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

FORM 10-Q

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

For the quarterly period ended December 31, 2024

OR

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

Commission File Number 1-4383

ESPEY MFG. & ELECTRONICS CORP.

(Exact name of registrant as specified in its charter)

NEW YORK	**Trading Symbol**	**14-1387171**
(State of incorporation)	ESP	(I.R.S. Employer's Identification No.)

233 Ballston Avenue, Saratoga Springs, New York 12866
(Address of principal executive offices)

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

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

Title of each class	**Trading Symbol**	**Name of each exchange on which registered**
Common Stock $.33-1/3 par value	ESP	NYSE American

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically every Interactive Date File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company:

☐ Large accelerated filer	☐ Non-accelerated filer
☐ Accelerated filer	☒ Smaller reporting company
	☐ Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Securities Exchange Act. ☐

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

At February 10, 2025, there were 2,796,758 shares outstanding of the registrant's Common stock, $.33-1/3 par value.

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

PART I: FINANCIAL INFORMATION
ESPEY MFG. & ELECTRONICS CORP.
Balance Sheets
December 31, 2024 (Unaudited) and June 30, 2024

	December 31, 2024	June 30, 2024
ASSETS		
Cash and cash equivalents	$ 8,027,478	$ 4,351,970
Investment securities	20,264,567	18,878,631
Trade accounts receivable, less allowance for credit losses of $3,000	6,993,840	6,635,490
Inventories:		
Raw materials	1,813,168	1,693,448
Work-in-process	689,757	1,645,973
Costs related to contracts in process	15,109,021	15,904,588
Total inventories	17,611,946	19,244,009
Net deferred tax assets	864,449	895,154
Prepaid expenses and other current assets	1,793,934	3,231,402
Total current assets	55,556,214	53,236,656
Property, plant and equipment, net	4,635,071	3,306,275
Total assets	$ 60,191,285	$ 56,542,931
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	$ 2,662,701	$ 3,751,209
Accrued expenses:		
Salaries and wages	502,295	928,163
Vacation	534,025	511,144
ESOP payable	180,518	—
Other	1,284,491	757,552
Payroll and other taxes withheld	837	56,862
Contract liabilities	9,875,627	9,043,422
Income taxes payable	334,146	220,607
Total current liabilities	15,374,640	15,268,959
Total liabilities	15,374,640	15,268,959
Commitments and contingencies (See Note 5)		
Common stock, par value $.33-1/3 per share		
Authorized 10,000,000 shares; Issued 3,129,874 shares as of December 31, 2024 and June 30, 2024. Outstanding 2,796,758 and 2,733,958 shares as of December 31, 2024 and June 30, 2024, respectively (includes 200,652 and 211,487 Unearned ESOP shares, respectively)	1,043,291	1,043,291
Capital in excess of par value	24,851,718	23,930,428
Accumulated other comprehensive gain	5,004	6,544
Retained earnings	28,232,545	26,004,790
	54,132,558	50,985,053
Less: Unearned ESOP shares	(3,868,093)	(3,868,093)
Cost of 333,116 and 395,916 shares of common stock in treasury as of December 31, 2024 and June 30, 2024, respectively	(5,447,820)	(5,842,988)
Total stockholders' equity	44,816,645	41,273,972
Total liabilities and stockholders' equity	$ 60,191,285	$ 56,542,931

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

ESPEY MFG. & ELECTRONICS CORP.
Statements of Comprehensive Income (Unaudited)
Three and Six Months Ended December 31, 2024 and 2023

	Three Months Ended December 31, 2024	Three Months Ended December 31, 2023	Six Months Ended December 31, 2024	Six Months Ended December 31, 2023
Net sales	$ 13,608,740	$ 10,302,541	$ 24,051,958	$ 18,870,755
Cost of sales	10,445,028	7,159,966	18,087,364	13,482,803
Gross profit	3,163,712	3,142,575	5,964,594	5,387,952
Selling, general and administrative expenses	1,139,275	1,049,690	2,220,944	2,073,371
Operating income	2,024,437	2,092,885	3,743,650	3,314,581
Other income				
Interest income	260,222	161,513	527,839	308,943
Other	8,203	5,251	18,994	19,394
Total other income	268,425	166,764	546,833	328,337
Income before provision for income taxes	2,292,862	2,259,649	4,290,483	3,642,918
Provision for income taxes	384,363	464,279	783,667	753,004
Net income	$ 1,908,499	$ 1,795,370	$ 3,506,816	$ 2,889,914
Other comprehensive income, net of tax:				
Unrealized (loss) gain on investment securities	(9,232)	3,622	(1,540)	5,417
Total comprehensive income	$ 1,899,267	$ 1,798,992	$ 3,505,276	$ 2,895,331
Net income per share:				
Basic	$ 0.74	$ 0.73	$ 1.37	$ 1.17
Diluted	$ 0.71	$ 0.72	$ 1.32	$ 1.16
Weighted average number of shares outstanding:				
Basic	2,583,307	2,478,588	2,554,622	2,474,340
Diluted	2,707,542	2,499,210	2,653,890	2,492,499
Dividends per share:	$ 0.25	$ 0.15	$ 0.50	$ 0.30

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

Espey Mfg. & Electronics Corp.
Statements of Changes in Stockholders' Equity (Unaudited)
Three Months Ended December 31, 2024

	Outstanding Shares	Common Amount	Capital in Excess of Par Value	Accumulated Other Comprehensive Gain	Retained Earnings	Treasury Shares	Treasury Amount	Unearned ESOP Shares	Total Stockholders' Equity
Balance as of September 30, 2024	2,744,458	$ 1,043,291	$ 24,111,147	$ 14,236	$ 26,969,864	385,416	$ (5,777,389)	$ (3,868,093)	$ 42,493,056
Comprehensive income:									
Net income					1,908,499				1,908,499
Other comprehensive loss, net of tax of ($1,939)				(9,232)					(9,232)
Total comprehensive income									1,899,267
Stock options exercised	52,300		649,030			(52,300)	329,569		978,599
Stock-based compensation			91,541						91,541
Dividends paid on common stock $0.25 per share					(645,818)				(645,818)
Balance as of December 31, 2024	2,796,758	$ 1,043,291	$ 24,851,718	$ 5,004	$ 28,232,545	333,116	$ (5,447,820)	$ (3,868,093)	$ 44,816,645

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

Espey Mfg. & Electronics Corp.
Statements of Changes in Stockholders' Equity (Unaudited)
Six Months Ended December 31, 2024

	Outstanding Shares	Common Amount	Capital in Excess of Par Value	Accumulated Other Comprehensive Gain	Retained Earnings	Treasury Shares	Treasury Amount	Unearned ESOP Shares	Total Stockholders' Equity
Balance as of June 30, 2024	2,733,958	$ 1,043,291	$ 23,930,428	$ 6,544	$ 26,004,790	395,916	$ (5,842,988)	$ (3,868,093)	$ 41,273,972
Comprehensive income:									
Net income					3,506,816				3,506,816
Other comprehensive loss, net of tax of ($323)				(1,540)					(1,540)
Total comprehensive income									3,505,276
Stock options exercised	62,800		728,257			(62,800)	395,168		1,123,425
Stock-based compensation			193,033						193,033
Dividends paid on common stock $0.50 per share					(1,279,061)				(1,279,061)
Balance as of December 31, 2024	2,796,758	$ 1,043,291	$ 24,851,718	$ 5,004	$ 28,232,545	333,116	$ (5,447,820)	$ (3,868,093)	$ 44,816,645

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

Espey Mfg. & Electronics Corp.
Statements of Changes in Stockholders' Equity (Unaudited)
Three Months Ended December 31, 2023

	Outstanding Shares	Common Amount	Capital in Excess of Par Value	Accumulated Other Comprehensive (Loss) Gain	Retained Earnings	Treasury Shares	Treasury Amount	Unearned ESOP Shares	Total Stockholders' Equity
Balance as of September 30, 2023	2,706,633	$ 1,043,291	$ 23,373,388	$ (634)	$ 22,591,316	423,241	$ (6,013,701)	$ (4,273,378)	$ 36,720,282
Comprehensive income:									
Net income					1,795,370				1,795,370
Other comprehensive income, net of tax of $761				3,622					3,622
Total comprehensive income									1,798,992
Stock-based compensation			75,502						75,502
Dividends paid on common stock $0.15 per share					(370,947)				(370,947)
Balance as of December 31, 2023	2,706,633	$ 1,043,291	$ 23,448,890	$ 2,988	$ 24,015,739	423,241	$ (6,013,701)	$ (4,273,378)	$ 38,223,829

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

Espey Mfg. & Electronics Corp.
Statements of Changes in Stockholders' Equity (Unaudited)
Six Months Ended December 31, 2023

	Outstanding Shares	Common Amount	Capital in Excess of Par Value	Accumulated Other Comprehensive (Loss) Gain	Retained Earnings	Treasury Shares	Treasury Amount	Unearned ESOP Shares	Total Stockholders' Equity
Balance as of June 30, 2023	2,702,633	$ 1,043,291	$ 23,283,245	$ (2,429)	$ 21,867,720	427,241	$ (6,038,691)	$ (4,273,378)	$ 35,879,758
Comprehensive income:									
Net income					2,889,914				2,889,914
Other comprehensive income, net of tax of $1,138				5,417					5,417
Total comprehensive income									2,895,331
Stock options exercised	4,000		34,490			(4,000)	24,990		59,480
Stock-based compensation			131,155						131,155
Dividends paid on common stock $0.30 per share					(741,895)				(741,895)
Balance as of December 31, 2023	2,706,633	$ 1,043,291	$ 23,448,890	$ 2,988	$ 24,015,739	423,241	$ (6,013,701)	$ (4,273,378)	$ 38,223,829

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

ESPEY MFG. & ELECTRONICS CORP.
Statements of Cash Flows (Unaudited)
Six Months Ended December 31, 2024 and 2023

	December 31, 2024	December 31, 2023
Cash Flows from Operating Activities:		
Net income	$ 3,506,816	$ 2,889,914
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	193,033	131,155
Depreciation	219,126	233,526
ESOP compensation expense	286,262	183,364
Deferred income tax benefit	30,705	(212,848)
Gain on disposal of property, plant and equipment	—	(150)
Changes in assets and liabilities:		
Increase in trade accounts receivable	(358,350)	(205,985)
Decrease in income taxes receivable	—	35,666
Decrease in inventories	1,632,063	2,027,322
Decrease in prepaid expenses and other current assets	1,437,468	385,089
(Decrease) increase in accounts payable	(1,088,509)	892,011
Decrease in accrued salaries and wages	(425,868)	(382,530)
Increase (decrease) in vacation accrual	22,881	(163,645)
Decrease in ESOP payable	(105,744)	(70,093)
Increase in other accrued expenses	526,939	436,356
Decrease in payroll and other taxes withheld	(56,025)	(11,786)
Increase (decrease) in contract liabilities	832,205	(457,836)
Increase in income taxes payable	113,539	229,625
Net cash provided by operating activities	6,766,541	5,939,155
Cash Flows from Investing Activities:		
Additions to property, plant and equipment	(1,547,922)	(3,469,630)
Proceeds from grant award	—	968,722
Proceeds from sale of property, plant and equipment	—	150
Purchase of investment securities	(14,007,475)	(13,410,242)
Proceeds from sale/maturity of investment securities	12,620,000	11,508,438
Net cash used in investing activities	(2,935,397)	(4,402,562)
Cash Flows from Financing Activities:		
Dividends on common stock	(1,279,061)	(741,895)
Proceeds from exercise of stock options	1,123,425	59,480
Net cash used in financing activities	(155,636)	(682,415)
Increase in cash and cash equivalents	3,675,508	854,178
Cash and cash equivalents, beginning of period	4,351,970	2,748,755
Cash and cash equivalents, end of period	$ 8,027,478	$ 3,602,933
Supplemental Schedule of Cash Flow Information:		
Income taxes paid	$ 639,014	$ 702,000

The accompanying notes are an integral part of 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 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. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of assets and liabilities. On an ongoing basis, we evaluate our estimates and judgments, including those related to revenue recognition, inventories, income taxes, and stock-based compensation. Specific to inventories, including work-in-process and contracts in process, management evaluates, quarterly, those estimates used in determining the cost to complete for each contract on Espey Mfg. & Electronics Corp.'s (the "Company") sales backlog. The change in estimates may affect the reported amount of inventories and gross profit in the current or a future period and could result in the Company recording a loss contingency when a loss is determined to be probable and reasonably estimated. Management bases its estimates on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. These financial statements should be read in conjunction with the Company's most recent audited financial statements included in its report on Form 10-K for the year ended June 30, 2024. Certain reclassifications may have been made to the prior year financial statements to conform to the current year presentation.

Note 2. Investment Securities

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

- Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The carrying amounts of financial instruments, including cash and cash equivalents, short term investments, accounts receivable, accounts payable and accrued expenses, approximated fair value as of December 31, 2024 and June 30, 2024 because of the immediate or short-term maturity of these financial instruments.

Investment securities at December 31, 2024 and June 30, 2024 consisted of certificates of deposit, municipal bonds and U.S. Treasury bills. The Company classifies investment securities as available-for-sale which have been determined to be level 1 assets. The cost, gross unrealized gains, gross unrealized losses and fair value of available-for-sale debt securities by major security type at December 31, 2024 and June 30, 2024 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2024				
Certificates of deposit	$ 19,028,000	$ —	$ —	$ 19,028,000
Municipal bonds	1,134,476	5,797	(3,459)	1,136,814
U.S. Treasury bills	95,756	3,997	—	99,753
Total investment securities	$ 20,258,232	$ 9,794	$ (3,459)	$ 20,264,567
June 30, 2024				
Certificates of deposit	$ 17,651,000	$ —	$ —	$ 17,651,000
Municipal bonds	709,059	5,824	(3,313)	711,570
U.S. Treasury bills	510,288	5,773	—	516,061
Total investment securities	$ 18,870,347	$ 11,597	$ (3,313)	$ 18,878,631

The portfolio is diversified and highly liquid and primarily consists of investment grade fixed income instruments. At December 31, 2024, the Company did not have any investments in individual securities that have been in a continuous loss position considered to be other than temporary.

As of December 31, 2024 and June 30, 2024, the remaining contractual maturities of available-for-sale debt securities were as follows:

	Years to Maturity		
	Less than One Year	One to Five Years	Total
December 31, 2024			
Available-for-sale	$ 18,116,028	$ 2,148,539	$ 20,264,567
June 30, 2024			
Available-for-sale	$ 17,889,582	$ 989,049	$ 18,878,631

Note 3. 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. The computation of diluted net income per share excluded options to purchase 0 shares of our common stock for the three and six months ended December 31, 2024 and 149,531 shares for the three and six months ended December 31, 2023, as the effect of including them would be anti-dilutive. As unearned shares owned by the Company's sponsored leveraged employee stock ownership plan (the "ESOP") are released or committed-to-be-released, the shares become outstanding for earnings-per-share computations.

The following table sets forth the reconciliation of the numerators and denominators of the basic and diluted earnings per share computations for continuing operations for the six month periods ended December 31:

	2024	2023
Numerator:		
Net income	$ 3,506,816	$ 2,889,914
Denominator:		
Basic EPS:		
Common shares outstanding, beginning of period	2,733,958	2,702,633
Unearned ESOP shares	(211,487)	(233,646)
Weighted average common shares issued during the period	29,384	2,523
Weighted average ESOP shares earned during the period	2,767	2,830
Denominator for basic earnings per common shares –		
Weighted average common shares	2,554,622	2,474,340
Diluted EPS:		
Common shares outstanding, beginning of period	2,733,958	2,702,633
Unearned ESOP shares	(211,487)	(233,646)
Weighted average common shares issued during the period	29,384	2,523
Weighted average ESOP shares earned during the period	2,767	2,830
Weighted average dilutive effect of stock options	99,268	18,159
Denominator for diluted earnings per common shares –		
Weighted average common shares	2,653,890	2,492,499

Note 4. Stock Based Compensation

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

Total stock-based compensation expense recognized in the statements of comprehensive income for the three-month periods ended December 31, 2024 and 2023 was $91,541 and $75,502, respectively, before income taxes. The amount of this stock-based compensation expense related to non-qualified stock options ("NQSOs") for the three-month periods ended December 31, 2024 and 2023 was $8,362 and $10,290, respectively. The deferred tax benefit related to the NQSOs as of December 31, 2024 and 2023 was approximately $1,756 and $2,161, respectively. Total stock-based compensation expense recognized in the statements of comprehensive income for the six-month periods ended December 31, 2024 and 2023 was $193,033 and $131,155, respectively, before income taxes. The amount of this stock-based compensation expense related to NQSOs for the six-month periods ended December 31, 2024 and 2023 was $15,421 and $18,545, respectively. The deferred tax benefit related to the NQSOs as of December 31, 2024 and 2023 was approximately $3,238 and $3,894, respectively. The remaining stock option expense in each year related to incentive stock options ("ISOs") which are not deductible by the Company when exercised, assuming a qualifying disposition and as such no deferred tax benefit was established related to these amounts.

As of December 31, 2024, there was $423,041 of unrecognized compensation cost related to stock option awards that is expected to be recognized as expense over the next 1.75 years, of which $385,833 relates to ISOs and $37,208 relates to NQSOs. The total deferred tax benefit related to these awards is expected to be $7,814.

The Company has one employee stock option plan under which options or stock awards may be granted, the 2017 Stock Option and Restricted Stock Plan (the "2017 Plan"). The Board of Directors may grant options to acquire shares of common stock to employees and non-employee directors of the Company at the fair market value of the common stock on the date of grant. The maximum aggregate number of shares of Common Stock subject to options or awards to non-employee directors is 133,000 and the maximum aggregate number of shares of Common Stock subject to options or awards granted to non-employee directors during any single fiscal year is the lesser of 13,300 and 33 1/3% of the total number of shares subject to options or awards granted in such fiscal year. The maximum number of shares subject to options or awards granted to any individual employee may not exceed 15,000 in a fiscal year. Generally, options granted have a two-year vesting period based on two years of continuous service and have a ten-year contractual life. Option grants provide for accelerated vesting if there is a change in control. Shares issued upon the exercise of options are from those held in Treasury. Options covering 400,000 shares are authorized for issuance under the 2017 Plan. As of December 31, 2024, options covering 87,375 shares have been exercised and options covering 307,656 shares are outstanding. Options covering 4,969 shares remain available for grant after factoring the cancelled shares, which are eligible to be re-granted. While no further grants of options may be made under the Company's 2007 Stock Option and Restricted Stock Plan, as of December 31, 2024, 27,600 options were outstanding under such plan of which all are vested and exercisable.

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 dividend yield, 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 six months ended December 31, 2024 and 2023.

	December 31, 2024	December 31, 2023
Dividend yield	3.79%	3.63%
Company's expected volatility	33.33%	31.20%
Risk-free interest rate	4.35%	4.39%
Expected term	5.1 yrs	5.3 yrs
Weighted average fair value per share of options granted during the period	$ 5.40	$ 4.03

The Company declared and paid regular cash dividends of $0.50 per share for the six months ended December 31, 2024 and paid $0.30 cash dividends for the six months ended December 31, 2023. 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 term (in years) represents the estimated period of time until exercise and is based on actual historical experience.

The following table summarizes stock option activity during the six months ended December 31, 2024:

	Employee Stock Option Plans			
	Number of Shares Subject to Option	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Balance at July 1, 2024	322,056	$ 18.41	6.59	
Granted	76,500	$ 21.58	9.52	
Exercised	(62,800)	$ 17.89	—	
Forfeited or expired	(500)	$ 16.54	—	
Outstanding at December 31, 2024	335,256	$ 19.23	6.95	$ 3,661,427
Vested or expected to vest at December 31, 2024	320,083	$ 19.19	6.84	$ 3,507,361
Exercisable at December 31, 2024	180,356	$ 19.26	5.09	$ 1,964,248

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the difference between the closing sale price of the Company's common stock as reported on the NYSE American on December 31, 2024 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 December 31, 2024. This amount changes based on the fair market value of the Company's common stock. The intrinsic value of options exercised during the six months ended December 31, 2024 and 2023 was $668,878 and $9,482, respectively.

The following table summarizes changes in non-vested stock options during the six months ended December 31, 2024:

	Weighted Number of Shares Subject to Option	Average Grant Date Fair Value (per Option)
Non-vested at July 1, 2024	147,300	$ 4.15
Granted	76,500	$ 5.40
Vested	(68,400)	$ 4.11
Forfeited or expired	(500)	$ 4.03
Non-vested at December 31, 2024	154,900	$ 4.78

Note 5. Commitments and Contingencies

The Company from time to time, 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, 2024 and June 30, 2024. The Company, as a U.S. Government contractor, is subject to audits, reviews, and investigations by the U.S. Government related to its negotiation and performance of government contracts and its accounting for such contracts. Failure to comply with applicable U.S. Government standards by a contractor may result in suspension from eligibility for award of any new government contract and a guilty plea or conviction may result in debarment from eligibility for awards. The government may, in certain cases, also terminate existing contracts, recover damages, and impose other sanctions and penalties. As a result of contract audits, the Company will determine a range of possible outcomes and, in accordance with ASC 450 "Contingencies," the Company will accrue amounts within a range that appears to be its best estimate of a possible outcome. Adjustments are made to accruals, if any, periodically based on current information.

We are party to various litigation matters and claims arising from time to time in the ordinary course of business. There are no pending litigation matters or claims which we believe will have a material adverse effect on our business, financial condition, results of operations or cash flows.

The Company was awarded $7.4 million in funding during the second quarter of fiscal year 2023 in support of facility and capital equipment upgrades for testing and qualification for the United States Navy. The funding is part of the Navy's investment to improve and sustain the Surface Combatant Industrial Base. The work is being conducted on the Company's property in Saratoga Springs, NY, with completion slated for the first quarter of calendar year 2025. The Company expects to be paid within 30 days after the submission of three milestone invoices, but will not be paid for expenses incurred in excess of the specified milestone payment limits. The Company will record the receipt of milestone payments received as a reduction from the cost of the assets. The Company will have an initial cash outlay to satisfy income tax obligations arising from the value of the milestone payments received. The cash outlay arising from federal income tax obligations is expected to be recaptured in future periods. Until recaptured, estimated tax obligations associated with the receipt of milestone payments are recorded on the balance sheet and included in deferred tax assets. As of December 31, 2024, net deferred tax assets include a deferred tax asset of $888,032 associated with milestone reimbursements received totaling $4,228,722. Included in property, plant, and equipment at December 31, 2024 was $2,311,788 not yet reimbursed for facility and capital upgrades under the funding award, compared to $965,392 in spending not yet reimbursed included in property, plant, and equipment at June 30, 2024. Included in accounts payable at December 31, 2024 was approximately $11,770 for facility and capital upgrades eligible to be reimbursed under the funding award compared to $272,560 included in accounts payable at June 30, 2024.

In June 2024, the Company notified the third-party administrator of the IBEW Local 1799 Pension Fund of its intention to withdraw permanently from the plan. As required by the Employee Retirement Income Security Act "ERISA", the Company is subject to a termination withdrawal liability. The recorded termination withdrawal obligation at December 31, 2024 and June 30, 2024 totaled $561,852 and $772,157, respectively, shown within the accounts payable balance on the Company's balance sheets. The remaining liability of $561,852 is expected to be paid in the second half of fiscal 2025. As the Company was the only remaining contributing employer to the multiemployer pension plan, its withdrawal constitutes a mass withdrawal termination. Final withdrawal calculations are contingent upon the availability of January 1, 2025 assets and the finalization of December 31, 2024 liabilities as the withdrawal liability will need to be re-determined based on a December 31, 2024 measurement date. The Company does not expect future adjustments to the established liability to have a material impact on the Company's financial statements. The cost of the withdrawal liability obligation is recorded in indirect overhead product costs, capitalized in inventory and expensed through cost of sales based on shipments.

In December 2024, the Company was awarded $3.4 million in funding in support of facility and capital equipment upgrades. The funding is part of the Navy's investment to improve and sustain the Surface Combatant Industrial Base. The grant is expected to be in force through calendar year 2026. There are currently no expenditures or amounts that are considered reimbursable under this grant.

Note 6. Revenue

The Company follows ASC 606 "Revenue from Contracts with Customers" to determine the recognition of revenue. This standard requires entities to assess the products or services promised in contracts with customers at contract inception to determine the appropriate unit at which to record revenues. Revenue is recognized when control of the promised products or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those products or services.

Significant judgment is required in determining the satisfaction of performance obligations. Revenues from our performance obligations are satisfied over time using the output method which considers the appraisal of results achieved and milestones reached or units delivered based on contractual shipment terms, typically shipping point. Revenue is recognized when, or as, the customer takes control of the product or services. The output method best depicts the transfer of control to the customer as the output method represents work completed. Control is typically transferred to the customer at the shipping point, as the Company has a present right to payment, the customer has legal title to the asset, the customer has the significant risks and rewards of ownership of the asset, and in most instances the customer has accepted the asset.

Total revenue recognized for the three and six months ended December 31, 2024 based on units delivered was $9,237,688 and $17,500,184, respectively, compared to $8,237,156 and $14,642,694 for the same period in fiscal year 2024. Total revenue recognized for the three and six months ended December 31, 2024 based on milestones achieved was $4,371,052 and $6,551,774, respectively, compared to $2,065,385 and $4,228,061 for the same period in fiscal year 2024.

The Company offers a standard one-year product warranty. Product warranties offered by the Company are classified as assurance-type warranties, which means the warranty only guarantees that the good or service functions as promised. Based on this, the provided warranty is not considered to be a distinct performance obligation. The impact of variable consideration has been considered but none identified which would be required to be allocated to the transaction price as of December 31, 2024. Our payment terms are generally 30-60 days.

Contract liabilities were $9,875,627 and $9,043,422 as of December 31, 2024 and June 30, 2024, respectively. The increase in contract liabilities is primarily due to the advance collection of cash on specific contracts, offset in part, by revenue recognized. Revenue recognized that was in contract liabilities in the beginning of the fiscal year was $2,377,108 for the six months ended December 31, 2024. The Company used the practical expedient to expense incremental costs incurred to obtain a contract when the contract term is less than one year.

The Company’s backlog at December 31, 2024 totaling approximately $120.1 million is currently estimated to be recognized in the following fiscal years: 16.6% in 2025; 37.4% in 2026; 7.6% in 2027, and 38.4% thereafter. The timing of supplier deliveries of material, production schedules, the completion of engineering deliverables, among other factors, could cause these estimates to change.

Note 7. Recently Issued Accounting Standards

Recent Accounting Pronouncements Not Yet Adopted

In December 2023, FASB issued ASU 2023-09, “Income Taxes (Topic 740): Improvements to Income Tax Disclosures,” to enhance the transparency and decision usefulness of income tax disclosures. The amendments in ASU 2023-09 provide improvements primarily related to the rate reconciliation and income taxes paid information included in income tax disclosures. The Company would be required to disclose additional information regarding reconciling items equal to or greater than five percent of the amount computed by multiplying pretax income (loss) by the applicable statutory tax rate. Similarly, the Company would be required to disclose income taxes paid (net of refunds received) equal to or greater than five percent of total income taxes paid (net of refunds received). The amendments in ASU 2023-09 are effective for the annual period beginning July 1, 2025. Early adoption is permitted for annual financial statements that have not yet been issued or made available for issuance. The Company will evaluate the impact of ASU 2023-09 on its financial statements.

In November 2023, the FASB issued ASU 2023-07, “Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures,” which provides updates to qualitative and quantitative reportable segment disclosure requirements, including enhanced disclosures about significant segment expenses and increased interim disclosure requirements, among others. The amendments in ASU 2023-07 are effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted, and the amendments should be applied retrospectively. The adoption of ASU 2023-07 is not expected to have a significant impact on the financial statements. The Company is currently evaluating the impact of this new guidance on its financial statements.

Recent Accounting Pronouncements Adopted

None

Note 8. 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 balance sheets and the statements of changes in stockholders' equity. 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 $163,067 and $94,175 for the three-month periods ended December 31, 2024 and 2023, respectively. ESOP compensation expense was $286,262 and $183,364 for the six-month periods ended December 31, 2024 and 2023, respectively.

The ESOP shares as of December 31, 2024 and 2023 were as follows:

	December 31, 2024	December 31, 2023
Allocated shares	385,641	440,801
Committed-to-be-released shares	10,835	11,080
Unreleased shares	200,652	222,565
Total shares held by the ESOP	597,128	674,446
Fair value of unreleased shares	$ 6,049,658	$ 4,161,966

The Company may at times be required to repurchase shares at the ESOP participants' request at the shares' fair market value. During the three and six months ended December 31, 2024 and 2023, the Company did not repurchase shares previously held by the ESOP.

The ESOP allows for eligible participants to take whole share distributions from the Plan on specific dates in accordance with the provision of the Plan. Share distributions from the ESOP during the six months ended December 31, 2024 and 2023 totaled 65,491 and 44,157 shares, respectively.

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

Overview

Espey Mfg. & Electronics Corp. (“Espey”) is a power electronics design and original equipment manufacturing (OEM) company with a long history of developing and delivering reliable products for use in military and severe environment applications. Design, manufacturing, and testing is performed in our in-service 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 American 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 an ISO 9001:2015 and AS9100:2016 certified manufacturer of power conversion, advanced magnetics and build to print specifications provided by the customer “build to print” products for the rugged industrial and military marketplace. Our primary products are power supplies, power converters, filters, power transformers, magnetic components, power distribution equipment, UPS systems, and antennas. 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 specifications provided by the customer “build to print”, design services, design studies, environmental testing services, metal fabrication, painting services, and development of automatic testing equipment. Espey 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 and testing process are subcontracted to vendors from time to time.

The Company markets its products primarily through its own direct sales organization and through outside sales representatives. Business is solicited from large industrial manufacturers and defense companies, the government of the United States, foreign governments and major foreign electronic equipment companies. Espey is also on the eligible list of contractors with the United States Department of Defense. We pursue opportunities for prime contracts directly with the Department of Defense and are generally automatically solicited by Department of Defense 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.

There is competition in all classes of products manufactured by the Company, ranging from divisions of the largest electronic companies, to 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.

Our business is not seasonal. However, the concentration of our business in the rail industry, and in equipment for military applications and industrial applications, and our customer concentrations expose us to on-going associated risks. These risks include, without limitation, fluctuating requirements for power supplies in the rail industry, dependence on appropriations from the United States Government and the governments of foreign nations, program allocations, the potential of governmental termination of orders for convenience, and the general strength of the industry sectors in which our customers transact business.

Future procurement needs supporting the military and the rail industry continue to drive competition. Many of our competitors have invested, and continue to invest, aggressively in upfront product design costs and accept lower profit margins as a strategic means of maintaining existing business and enhancing market share. This continues to put pressure on the pricing of our current products and has lowered our profit margins on some of our new business. In order to compete effectively for new business, in some cases we have invested in upfront design costs, thereby reducing initial profitability as a means of procuring new long-term programs. As part of our strategy, we adjust our pricing in order to achieve a balance which enables us both to retain repeat programs while being more competitive in bidding on new programs.

Our sales strategy includes identifying and obtaining multiple new engineering design and development contracts in any given fiscal year to ensure optimal utilization of our engineering personnel in addition to securing follow-on production awards for product previously designed in-house, as well as, new or follow-on build to print opportunities. The Company targets those programs and opportunities which will generate future longer-term production tails in ensuing years. From time to time, we accept work associated with engineering design studies. While unlikely to result in near-term follow-on orders, this positions us competitively for future awards and expands our engineering team's skillset.

The total backlog at December 31, 2024 was approximately $120.1 million, which included $78.3 million from three significant customers, compared to approximately $84.8 million at December 31, 2023, which included $57.4 million from five significant customers. The Company's total backlog represents the estimated remaining sales value of work to be performed under firm contracts. It is not uncommon to receive orders which include delivery schedules extending beyond a year from the contract purchase date. Due to this, a customer's future reorder point may vary. The backlog at December 31, 2024 is fully funded, except for approximately $20.4 million, representing two firm follow-on multi-year orders from a single customer. While there is no guarantee that future budgets and appropriations will provide funding for individual programs, management has included in the unfunded backlog only those programs that it believes are likely to receive funding based on program status and discussions with customers. Contracts are subject to modification, change or cancellation, and the Company accounts for these changes as they are probable and estimable. The Company evaluates the impact of any scope modifications and will adjust reserves to the extent information is known or estimable.

Management expects revenues in fiscal year 2025 to be higher than revenues recognized during fiscal year 2024 but expects that net income per share will be lower than fiscal year 2024 net income per share, although greater than fiscal year 2023 net income per share. This expectation is driven primarily by orders already in our backlog that will be shipped in fiscal year 2025 with higher anticipated aggregate costs than the product mix shipped during fiscal year 2024.

From time to time, we encounter part obsolescence which requires us to identify an alternate part suitable for use. We continue to work with our customers on strategies to mitigate any adverse impact upon our ability to service their requirements. Factors which may arise after the placement of the customer's order may cause us to miss projected delivery dates. Inflationary costs are expected to continue, but are not expected to have a significant impact on operating income in fiscal year 2025. Tariffs on steel and aluminum imports from various countries continue to be in effect and the newly inaugurated President has announced the imposition of additional tariffs. Although we are not currently experiencing any significant financial or raw material sourcing issues resulting from the product tariffs, the Company cannot provide any assurance that the existing and newly-imposed tariffs, the potential of additional tariffs, and the associated volatility arising from foreign trade policies, will not have a negative impact on our future earnings by increasing our raw material prices and augmenting the lead time for the availability of raw materials.

The labor workforce remains stable. Management continues to closely monitor workforce labor requirements to support our sales backlog and planned delivery schedules. Longer time-to-hire challenges remain for certain positions due to specific skillsets required for those positions. Unemployment rates in the local geographic region trend lower than the national average which has created a competitive recruiting environment. Where possible, the Company continues to offer on-the-job training and when necessary, continues to recruit personnel outside the local region. Combined with supply chain constraints, unforeseen labor disruptions could delay shipments and result in missing our backlog fulfillment projections and recognizing lower than anticipated operating income.

Successful conversion of engineering program backlog into sales is largely dependent on the execution and completion of our engineering design efforts. It is not uncommon to experience technical or scheduling delays which arise from time to time as a result of, among other reasons, design complexity, the availability of personnel with the requisite expertise, and the requirements to obtain customer approval at various milestones. Cost overruns which may arise from technical and scheduling delays and increased raw material costs could negatively impact the timing of the conversion of backlog into sales, or the profitability of such sales. Engineering programs in both the funded and unfunded portions of the current backlog aggregate $9.6 million.

It is presently anticipated that a minimum of $19.9 million of orders comprising the December 31, 2024 backlog will be filled during the fiscal year ending June 30, 2025 subject, however, to the impact of the factors identified above. The minimum of $19.9 million does not include any shipments which may be made against orders subsequently received during the fiscal year ending June 30, 2025.

The Company currently expects new orders in fiscal year 2025 to be greater than those received in fiscal year 2024. New orders received in the first six months of fiscal year 2025 were approximately $46.9 million as compared to approximately $20.1 million new orders received in the first six months of fiscal year 2024. Included in new orders received during the current fiscal year is an award for $29.5 million, when fully funded, to provide electric power distribution panels for the U.S. Navy's Columbia class submarines through calendar year 2030. In addition to the backlog and the new orders already booked in fiscal year 2025, the Company currently has outstanding opportunities representing approximately $113 million in the aggregate as of February 4, 2025 for both repeat and new programs. Outstanding opportunities encompass various new and previously manufactured power supplies, transformers, and subassemblies. We consider the value of those opportunities we believe are likely to be awarded based on factors which include: quotation status, communicated award dates, historical ordering, public information on defense programs and program funding, discussion with customers, and our cost competitiveness. However, there can be no assurance that the Company will acquire any of the outstanding opportunities described above, many of which are subject to allocations of the United States defense spending and factors affecting the defense industry. Also, many solicitations we receive for the procurement of goods and services are associated with competitive bidding processes.

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. Net sales to four significant customers represented 62% of the Company's total sales for the three-month period ended December 31, 2024. Net sales to five significant customers represented approximately 86% of the Company's total sales for the three-month period ended December 31, 2023. Net sales to five significant customers represented approximately 69% of the Company's total sales for the six-month period ended December 31, 2024. Net sales to five significant customers represented 82% of the Company's total sales for the six-month period ended December 31, 2023. A loss of one of these customers or programs related to these customers, or customer requested deferrals of product delivery 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. Management continues to pursue 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. Given the nature of our business, we believe our existing sales order backlog is fairly diversified in terms of customers and the category of products on order.

Critical Accounting Policies and Estimates

Management believes our most critical accounting policies include revenue recognition and cost estimation on our contracts.

Revenue

The majority of our sales are generated from military contracts from defense companies, the United States Department of Defense, other agencies of the government of the United States and foreign governments, for the design and development and/or manufacture of products. Sales are also generated from industrial manufacturers for similar services. We provide our products and design and development services under fixed-price contracts. Under fixed-price contracts we agree to perform the specified work for a pre-determined price. To the extent our actual costs vary from the estimates upon which the price was negotiated, we will generate more or less profit or could incur a loss.

We account for a contract with a customer after it has been approved by all parties to the arrangement, the rights of the parties are identified, payment terms are identified, the contract has commercial substance, and collection of substantially all of the amount to which the entity will be entitled in exchange for the goods or services that will be transferred to the customer is probable. We assess each contract at its inception to determine whether it should be combined with other contracts. When making this determination, we consider factors such as whether two or more contracts were negotiated and executed at or near the same time, or were negotiated with an overall profit objective.

We evaluate the products or services promised in each contract at inception to determine whether the contract should be accounted for as having one or more performance obligations. Significant judgment is required in determining performance obligations. We determine the transaction price for each contract based on the consideration we expect to receive for the products or services being provided under the contract. The transaction price for each performance obligation is based on the estimated standalone selling price of the product or service underlying each performance obligation. Transaction prices on our contracts subject to the Federal Acquisition Regulations (FAR) are typically based on estimated costs plus a reasonable profit margin.

We recognize revenue using the output method based on the appraisal of results achieved and milestones reached or units delivered based on contractual shipment terms, typically shipping point.

Inventory

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

Inventoried work relating to contracts in process and work-in-process is valued at actual production cost, including factory overhead incurred to date. Contract costs include material, subcontract costs, labor, and an allocation of overhead costs. Work-in-process represents spare units and parts and other inventory items acquired or produced to service units previously sold or to meet anticipated future orders. Provision for losses on contracts is made when the existence of such losses becomes probable and estimable. The provision for losses on contracts is included in other accrued expenses on the Company's balance sheet. The costs attributed to units delivered under contracts are based on the estimated average cost of all units expected to be produced. Certain contracts are expected to extend beyond twelve months.

The estimation of total 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, the change is reflected in current period earnings.

Contract Liabilities

Contract liabilities include advance payments and billings in excess of revenue recognized.

Accounts Receivable and Allowance for Credit Losses

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 credit losses. The Company estimates the allowance based on its analysis of historical experience, current economic market conditions, performance of specific account reviews, and other factored considerations to include, but not limited to, contracts covered by government funding and the overall health of the industry. Interest is not charged on past due balances. Based on these factors, there was an allowance for credit losses of $3,000 at December 31, 2024 and June 30, 2024. Changes to the allowance for credit losses are charged to expense and reduced by charge-offs, net of recoveries. The opening accounts receivable balance, net of allowance for credit losses of $3,000, at July 1, 2023 and July 1, 2024 were $5,755,282 and $6,635,490, respectively.

Results of Operations

Net sales for the three months ended December 31, 2024 and 2023 were $13,608,740 and $10,302,541, respectively, a 32.1% increase. Net sales for the six months ended December 31, 2024 and 2023 were $24,051,958 and $18,870,755, respectively, a 27.5% increase. In general, sales fluctuations may occur during comparable fiscal periods as the direct result of sales backlog levels, product mix, and specific contractual terms of those firm orders placed including contract value, scope of work, and contract delivery schedules.

For the three months ended December 31, 2024, the increase in sales when compared to the same period last year is primarily due to more deliveries against an overall higher sales backlog and the product mix comprising those shipments. The increase in sales in the current year was primarily related to product supporting magnetics, power supply, and build to print contracts. During the current quarter, sales increased on deliveries for (i) a large follow-on order for power distribution panels, (ii) a large follow-on order for inverters used on armored multi-purpose vehicles, and (iii) numerous deliveries on build to print follow-on orders in which there were no sales in the comparable period last year. These increases were offset, in part, by a decrease in deliveries for (i) a contract for power supplies supporting the AESA radar program and (ii) fewer sales on an engineering development job which had fewer sales when compared to the same period last year.

For the six months ended December 31, 2024, the increase in sales when compared to the same period last year is primarily due to more deliveries against an overall higher sales backlog and the product mix comprising those shipments. The increase in sales in the current year was primarily related to product supporting power supply, magnetics, and build to print contracts. For the six months ended December 31, 2024, sales increased on deliveries for (i) a large follow-on order for power distribution panels, (ii) a large follow-on order for inverters used on armored multi-purpose vehicles, (iii) deliveries on several follow-on orders for power supplies and overall build to print contracts, (iv) shipments on a large multi-year magnetics contract for transformers, and (v) sales on a new engineering development contract in which there were no comparable sales in the prior period. These increases were offset, in part, by a decrease in sales related to a family of power distribution transformers for a single customer.

Gross profits for the three months ended December 31, 2024 and 2023 were $3,163,712 and $3,142,575, respectively. Gross profit as a percentage of sales was approximately 23.2% and 30.5%, for the same periods, respectively. Gross profits for the six months ended December 31, 2024 and 2023 were $5,964,594 and $5,387,952, respectively. Gross profit as a percentage of sales was approximately 24.8% and 28.6% for the same periods, respectively.

Gross profits remained flat for the three months ended December 31, 2024 when compared to the same period last year and increased for the six months ended December 31, 2024 when compared to the same period last year. The decrease in the gross margin percentages for the three and six months ended December 31, 2024 when compared to the same period last year primarily resulted from (i) product mix, specifically impacted by shipments on a large magnetics program with lower gross margins, which management remains optimistic will improve as we work to achieve production efficiencies in the current build process on this internally designed product which has only had a limited number of completed production builds to date, (ii) higher than average profit margins on one-time sales to certain customers in the prior year, (iii) increased costs incurred with restarting a production line for a large power supply contract which is expected to generate future additional re-order opportunities, and (iv) costs incurred on a specific engineering development program.

The primary factors in determining the change in gross profit and net income are overall sales levels and product mix. The gross profits on mature products and build to print contracts are typically higher as compared to products which are still in the engineering development stage or in early stages of production. In the case of the latter, the Company can incur what it refers to as “loss contracts,” primarily on engineering design contracts in which the Company invests with the objective of developing future product sales. In any given accounting period the mix of product shipments between higher margin programs and less mature programs, and expenditures associated with loss contracts, has a significant impact on gross profit and net income.

Selling, general and administrative expenses were $1,139,275 for the three months ended December 31, 2024, an increase of $89,585, compared to the three months ended December 31, 2023. Selling, general and administrative expenses were $2,220,944 for the six months ended December 31, 2024, an increase of $147,573 compared to the six months ended December 31, 2023. The increase in spending for the three months ended December 31, 2024 as compared to the same period in 2023 relates mainly to the increase in employee compensation costs, outside selling costs related to non-employee sales representatives, an increase in travel expenditures, an increase in outbound freight costs related to higher sales, offset in part, by a decrease in conference expenses incurred during the period. The increase in spending for the six months ended December 31, 2024 as compared to the same period in 2023 relates mainly to the increase in employee compensation costs, outside selling costs related to non-employee sales representatives, an increase in outbound freight costs related to higher sales, and an increase in travel expenditures, offset in part, by a decrease in conference expenses and general office supplies.

Other income for the three months ended December 31, 2024 and 2023 was $268,425 and $166,764, respectively. Other income for the six months ended December 31, 2024 and 2023 was $546,833 and $328,337, respectively. The increase for the three and six months ended December 31, 2024 is primarily due to the increase in interest income resulting from an increase in investment securities, offset in part, by declining interest rates. Interest income is a function of the level of investments and investment strategies that generally tend to be conservative.

The Company’s effective tax rate for the three and six months ended December 31, 2024 was approximately 16.8% and 18.3% respectively, compared to 20.5% and 20.7% for the three and six months ended December 31, 2023. The effective tax rate in fiscal 2025 and fiscal 2024 is less than the statutory tax rate mainly due to the benefit received from ESOP dividends paid on allocated shares as well as the benefit from foreign derived intangible income, offset in part, by the permanent difference for incentive stock option expense recorded for book purposes which is not deductible for tax purposes. The effective tax rate in the three and six month period ended December 31, 2024 was lower than the prior year primarily from a greater benefit derived from the ESOP dividends paid on allocated shares and the benefit derived from the exercise of incentive stock options in the current period when compared to same period in the prior year.

Net income for the three months ended December 31, 2024 was $1,908,499 or $0.74 and $0.71 per share, basic and diluted, compared to net income of $1,795,370 or $0.73 and $0.72 per share, basic and diluted, for the three months ended December 31, 2023. Net income for the six months ended December 31, 2024 was $3,506,816 or $1.37 and $1.32 per share, basic and diluted, compared to $2,889,914 or $1.17 and $1.16 per share, basic and diluted, for the six months ended December 31, 2023. The increase in net income in the three months ended December 31, 2024 when compared to the same period last year resulted primarily from the increase in interest income and lower provision for income taxes. The increase in net income in the six months ended December 31, 2024 when compared to the same period last year resulted primarily from the increase in gross profit and the increase in interest income, offset in part, by an increase in selling, general, and administrative expenses and an increase in the provision for income taxes, all discussed above.

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. Management has available a $3,000,000 line of credit to help fund further growth or working capital needs, if necessary, but does not anticipate the need for any borrowed funds in the foreseeable future. Contingent liabilities on outstanding standby letters of credit agreements aggregated to zero at December 31, 2024 and 2023. The existing line of credit expires February 28, 2025. Management anticipates that the line of credit will be renewed.

The Company's working capital as of December 31, 2024 and 2023 was approximately $40.2 million and approximately $33.1 million, respectively. The Company may at times be required to repurchase shares at the ESOP participants' request at fair market value. During the three and six months ended December 31, 2024 and 2023, the Company did not repurchase any shares held by the ESOP. Under an existing authorization from the Company's Board of Directors, as of December 31, 2024, management is authorized to purchase an additional $783,460 of Company stock.

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

	Six Months Ended December 31,	
	2024	2023
Net cash provided by operating activities	$ 6,766,541	$ 5,939,155
Net cash used in investing activities	(2,935,397)	(4,402,562)
Net cash used in financing activities	(155,636)	(682,415)

Net cash provided by operating activities fluctuates between periods primarily as a result of differences in sales and net income, provision for income taxes, the timing of the collection of accounts receivable, purchase of inventory, and payment of accounts payable. The increase in cash provided by operating activities compared to the prior year primarily relates to an increase in contract liabilities for cash advances received from customers, the decrease in prepaid expenses and other current assets, offset in part by a decrease in accounts payable. Net cash used in investing activities decreased in the six months ended December 31, 2024 as compared to the same period in 2023 due to fewer additions to property, plant and equipment and higher investment securities when compared to the same period last year. Cash used in financing activities for the six months ended December 31, 2024 relates primarily to dividend payments on common stock, offset in part, by proceeds from the exercise of stock options. Comparably, the dividends paid during the prior year were lower and cash received from stock option exercises in the prior year was significantly lower. 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, 2024 and 2023, the Company expended $1,547,922 and $3,469,630, respectively, for plant improvements and new equipment, of which $1,346,396 and $3,292,313, respectively, was either reimbursed or eligible to be reimbursed under a not to exceed $7.4 million award received by the Company. The award received by the Company is in support of facility and capital equipment upgrades for testing and qualification for the United States Navy. This funding award is part of the Navy’s investment to improve and sustain the Surface Combatant Industrial Base. The Company has budgeted approximately $500,000 for new equipment and plant improvements in fiscal year 2025, not reimbursable under the funding awards received. A majority of these expenditures will be made to stay competitive in the marketplace and to meet the needs of current contracts.

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, the impact of cyber or other security threats or other disruptions to our business, the impact of inflationary pressures on the United States economy and our operations and other risks and uncertainties. The foregoing list should not be construed as exhaustive, and the Company disclaims any obligation subsequently to revise any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events. The Company wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company is a smaller reporting company as defined under Securities and Exchange Commission Rule 12b-2. Pursuant to the exemption available to smaller reporting company issuers under Item 305 of Regulation S-K, quantitative and qualitative disclosures about market risk, the Company is not required to provide the information for this item.

Item 4. Controls and Procedures

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

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

PART II: Other Information and Signatures

Item 1. Legal Proceedings

Currently, there are no matters pending against the Company which could reasonably be expected to have a material adverse effect on our business, financial condition, results of operations or cash flows.

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

(a) Securities Sold

(c) Securities Repurchased

As of December 31, 2024 the Company can repurchase up to $783,460 of its common stock pursuant to an existing authorization by the Board of Directors. During the quarter ended December 31, 2024 no shares were repurchased.

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

None

Item 6. 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/ David O'Neil
David O'Neil
President and Chief Executive Officer

/s/ Katrina Sparano
Katrina Sparano
Principal Financial Officer

Date: February 12, 2025

EXHIBIT 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

I, David O’Neil, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Espey Mfg. & Electronics Corp;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15(d)-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: February 12, 2025

/s/ David O’Neil
David O’Neil
President and Chief Executive Officer

EXHIBIT 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

I, Katrina Sparano, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Espey Mfg. & Electronics Corp;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15(d)-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 12, 2025

/s/ Katrina Sparano
Katrina Sparano
Principal Financial Officer

EXHIBIT 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

In connection with this quarterly report of Espey Mfg. & Electronics Corp. (the "Company") on Form 10-Q for the period ended December 31, 2024 as filed with the Securities and Exchange Commission on the date hereof (the “report”), I, David O’Neil, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in this report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 12, 2025

/s/ David O’Neil
David O’Neil
President and Chief Executive Officer

EXHIBIT 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

In connection with this quarterly report of Espey Mfg. & Electronics Corp. (the "Company") on Form 10-Q for the period ended December 31, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "report"), I, Katrina Sparano, Principal Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in this report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 12, 2025

/s/ Katrina Sparano
Katrina Sparano
Principal Financial Officer