economic conditions have not improved, new incidents of competition have arisen. Based upon discussions with our major customers, we believe that many of our competitors are investing in and paying for design costs and lowering margins in order to maintain business and take away market share from other manufacturers. This change in the market place has put pressure on our management to review the pricing on our current legacy program products to enable us to retain such repeat business, and will likely result in lower margins on some of our legacy business and the necessity to incur larger upfront investments in order to be competitive in the development of new products.

Research and Development

The Company's expenditures for research and development were approximately $139,576 and $50,103 in fiscal 2012 and 2011, respectively. Some of the Company's engineers and technicians spend varying degrees of time on either development of new products or improvements of existing products. A majority of these expenditures relate to research that is required by Espey engineers to support a request for a quotation from a customer having a product-specific custom need usually associated with stringent size and weight requirements.

Employees

The Company had 162 employees as of September 13, 2012. Approximately 40% of these employees are represented by the International Brotherhood of Electrical Workers Local #1799. A new collective bargaining agreement was approved in July 2012. The three-year agreement expires on June 30, 2015. Relations with the Union are considered good.

Government Regulations

Compliance with federal, state and local laws regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, did not in fiscal year 2012, and the Company believes will not in fiscal year 2013, have a material effect upon the capital expenditures, net income, or competitive position of the Company.

The Company’s U.S. Government contract and subcontract orders are funded by government budgets, which operate on an October-to-September fiscal year. Normally, in February of each year, the President of the United States presents to Congress a proposed budget for the upcoming fiscal year. This budget includes recommended appropriations for every Federal agency and is the result of months of policy and program reviews throughout the executive branch. From February through September of each year, the appropriations and authorization committees of Congress review the President’s budget proposals and establish the funding levels for the upcoming fiscal year in appropriations and authorization legislation. Once these levels are enacted into law, the Executive Office of the President administers the funds to the agencies.

There are two primary risks associated with this process. First, the process may be delayed or disrupted because of congressional schedules, negotiations over funding levels for programs or unforeseen world events, which could, in turn, alter the funding for a program or contract. Second, funding for multi-year contracts can be changed by future appropriations, which could affect the timing of funds, schedules and program content.

Also, our international sales are denominated in United States currency. Consequently, changes in exchange rates that strengthen the United States dollar could increase the price in local currencies of our products in foreign markets and make our products relatively more expensive than competitors’ products.

U.S. Government Defense Contracts and Subcontracts

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.

Item 2. Property

The Company's entire operation, including administrative, manufacturing and engineering facilities, is located in Saratoga Springs, New York.

The Saratoga Springs plant, which the Company owns, consists of various adjoining one-story buildings on a 22 acre site, approximately eight acres of which is unimproved. The property is not subject to mortgage indebtedness or any other material encumbrance. The plant has a sprinkler system throughout and contains approximately 151,000 square feet of floor space, of which 90,000 is used for manufacturing, 24,000 for engineering, 33,000 for shipping and climatically secured storage, and 4,000 for offices. The offices, engineering and some manufacturing areas are air-conditioned. In addition to assembly and wiring operations, the plant includes facilities for varnishing, potting, impregnation and spray-painting operations. The manufacturing operation also includes a complete machine shop, with welding and sheet metal fabrication facilities adequate for substantially all of the Company's current operations. Besides normal test equipment, the Company maintains a sophisticated on-site environmental test facility. In addition to meeting all of the Company's in-house needs, the machine shop and environmental facilities are available to other companies on a contract basis.

Item 3. Legal Proceedings

None

Item 4. Mine Safety Disclosures

Not applicable

PART II

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities

Price Range of Common Stock

The table below shows the range of high and low prices for the Company's common stock on the NYSE MKT (symbol "ESP"), the principal market for trading in the common stock, for each quarterly period for the last two fiscal years ended June 30:

2012	High	Low
First Quarter	$ 27.00	$ 19.40
Second Quarter	25.54	19.80
Third Quarter	25.55	22.00
Fourth Quarter	27.10	24.42
2011		
First Quarter	22.50	18.13
Second Quarter	25.83	21.00
Third Quarter	25.87	19.50
Fourth Quarter	29.20	23.22

Holders

The approximate number of holders of record of the common stock was 97 on September 13, 2012 according to records of the Company's transfer agent. Included in this number are shares held in "nominee" or "street" name and, therefore, the number of beneficial owners of the common stock is believed to be substantially in excess of the foregoing number.

Dividends

The Company paid cash dividends on common stock of $1.90 per share for the fiscal years ended June 30, 2012 and 2011, which included a special dividend of $1.00 per share during each such fiscal year. The Board of Directors has authorized the payment of a fiscal 2013 first quarter dividend of $.225 payable September 10, 2012 to shareholders of record on September 28, 2012. Our Board of Directors assesses the Company’s dividend policy periodically and we anticipate that regular quarterly dividends will be paid for the foreseeable future. There is no assurance, however, that the Board of Directors will either increase the amount of the regular cash dividend or declare a special dividend during the fiscal year ending June 30, 2013 or any future years.

During fiscal 2012, the Company sold common stock to certain employees and directors as they exercised existing stock options granted under a shareholder approved plan. During the year, 3,800 shares were sold at prices that ranged from $17.09 a share to $17.36 a share. The securities were sold for cash. Proceeds are used for general working capital purposes.

The Company did not make any open market purchases of equity securities in the fiscal 2012 fourth quarter.

The following table sets forth information as of June 30, 2012 with respect to compensation plans under which equity securities of the Company may be issued.

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of Securities remaining available for future issuance under equity compensation plan (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	187,050	$ 20.69	252,150
Equity compensation plans not approved by security holders	—		—
Total	187,050		252,150

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Business Outlook

Management expects revenues in fiscal 2013 to increase over fiscal year 2012. Expectations are for product mix and margins to remain favorable for fiscal year 2013. During fiscal 2012 new orders received by the Company were approximately $44.4 million. The order backlog of approximately $50.8 million at June 30, 2012 gives the Company a solid base of future sales. It is presently anticipated that a minimum of $30 million of orders comprising the June 30, 2012 backlog will be filled during the fiscal year ending June 30, 2013. The minimum of $30 million does not include any shipments, which may be made against orders subsequently received during the fiscal year ending June 30, 2013. See discussions below for further detail on the customer mix included in the backlog.

In addition to the backlog, the Company currently has outstanding quotations representing in excess of $32 million in the aggregate for both repeat and new programs. 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.

Two significant customers represented 60% and 62% of the Company's total sales in fiscal 2012 and 2011, respectively. These sales are in connection with multiyear programs in which the Company is a significant subcontractor. The June 30, 2012 backlog of $50.8 million includes orders from two customers that represent 52% and 10% of the total backlog. A loss of one of these customers or programs related to these customers could significantly impact the Company. Historically, a small number of customers have accounted for a large percentage of the Company’s total sales in any given fiscal year. For several years, management has pursued opportunities with current and new customers with an overall objective of lowering the concentration of sales, mitigating excessive reliance upon a single major product of a particular program and minimizing the impact of the loss of a single significant customer. Management continues to evaluate its business development functions and potential revised courses of action in order to diversify its customer base. The Company currently has a very high concentration level with two customers and this presents significant risk.

Management, along with the Board of Directors, continues to evaluate the need and use of the Company’s working capital. Capital expenditures are expected to be approximately $200,000 for fiscal 2013. Expectations are that the working capital will be required to fund orders, dividend payments, and general operations of the business. From time to time, management along with the Mergers and Acquisitions Committee of the Board of Directors examine opportunities involving acquisitions or other strategic options, including buying certain products or product lines. The criteria for consideration are synergies with the Company’s existing product base and accretion to earnings.

Results of Operations

Net Sales for fiscal years ended June 30, 2012 and 2011, were $32,037,357 and $29,499,504, respectively, an 8.6% increase. This increase can be attributed to the contract specific nature of the Company's business and the timing of deliveries on these contracts. More specifically, shipments of power supplies increased by approximately $1.4 million while transformers increased by approximately $1.9 million.

For the fiscal years ended June 30, 2012 and 2011 gross profits were $8,820,163 and $8,206,199, respectively. Gross profit as a percentage of sales remained consistent at 27.5% and 27.8%, for fiscal 2012 and 2011, respectively. 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 that 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. The increased gross profit in fiscal 2012 as compared to fiscal 2011 was primarily the result of increased sales volume.

Employment of full time equivalents at June 30, 2012 and June 30, 2011 was 165 people.

Selling, general and administrative expenses were $2,828,409 for the fiscal year ended June 30, 2012, a decrease of $77,507, or 2.7% as compared to the prior year. The decrease for fiscal 2012 relates primarily to a decrease in salary expense as well as relocation and transportation cost decreases.

Other income for the fiscal years ended June 30, 2012 and 2011 was $89,702 and $81,259, respectively. The increase is attributable higher sales of left over scrap metal.

The effective income tax rate was 27.8% in fiscal 2012 and 28.3% in fiscal 2011. The effective tax rate is less than the statutory tax rate mainly due to the benefit the Company receives on its "qualified production activities" under The American Jobs Creation Act of 2004 and the benefit derived from the dividends paid on allocated ESOP shares.

Net income for fiscal 2012, was $4,390,268 or $2.02 and $1.99 per share, basic and diluted, respectively, compared to net income of $3,857,537 or $1.79 and $1.77 per share, basic and diluted, respectively, for fiscal 2011. The increase in net income per share was primarily due to higher sales, higher gross profit on sales, and lower selling, general and administrative expenses.

Liquidity and Capital Resources

The Company's working capital is an appropriate indicator of the liquidity of its business, and during the past two 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 two fiscal years.

The Company's working capital as of June 30, 2012 and 2011 was $27,199,385 and $26,124,431, respectively. During the three months ended June 30, 2012 and 2011 the Company did not repurchase any shares of its common stock. During the fiscal year ended June 30, 2012 and 2011 the Company repurchased 6,269 and 23,342 shares, respectively, of its common stock for a total purchase price of $143,731 and $575,246, respectively. All shares were purchased from the Company's ESOP. Under existing authorizations from the Company's Board of Directors, as of June 30, 2012, management is authorized to purchase an additional $1,856,268 million of Company stock.

The table below presents the summary of cash flow information for the fiscal year indicated:

	2012	2011
Net cash provided by operating activities	$ 7,386,326	$ 4,913,449
Net cash (used in) provided by investing activities	(1,463,276)	4,515,760
Net cash used in financing activities	(4,095,437)	(4,208,464)

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 payments of accounts payable. Net cash provided by investing activities decreased in fiscal 2012 due to an increase in purchases of investment securities and a decrease in proceeds from maturity of investment securities. The decrease in cash used in financing activities is due primarily to an increase in the purchase of treasury stock.

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.

Management believes that the Company's reserve for bad debts of $3,000 is adequate given the customers with whom the Company does business. Historically, bad debt expense has been minimal.

During fiscal year 2012 and fiscal 2011, the Company expended $267,983 and $607,311, respectively, for plant improvements and new equipment. The Company has budgeted approximately $200,000 for new equipment and plant improvements in fiscal 2013. Management anticipates that the funds required will be available from current operations.

Critical Accounting Policies and Estimates

Our significant accounting policies are described in note 2 to the financial statements. We believe our most critical accounting policies include revenue recognition and cost estimation on our contracts.

Revenue Recognition and Estimates

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 schedules. 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.

Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Espey Mfg. & Electronics Corp.
Saratoga Springs, New York

We have audited the accompanying balance sheets of Espey Mfg. & Electronics Corp. as of June 30, 2012 and 2011, and the related statements of income, stockholders' equity, and cash flows for each of the years in the two-year period ended June 30, 2012. In connection with our audits of the financial statements, we have also audited the financial statement schedule listed in the accompanying index. Espey Mfg. & Electronics Corp.'s management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Espey Mfg. & Electronics Corp. as of June 30, 2012 and 2011, and the results of its operations and its cash flows for each of the years in the two-year period ended June 30, 2012 in conformity with accounting principles generally accepted in the United States of America.

/s/EFP Rotenberg, LLP
Rochester, New York
September 13, 2012

Espey Mfg. & Electronics Corp.
Balance Sheets
June 30, 2012 and 2011

	2012	2011
ASSETS		
Cash and cash equivalents	$11,523,424	$ 9,695,811
Investment securities	3,184,711	1,946,214
Trade accounts receivable, net	3,217,875	6,266,765
Inventories:		
Raw materials	1,364,019	1,273,582
Work-in-process	801,092	1,085,278
Costs related to contracts in process, net of progress payments of $511,502 in 2012 and $126,361 in 2011	9,480,595	8,220,200
Total inventories	11,645,706	10,579,060
Deferred tax asset	422,998	360,553
Prepaid expenses and other current assets	200,322	208,904
Total current assets	30,195,036	29,057,307
Property, plant and equipment, net	2,523,196	2,703,014
Loan receivable	67,371	108,303
Total assets	$32,785,603	$31,868,624
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	$ 1,309,037	$ 1,453,707
Accrued expenses:		
Salaries, wages and commissions	417,677	412,555
Vacation	707,760	623,757
Other	442,695	121,026
Payroll and other taxes withheld and accrued	44,886	44,085
Income taxes payable	73,596	277,746
Total current liabilities	2,995,651	2,932,876
Deferred tax liability	222,504	270,729
Total liabilities	3,218,155	3,203,605
Common stock, par value $.33-1/3 per share Authorized 10,000,000 shares; Issued 3,029,874 shares in 2012 and 2011. Outstanding 2,320,822 and 2,320,960 in 2012 and 2011, respectively (includes 136,666 and 157, 500 Unearned ESOP Shares)	1,009,958	1,009,958
Capital in excess of par value	15,093,512	14,674,189
Accumulated other comprehensive income	1,477	—
Retained earnings	23,053,762	22,780,026
	39,158,709	38,464,173
Less: Unearned ESOP shares	(1,974,829)	(2,275,872)
Cost of 709,052 and 708,914 shares of common stock in treasury in 2012 and 2011, respectively	(7,616,432)	(7,523,282)
Total stockholders' equity	29,567,448	28,665,019
Total liabilities and stockholders' equity	$32,785,603	$31,868,624

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

Espey Mfg. & Electronics Corp.
Statements of Income
Years ended June 30, 2012 and 2011

	2012	2011
Net sales	$32,037,357	$29,499,504
Cost of sales	23,217,194	21,293,305
Gross profit	8,820,163	8,206,199
Selling, general and administrative expenses	2,828,409	2,905,916
Operating income	5,991,754	5,300,283
Other income		
Interest and dividend income	49,354	56,154
Other	40,348	25,105
Total other income	89,702	81,259
Income before income taxes	6,081,456	5,381,542
Provision for income taxes	1,691,188	1,524,005
Net income	$ 4,390,268	$ 3,857,537
Net income per share:		
Basic	$ 2.02	$ 1.79
Diluted	$ 1.99	$ 1.77
Weighted average number of shares outstanding:		
Basic	2,172,589	2,151,443
Diluted	2,203,060	2,176,299

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, 2012 and 2011

	Outstanding Common Shares	Amount	Capital in Excess of Par Value	Accumulated Other Comprehensive Income	Retained Earnings
Balance as of June 30, 2010	2,319,876	$ 1,009,958	$14,172,284	$ —	$23,002,981
Net income, 2011					3,857,537
Stock options exercised	23,800		227,904		
Stock option expense			66,237		
Dividends paid on common stock $1.90 per share					(4,080,492)
Tax effect of stock options exercised			10,939		
Sale of treasury stock to ESOP	626		6,917		
Purchase of treasury stock	(23,342)				
Reduction of unearned ESOP shares			189,908		
Balance as of June 30, 2011	2,320,960	$ 1,009,958	$14,674,189	$ —	$22,780,026
Comprehensive income:					
Net income, 2012					4,390,268
Other comprehensive income, net of tax of $795				1,477	
Total comprehensive income					
Stock options exercised	3,800		33,700		
Stock option expense			98,723		
Dividends paid on common stock $1.90 per share					(4,116,532)
Tax effect of stock options exercised			40,801		
Sale of treasury stock to ESOP	2,331		39,744		
Purchase of treasury stock	(6,269)				
Reduction of unearned ESOP shares			206,355		
Balance as of June 30, 2012	2,320,822	$ 1,009,958	$15,093,512	$ 1,477	$23,053,762

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

(Continued)

Espey Mfg. & Electronics Corp.
Statements of Changes in Stockholders' Equity
Years Ended June 30, 2012 and 2011

	Treasury Stock		Unearned ESOP	Total Stockholders
	Shares	Amount	Shares	Equity
Balance as of June 30, 2010	709,998	$ (7,149,550)	$ (2,588,954)	$ 28,446,719
Net income, 2011				3,857,537
Stock options exercised	(23,800)	196,350		424,254
Stock option expense				66,237
Dividends paid on common stock $1.90 per share				(4,080,492)
Tax effect of stock options exercised				10,939
Sale of treasury stock to ESOP	(626)	5,164		12,081
Purchase of treasury stock	23,342	(575,246)		(575,246)
Reduction of unearned ESOP shares			313,082	502,990
Balance as of June 30, 2011	708,914	$ (7,523,282)	$ (2,275,872)	$ 28,665,019
Comprehensive income:				
Net income, 2012				4,390,268
Other comprehensive income, net of tax of $795				1,477
Total comprehensive income				4,391,745
Stock options exercised	(3,800)	31,350		65,050
Stock option expense				98,723
Dividends paid on common stock $1.90 per share				(4,116,532)
Tax effect of stock options exercised				40,801
Sale of treasury stock to ESOP	(2,331)	19,231		58,975
Purchase of treasury stock	6,269	(143,731)		(143,731)
Reduction of unearned ESOP shares			301,043	507,398
Balance as of June 30, 2012	709,052	$ (7,616,432)	$ (1,974,829)	$ 29,567,448

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

Espey Mfg. & Electronics Corp.
Statements of Cash Flows
Years Ended June 30, 2012 and 2011

	2012	2011
Cash Flows from Operating Activities:		
Net income	$ 4,390,268	$ 3,857,537
Adjustments to reconcile net income to net cash provided by operating activities:		
Excess tax benefits from share-based compensation	(40,801)	(10,939)
Stock-based compensation	98,723	66,237
Depreciation	426,389	467,296
ESOP compensation expense	507,398	502,990
Loss on disposal of assets	21,412	99,471
Deferred income tax benefit	(111,465)	12,114
Changes in assets and liabilities:		
Decrease (increase) in trade receivables, net	3,048,890	(771,514)
(Increase) decrease in inventories, net	(1,066,646)	362,326
Decrease (increase) in prepaid expenses and other current assets	8,582	(23,072)
Decrease in accounts payable	(144,670)	(153,440)
Increase in accrued salaries, wages and commissions	5,122	209,120
Increase (decrease) in other accrued expenses	321,669	(56,060)
Increase in vacation accrual	84,003	79,736
Increase (decrease) in payroll and other taxes withheld and accrued	801	(2,245)
(Decrease) increase in income taxes payable	(163,349)	273,892
Net cash provided by operating activities	$ 7,386,326	$ 4,913,449

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

(Continued)

Espey Mfg. & Electronics Corp.
Statements of Cash Flows
Years Ended June 30, 2012 and 2011

	2012	2011
Cash Flows from Investing Activities:		
Additions to property, plant and equipment	(267,983)	(607,311)
Proceeds on sale of assets	—	54,860
Payment for loan receivable	—	(125,000)
Proceeds from loan receivable	40,932	28,243
Purchase of investment securities	(4,523,363)	(3,091,032)
Proceeds from maturity of investment securities	3,287,138	8,256,000
Net cash (used in) provided by investing activities	(1,463,276)	4,515,760
Cash Flows from Financing Activities:		
Sale of treasury stock	58,975	12,081
Dividends on common stock	(4,116,532)	(4,080,492)
Purchase of treasury stock	(143,731)	(575,246)
Proceeds from exercise of stock options	65,050	424,254
Excess tax benefits from share-based compensation	40,801	10,939
Net cash used in financing activities	(4,095,437)	(4,208,464)
Increase in cash and cash equivalents	1,827,613	5,220,745
Cash and cash equivalents, beginning of the year	9,695,811	4,475,066
Cash and cash equivalents, end of the year	$11,523,424	$ 9,695,811
Supplemental Schedule of Cash Flow Information:		
Income taxes paid	$ 1,966,000	$ 1,238,000

The accompanying notes are an integral part of the 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.

Note 2. Summary of Significant Accounting Policies

Inventory Valuation, Cost Estimation and Revenue Recognition
Raw materials are valued at weighted average cost.

Inventoried work relating to contracts in process and work in process is valued at actual production cost, including factory overhead incurred to date. 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. The cost elements of contracts in process and work in process consist of production costs of goods and services currently in process and overhead. Provision for losses on contracts is made when the existence of such losses becomes probable and estimable. 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.

Revenue is recognized on contracts in the period in which the units are delivered and billed (units-of-delivery method). 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 schedules. 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.

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

Income Taxes
The Company follows the provisions of 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. In addition, ASC 740-10 requires that the tax benefit of tax-deductible dividends on unallocated ESOP shares be recorded as a direct addition to retained earnings rather than as a reduction of income tax expense.

Note 2. Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents

Cash and cash equivalents consist of cash in banks, certificates of deposit, 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 investments in accordance with ASC 320-10-25, "Accounting for Certain Investments in Debt and Equity Securities." Investment securities at June 30, 2012 and June 30, 2011 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.

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. An account is generally considered past due after thirty (30) days from the invoice date. Based on these factors, there was an allowance for doubtful accounts of $3,000 at June 30, 2012. 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" 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.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income for fiscal year ended June 30, 2012 consists of unrealized holding gains and losses on available-for-sale securities. Comprehensive income for the years ended June 30, 2011 is equal to net income.

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.

Reclassifications

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

Note 2. Summary of Significant Accounting Policies, Continued

Recently Issued Accounting Standards

In May 2011, the FASB issued Accounting Standards Update No. 2011-04, topic 820, "Fair Value Measurement," to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with United States GAAP and International Financial Reporting Standards. Some of the amendments clarify the Board's intent about the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. Specifically, the guidance requires additional disclosures for fair value measurements that are based on significant unobservable inputs. The updated guidance is to be applied prospectively and is effective for the Company's interim and annual periods beginning January 1, 2012. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

FASB Accounting Standards Update 2011-05, "Presentation of Comprehensive Income," was issued in June 2011 to be effective for fiscal years beginning after December 15, 2011. Comprehensive income includes certain items that are recognized as "other comprehensive income" ("OCI") and are excluded from net income. Examples include unrealized gains/losses on certain investments and gains/losses on derivative instruments designated as hedges. Under provisions of the update, the components of OCI must be presented in one of two formats: either (i) together with net income in a continuous statement of comprehensive income or (ii) in a second statement of comprehensive income to immediately follow the income statement. An existing option to present the components of OCI as part of the statement of changes in shareholders' equity is being eliminated. The Company expects the update to have minimal effect on its financial statements. The FASB recently issued Accounting Standards Update (ASU 2011-12) that defers the effective date of the requirement to present separate line items on the income statement for reclassification adjustments of items out of accumulated other comprehensive income into net income. The deferral is temporary until the Board reconsiders the operational concerns and needs of financial statement users. The Board has not yet established a timetable for its reconsideration.

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. 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.

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 in Fair Value

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."

Investment securities at June 30, 2012 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, 2012 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2012				
Certificates of deposit	$ 2,324,945	—	—	$ 2,324,945
Municipal bonds	857,494	$ 4,224	$ (1,952)	859,766
2012 Total investment securities	$ 3,182,439	$ 4,224	$ (1,952)	$ 3,184,711

The portfolio is diversified and highly liquid and primarily consists of investment grade fixed income instruments. At June 30, 2012, the Company did not have any investments in individual securities that have been in a continuous loss position to be temporary for more than 12 months. Due to the fact that the decline in market value is attributable to changes in interest rates and not credit quality, and because the severity and duration of the unrealized losses were not significant, the Company considered these unrealized losses to be temporary at June 30, 2012.

As of June 30, 2012, the contractual maturities of available-for-sale securities were as follows:

	Years to Maturity		
	Less than One Year	One to Five Years	Total
Available-for-sale	$2,468,500	$ 716,211	$3,184,711

Investment securities at June 30, 2011 consisted of certificates of deposit with maturities greater than three months to a year.

Note 4. Contracts in Process

Contracts in process at June 30, 2012 and 2011 are as follows:

	2012	2011
Gross contract value	$50,839,601	$38,655,707
Costs related to contracts in process, net of progress payments of $511,502 in fiscal 2012 and $126,361in fiscal 2011	9,480,595	8,220,200

Included in costs relating to contracts in process at June 30, 2012 and 2011 are costs of $2,925,245 and $779,568, 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 statement of income until the units under contract are shipped.

Note 5. Property, Plant and Equipment

A summary of the original cost of property, plant and equipment at June 30, 2012 and 2011 is as follows:

	2012	2011
Land	$ 45,000	$ 45,000
Building and improvements	4,189,908	4,104,132
Machinery and equipment	7,458,075	7,352,055
Furniture and fixtures	160,867	160,867
	11,853,850	11,662,054
Accumulated depreciation	(9,330,654)	(8,959,040)
Property, plant and equipment, net	$ 2,523,196	$ 2,703,014

Depreciation expense was $426,389 and $467,296, during the years ended June 30, 2012 and 2011, respectively.

Note 6. Pension Expense

Under terms of a negotiated union contract which expires on June 30, 2015, 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 $103,486 in fiscal 2012 and $102,281 in fiscal 2011. These contributions represent more than five percent of the total contributions. For the years beginning January 1, 2012 and 2011, the Plan is in the “green zone” which means it is in neither endangered nor critical status. The Plan has used extended amortization provisions.

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 $39,005 and $33,664, for fiscal years 2012 and 2011, respectively.

Note 7. Provision for Income Taxes

A summary of the components of the provision for income taxes for the years ended June 30, 2012 and 2011 is as follows:

	2012	2011
Current tax expense - federal	$1,785,633	$1,480,465
Current tax expense - state	17,020	31,425
Deferred tax expense	(111,465)	12,115
Provision for income taxes	$1,691,188	$1,524,005

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 27.8% and 28.3%, for 2012 and 2011 respectively, differed from the statutory U.S. federal income tax rate for the following reasons:

	2012	2011
U.S. federal statutory income tax rate	34.0%	34.0%
Increase (reduction) in rate resulting from:		
State franchise tax, net of federal income tax benefit	0.1	0.4
ESOP cost versus Fair Market Value	1.2	1.2
Dividend on allocated ESOP shares	(4.3)	(4.8)
Qualified production activities	(2.9)	(2.7)
Stock-based compensation	(0.2)	0.2

Other	(0.1)	—
Effective tax rate	27.8%	28.3%

Note 7. Provision for Income Taxes, Continued

For the years ended June 30, 2012 and 2011 deferred income tax benefit of $111,464 and deferred income tax expense of $12,115, respectively, result 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, 2012 and 2011 are presented as follows:

	2012	2011
Deferred tax assets:		
Accrued expenses	$ 333,592	$ 306,965
ESOP	121,314	116,981
Stock-based compensation	15,697	10,874
Inventory - effect on uniform capitalization	70,788	37,535
Other	3,715	5,180
Total deferred tax assets	545,106	477,535
Deferred tax liabilities:		
Unrealized gain on investment securities	795	—
Property, plant and equipment - principally due to differences in depreciation methods	343,817	387,709
Total deferred tax liabilities	344,612	387,709
Net deferred tax asset	$ 200,494	$ 89,826

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 ASC 740-10, Accounting for Uncertainty in Income Taxes – An Interpretation of ASC 740, the Company recognized no material adjustments to unrecognized tax benefits. As of June 30, 2012 and 2011, the Company has no unrecognized tax benefits.

The Company recognizes interest and penalties related to uncertain tax positions, if any, in general and administrative expense. As of June 30, 2012, the Company has not recorded any provision for accrued interest and penalties related to uncertain tax positions.

By statute, tax years ending June 30, 2012 and 2011 remain open to examination by the major taxing jurisdictions to which the Company is subject.

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 one domestic customer and one foreign customer (based in United Kingdom) accounted for 37% and 23%, respectively of total sales in fiscal 2012. Sales to one domestic customer and one foreign customer (based in United Kingdom) accounted for 31% and 31%, respectively, of total sales in fiscal 2011.

Export sales in fiscal 2012 and fiscal 2011 were approximately $5,085,000 and $4,769,000, 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 offer or 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 offer or, together with all affiliates and associates thereof, being the beneficial owner of 15% or more of the Company's common stock.

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 $507,398 for the year ended June 30, 2012 and $502,990 for the year ended June 30, 2011. The ESOP shares as of June 30, 2012 and 2011 were as follows:

	2012	2011
Allocated Shares	454,588	443,939
Unreleased shares	136,666	157,500
Total shares held by the ESOP	591,254	601,439
Fair value of unreleased shares	$3,609,349	$3,887,100

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 maybe 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 Statement of Income for the three-month period ended June 30, 2012 and 2011, was $30,224 and $11,863, respectively, before income taxes. The related total deferred tax benefit was approximately $3,194 and $1,013, for the same periods. Total stock-based compensation expense recognized in the Statement of Income for the fiscal years ended June 30, 2012 and 2011, was $98,723 and $66,237, respectively, before income taxes. The related total deferred tax benefit was approximately $10,230 and $5,602, for the same periods. ASC 718 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.

As of June 30, 2012, there was approximately $170,803 of unrecognized compensation cost related to stock option awards that is expected to be recognized as expense over the next two years. The total deferred tax benefit related to these awards is approximately $19,260.

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 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 supersedes 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 158,500 have been granted and 133,850 are outstanding as of June 30, 2012. While no further grants of options may be made under the 2000 Plan, as of June 30, 2012, 53,200 options remain outstanding, vested and exercisable from the 2000 Plan.

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 years ended June 30, 2012 and 2011, respectively:

	2012	2011
Dividend yield	3.58%	4.69%
Expected stock price volatility	31.37%	33.13%
Risk-free interest rate	0.56%	1.08%
Expected option life (in years)	3.7 yrs	4.1yrs
Weighted average fair value per share of options granted during the period	$ 4.323	$ 3.335

The Company pays dividends quarterly. Our Board of Directors assesses the Company's dividend policy periodically and we anticipate that regular quarterly dividends will be paid for the foreseeable future. There is no assurance, however, that the Board of Directors will either increase the amount of the regular cash dividend or declare a special dividend during the fiscal year ending June 30, 2013 or any future years. 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.

Note 11. Stock-based Compensation, Continued

The following table summarizes stock option activity during the twelve months ended June 30, 2012:

	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, 2011	132,400	$ 18.62	6.80	
Granted	58,700	$ 25.14	9.54	
Exercised	(3,800)	$ 17.12	—	
Forfeited or expired	(250)	$ 25.10	—	
Outstanding at June 30, 2012	187,050	$ 20.69	6.96	$1,070,759
Vested or expected to vest at June 30, 2012	174,768	$ 20.52	6.81	$1,029,384
Exercisable at June 30, 2012	98,000	$ 18.49	5.05	$ 775,931

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-MKT on June 30, 2012 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, 2012. 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 months ended June 30, 2012 and 2011 was $21,089 and $152,855, respectively.

Note 12. Financial Instruments/Concentration of Credit Risk

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, 2012 and 2011 because of the relatively short maturities of these instruments.

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 46% represented by two customers at June 30, 2012, and 56% by two customers at June 30, 2011.

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 Second Amended and Restated Plan, effective as of July 1, 2002, creating the Trust, and a Trust Agreement dated July 15, 2005. 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 a Committee, appointed by 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, 2012 and 2011. 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 a pending U.S. government audit the Company has determined a range of possible outcomes none of which the Company believes would have a materially adverse effect on the Company's financial position or results of operations. In accordance with ASC 450 "Contingencies" the Company has accrued the amount within the range that appears to be its best estimate of a possible outcome.

Note 15. Stockholders' Equity

Reservation of Shares
The Company has reserved common shares for future issuance as follows as of June 30, 2012:

Stock options outstanding	187,050
Stock options available for issuance	252,150
Number of common shares reserved	439,200

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

	2012	2011
Numerator:		
Net Income	$4,390,268	$3,857,537
Denominator:		
Basic EPS:		
Common shares outstanding, beginning of period	2,320,960	2,319,876
Unearned ESOP shares	(157,500)	(179,166)
Weighted average common shares issued during the period	4,149	9,550
Weighted average common shares purchased during the period	(2,861)	(6,964)
Weighted average ESOP shares earned during the period	7,841	8,147
Denominator for basic earnings per common shares – Weighted average common shares	2,172,589	2,151,443
Diluted EPS:		
Common shares outstanding, beginning of period	2,320,960	2,319,876
Unearned ESOP shares	(157,500)	(179,166)
Weighted average common shares issued during the period	4,149	9,550
Weighted average common shares purchased during the period	(2,861)	(6,964)
Weighted average ESOP shares earned during the period	7,841	8,147
Weighted average dilutive effect of issued or forfeited shares	30,471	24,856
Denominator for diluted earnings per common shares – Weighted average common shares	2,203,060	2,176,299

There were no anti-dilutive options for the years ended June 30, 2012 and 2011.

Note 16. Quarterly Financial Information (Unaudited)

2012	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net Sales	$7,993,927	$8,265,754	$7,661,946	$8,115,730
Gross profit	2,001,808	2,181,860	2,404,390	2,232,105
Net income	926,904	1,070,863	1,262,863	1,129,638
Net income per share -				
Basic	.43	.49	.58	.52
Diluted	.42	.49	.57	.51
2011				
Net Sales	$6,026,330	$6,581,342	$7,005,795	$9,886,037
Gross profit	1,650,532	1,624,799	2,047,156	2,883,712
Net income	753,539	649,747	1,012,031	1,442,220
Net income per share -				
Basic	.35	.30	.47	.67
Diluted	.35	.30	.46	.66

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. 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, 2012.

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 November 30, 2012) 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)

10.1 2000 Stock Option Plan (incorporated by reference to Espey's Definitive Proxy Statement dated December 6, 1999 for the January 4, 2000 Annual Meeting)

10.2 Executive Officer contract with Howard Pinsley (incorporated by reference to Exhibit 10.2 to Espey's Report on Form 8-K dated July 27, 2009)

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 Employment Agreement with David O'Neil (incorporated by reference to Exhibit 10.1 on Espey's Report on Form 8-K dated August 17, 2009)

10.5 Retired Director Compensation Program and Mandatory Retirement Agreement (incorporated by reference to Exhibit 10.5 to Espey's Report on Form 10-Q dated May 12, 2011)

10.6 Retired Director Compensation Program and Mandatory Retirement Agreement – Paul Corr (incorporated by reference to Exhibit 10.6 to Espey's Report on Form 10-Q dated May 12, 2011)

10.7 Retired Director Compensation Program and Mandatory Retirement Agreement – Carl Helmetag (incorporated by reference to Exhibit 10.7 to Espey's Report on Form 10-Q dated May 12, 2011)

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)

10.9 Retired Director Compensation Program and Mandatory Retirement Agreement – Howard Pinsley (incorporated by reference to Exhibit 10.9 to Espey's Report on Form 10-Q dated May 12, 2011)

10.10 Retired Director Compensation Program and Mandatory Retirement Agreement – Alvin Sabo (incorporated by reference to Exhibit 10.10 to Espey's Report on Form 10-Q dated May 12, 2011)

10.11 Retired Director Compensation Program and Mandatory Retirement Agreement – Michael Wool (incorporated by reference to Exhibit 10.11 to Espey's Report on Form 10-Q dated May 12, 2011)

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 EFP Rotenberg, LLP (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)

S I G N A T U R E S

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/Mark St. Pierre
Mark St. Pierre
President and Chief Executive Officer

/s/Mark St. Pierre Mark St. Pierre	President (Chief Executive Officer) September 13, 2012
/s/David O'Neil David O'Neil	Treasurer (Principal Financial Officer) September 13, 2012
/s/Katrina Sparano Katrina Sparano	Assistant Treasurer (Principal Accounting Officer) September 13, 2012
/s/Howard Pinsley Howard Pinsley	Chairman of the Board September 13, 2012
/s/Barry Pinsley Barry Pinsley	Director September 13, 2012
/s/Michael W. Wool Michael W. Wool	Director September 13, 2012
/s/Paul J. Corr Paul J. Corr	Director September 13, 2012
/s/Alvin O. Sabo Alvin O. Sabo	Director September 13, 2012
/s/Carl Helmetag Carl Helmetag	Director September 13, 2012