ESPEY MFG & ELECTRONICS CORP
Form 10QSB
November 13, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-QSB

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

For the Quarterly Period Ended September 30, 2007

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

For the transition period from __________ to __________

Commission File Number I-4383

ESPEY MFG. & ELECTRONICS CORP.

(Exact name of registrant as specified in charter)

NEW YORK 14-1387171

(State of Incorporation) (I.R.S. Employer's Identification No.)

233 Ballston Avenue, Saratoga Springs, New York 12866

(Address of principal executive offices)

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

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

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

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

Class	Outstanding at November 12, 2007
Common stock, $.33-1/3 par value	2,320,150 shares

Transitional Small Business Disclosure Format YES [ ] NO [ ]

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

		PAGE
PART I	FINANCIAL INFORMATION	
	Item 1 Financial Statements:	
	Balance Sheet (Unaudited) - September 30, 2007	1
	Statements of Income (Unaudited) - Three Months Ended September 30, 2007 and 2006	2
	Statements of Cash Flows (Unaudited)- Three Months Ended September 30, 2007 and 2006	3
	Notes to Financial Statements (Unaudited)	4
	Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations	7
	Item 3 Controls and Procedures	10
PART II	OTHER INFORMATION	11
	Item 1 Legal Proceedings	11
	Item 2 Unregistered Sales of Equity Securities and Use of Proceeds	11
	Item 3 Defaults on Senior Securities	11
	Item 4 Submission of Matters to a Vote of Security Holders	11
	Item 5 Other Information	11
	Item 6 Exhibits	11
	SIGNATURES	12

PART I: FINANCIAL INFORMATION

ESPEY MFG. & ELECTRONICS CORP.
Balance Sheet (Unaudited)
September 30, 2007

ASSETS:	
Cash and cash equivalents	$ 11,036,079
Short term investments	4,320,000
Trade accounts receivable, net	3,356,244
Other receivables	5,934
Income taxes receivable	64,358
Inventories:	
Raw materials and supplies	1,675,954
Work-in-process	1,952,622
Costs relating to contracts in process, net of advance payments of $194,941 at September 30, 2007	6,896,601
Total inventories	10,525,177
Deferred income taxes	181,606

Prepaid expenses and other current assets	404,708
Total current assets	29,894,106
Property, plant and equipment, net	2,881,686
Total assets	$ 32,775,792
LIABILITIES AND STOCKHOLDERS' EQUITY:	
Accounts payable	$ 548,807
Accrued expenses:	
Salaries, wages and commissions	187,393
Vacation	491,242
ESOP payable	90,643
Other	45,921
Payroll and other taxes withheld and accrued	64,754
Income taxes payable	--
Total current liabilities	1,428,760
Deferred income taxes	168,612
Total liabilities	1,597,372
Common stock, par value $.33-1/3 per share. Authorized 10,000,000 shares; issued 3,029,874 shares on September 30, 2007. Outstanding 2,315,750 (includes 243,125 Unearned ESOP Shares) on September 30, 2007	1,009,958
Capital in excess of par value	13,022,234
Retained earnings	27,285,761
Less: Unearned ESOP Shares	(3,600,459)
Cost of 714,124 Treasury shares on September 30, 2007	(6,539,074)
Total stockholders' equity	31,178,420
Total liabilities and stockholders' equity	$ 32,775,792

See accompanying notes to the financial statements.

1

ESPEY MFG. & ELECTRONICS CORP.
Statements of Income (Unaudited)
Three Months Ended September 30, 2007 and 2006

	Three Months 2007	2006
Net sales	$6,301,786	$6,071,906
Cost of sales	4,952,676	4,674,598
Gross profit	1,349,110	1,397,308

Selling, general and administrative expenses	667,553	726,980
Operating income	681,557	670,328
Other income (expense)		
Interest and dividend income	196,121	145,511
Other	19,485	3,625
	215,606	149,136
Income before income taxes	897,163	819,464
Provision for income taxes	305,580	276,414
Net income	$ 591,583	$ 543,050
Net income per share:		
Basic	$ 0.29	$ 0.27
Diluted	$ 0.28	$ 0.26
Weighted average number of shares outstanding:		
Basic	2,065,879	2,034,014
Diluted	2,103,746	2,060,338
Dividends per share:	$ 0.1750	$ 0.1300

See accompanying notes to the financial statements.

ESPEY MFG. & ELECTRONICS CORP.
Statements of Cash Flows (Unaudited)
Three Months Ended September 30, 2007 and 2006

	September 30 2007	
Cash Flows From Operating Activities:		
Net income	$ 591,583	$
Adjustments to reconcile net income to net cash provided by operating activities:		
Excess tax benefits from share-based compensation	53,725	
Stock-based compensation	50,840	
Depreciation	123,657	

ESOP compensation expense	134,247	
Loss on disposal of assets	1,526	
Deferred income tax	(14,229)	
Changes in assets and liabilities:		
(Increase) decrease in trade receivable, net	(335,763)	
(Increase) decrease in other receivables	(2,486)	
Increase in income taxes receivables	(64,358)	
Decrease (increase) in inventories	624,150	
Decrease (increase) in prepaid expenses and other current assets	143,504	
(Decrease) increase in accounts payable	(432,144)	
Increase in accrued salaries, wages and commissions	25,191	
Decrease in other accrued expenses	(114)	
Decrease in vacation accrual	(91,239)	
Increase in payroll and other taxes withheld and accrued	22,688	
Decrease in income taxes payable	(253,668)	
Decrease in ESOP payable	(43,604)	
Net cash provided by operating activities	533,506	
Cash Flows From Investing Activities:		
Additions to property, plant and equipment	(72,359)	
Purchase of short term investments	(864,000)	
Maturity of short term investments	864,000	
Net cash used in investing activities	(72,359)	
Cash Flows From Financing Activities:		
Dividends on common stock	(360,147)	
Purchase of treasury stock	(370,857)	
Proceeds from exercise of stock options	156,100	
Excess tax benefits from share-based compensation	53,725	
Net cash used in financing activities	(521,179)	
(Decrease) increase in cash and cash equivalents	(60,032)	
Cash and cash equivalents, beginning of period	11,096,111	
Cash and cash equivalents, end of period	11,036,079	
Supplemental disclosures of cash flow information:		
Income Taxes Paid	$ 540,000	$

See accompanying notes to the financial statements.

3

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

Note 1. Basis of Presentation

In the opinion of management the accompanying unaudited financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary for a fair presentation of the results for such periods. The results for any interim period are not necessarily indicative of the results to be expected for the full fiscal year. Certain information and footnote disclosures normally included in financial statements prepared in accordance with United States generally accepted accounting principles have been condensed or omitted. These financial statements should be read in conjunction with the Company's most recent audited financial statements included in its report on Form 10-KSB for the year ended June 30, 2007.

Note 2. Net income per Share

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

Note 3. Stock Based Compensation

Effective July 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (Revised 2004),"Share-Based Payment" ("SFAS No. 123 (R)"), which amends SFAS No. 123 and supersedes Accounting Principles Board Opinion ("APB") No. 25 in establishing standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services, as well as transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that maybe settled by the issuance of those equity instruments. SFAS No. 123(R) requires that the cost resulting from all share-based payment transactions be recognized in the financial statements based on the fair value of the share-based payment. SFAS No.123(R) establishes fair value as the measurement objective in accounting for share-based payment transactions with employees, except for equity instruments held by employee share ownership plans. As allowed under SFAS No. 123(R), the Company elected the modified prospective method of adoption, under which compensation cost is recognized in the financial statements beginning with the effective date of SFAS No. 123(R) for all share-based payments granted after that date, and for all unvested awards granted prior to the effective date of SFAS No. 123(R). Accordingly, prior period amounts have not been restated.

Total stock-based compensation expense recognized in the Statement of Income for the three months ended September 30, 2007 and 2006, was $50,840 and $39,189, respectively, before income taxes. The related total deferred tax benefit was approximately $4,017 and $3,069, for the three months ended September 30, 2007 and 2006, respectively. Prior to the adoption of SFAS No. 123(R), the Company presented all tax benefits for deductions resulting from the exercise of stock options as operating cash flows in the Statements of Cash Flows. SFAS No. 123(R) requires the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options to be classified and reported as both an operating cash outflow and a financing cash inflow on a prospective basis upon adoption.

As of September 30, 2007, there was approximately $120,183 of unrecognized compensation cost related to stock option awards that is expected to be recognized as expense over a period of 1.5 years.

The Company has one employee stock option plan, the 2000 Stock Option Plan (the "2000 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 to satisfy option grants are issued from Treasury stock. Options authorized for issuance under the 2000 Stock Option Plan totaled 275,300. As of September 30, 2007, of the options authorized for issuance, 123,200 were granted and are outstanding, 21,800 of which are vested and exercisable.

4

Options available for future grants at September 30, 2007 total 75,400. If approved by the Company's shareholders at the Company's Annual Meeting on November 30, 2007, the 2007 Stock Option and Restricted Stock Plan (the "2007 Plan") will supercede the 2000 Plan and no further grants of options will be made under said plan. Four hundred thousand shares would be available for the grant of options or restricted stock awards under the 2007 Plan.

SFAS No. 123(R) requires the use of a valuation model to calculate the fair value of stock-based awards. The Company has elected to use the Black-Scholes option valuation model, which incorporates various assumptions including those for volatility, expected life and interest rates.

The table below outlines the weighted average assumptions that the Company used to calculate stock-based employee compensation for the three months ended September 30, 2007:

	Three Months Ended September 30, 2007
Dividend yield	2.40 %
Expected stock price volatility	22.29 %
Risk-free interest rate	4.54 %
Expected option life (in years)	5
Weighted average fair value per share of options granted during the period	$4.04

The Company pays dividends quarterly and does plan to pay dividends in the foreseeable future. Expected stock price volatility is based on the historical volatility of the Company's stock. The risk-free interest rate is based on the implied yield available on U.S. Treasury issues with an equivalent term approximating the expected life of the options. The expected option life (in years) represents the estimated period of time until exercise and is based on the safe harbor calculation under SFAS No. 123.

The following table summarizes stock option activity during the three months ended September 30, 2007:

	Employee Stock Options Plan		
	Number of Shares Subject To Option	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Balance at July 1, 2007	138,800	$15.77	8
Granted	--	--	--
Exercised	(15,600)	$10.01	--
Forfeited or expired	--	--	--

Balance September 30, 2007	123,200	$16.50	8
Exercisable at September 30, 2007	21,800	$10.31	6

The intrinsic value of stock options exercised was $17,914, during the three months ended September 30, 2007. The intrinsic value of stock options outstanding and exercisable as of September 30, 2007 and 2006, was $239,585 and $387,525, respectively.

Note 4. Commitments and Contingencies

The Company at certain times enters into standby letters of credit agreements with financial institutions primarily relating to the guarantee of future performance on certain contracts. Contingent liabilities on outstanding standby letters of credit agreements aggregated to zero at September 30, 2007. As a government contractor, the Company is continually subject to audit by various agencies of the U.S. Government to determine compliance with various procurement laws and regulations. As a result of such audits and as part of normal business operations of the Company, various claims and charges can be asserted against the Company. It is not possible to predict the outcome of such actions. Currently the Company has no claims or assertions against it.

Note 5. Recently Issued Accounting Standards

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

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

Note 6. Employee Stock Ownership Plan

The Company sponsors a leveraged employee stock ownership plan (the "ESOP") that covers all nonunion employees who work 1,000 or more hours per year and are employed on June 30.

The Company makes annual contributions to the ESOP equal to the ESOP's debt service less dividends on unallocated shares received by the ESOP. All dividends on unallocated shares received by the ESOP are used to pay debt service. Dividends on allocated ESOP shares are recorded as a reduction of retained earnings. As the debt is repaid, shares are released and allocated to active employees, based on the proportion of debt service paid in the year. The Company accounts for its ESOP in accordance with Statement of Position 93-6. Accordingly, the shares purchased by the ESOP are reported as Unearned ESOP Shares in the statement of financial position. As shares are released or committed-to-be-released, the Company reports compensation expense equal to the current average market price of the shares, and the shares become outstanding for earnings-per-share (EPS) computations. ESOP compensation expense was $134,247 for the quarter ended September 30, 2007. The ESOP shares as of September 30, 2007 were as follows:

Allocated Shares	434,553
Committed-to-be-released shares	6,042
Unreleased shares	243,125
Total shares held by the ESOP	683,720
Fair value of unreleased shares at September 30, 2007	$5,178,563

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

Overview

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

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

There is competition in all classes of products manufactured by the Company from divisions of the largest electronic companies, as well as many small companies. The Company's sales do not represent a significant share of the industry's market for any class of its products. The principal methods of competition for electronic products of both a military and industrial nature include, among other factors, price, product performance, the experience of the particular company and history of its dealings in such products. The Company, as well as other companies engaged in supplying equipment for military use, is subject to various risks, including, without limitation, dependence on United States and foreign government appropriations and program allocations, the competition for available military business, and government termination of orders for convenience.

In the first three months of fiscal 2008, the Company received approximately $4.2 million in new orders. These orders include both follow-on production quantities for mature products, and engineering development orders which will enable the Company to utilize its engineering expertise in developing new customer specific products. Some of these products, once developed, will be produced in the Company's manufacturing facility and are expected to provide large production order quantities over several years. These orders are in line with the Company's strategy of being involved in long-term high quantity military and industrial products.

The sales backlog of approximately $34.1 million at September 30, 2007 gives the Company a solid base of future sales and, therefore, management expects sales for fiscal 2008 to equal or exceed sales for fiscal 2007. In addition to the backlog, the Company currently has outstanding quotations and expected business representing approximately $42 million in the aggregate for both repeat and new programs.

Sales to two significant customers in the first quarter of fiscal 2008 and 2007 represented 56.9% and 56.8%, respectively, of the Company's total sales. While the Company has always had a small number of customers that account for a large percentage of its total sales in any given year, management is pursuing business opportunities involving significant product programs with new and current customers with an overall objective of lowering the concentration of sales and minimizing the impact of a significant customer or excessive reliance upon a single major product program of a particular customer. The current backlog of $34.1 million includes $23.5 million from these two customers at September 30, 2007.

The outstanding quotations encompass various new and previously manufactured power supplies, transformers, and subassemblies. However, there can be no assurance that the Company will acquire any or all of the anticipated orders described above, many of which are subject to allocations of the United States defense spending and factors affecting the defense industry and military procurement generally.

The total backlog for the Company of $34.1 million at September 30, 2007, down $1.5 million over September 30, 2006, represents the estimated remaining sales value of work to be performed under firm contracts. These contracts include significant orders for military and industrial power supplies, and contracts to manufacture certain customer products in accordance with pre-engineered requirements. The funded portion of this backlog at September 30, 2007 is approximately $33.8 million. This includes items that have been authorized and appropriated by Congress and/or funded by the customer. The unfunded backlog is approximately $316,000 and represents one order for which funding has not yet been received from the 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. The unfunded backlog at September 30, 2006 was $4.3 million.

Management, along with the Board of Directors, continues to evaluate the availability of and use of the Company's working capital. Expectations are that the working capital will be required to fund new orders over the next several quarters, dividend payments, and general operations of the business. Also, the

Mergers and Acquisitions Committee of the Board of Directors continues to evaluate potential strategic options on a periodic basis.

Critical Accounting Policies and Estimates

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

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

Percentage of completion accounting requires judgment relative to expected sales, estimating costs and making assumptions related to technical issues and delivery schedule. Contract costs include material, subcontract costs, labor and an allocation of overhead costs. The estimation of cost at completion of a contract is subject to numerous variables involving contract costs and estimates as to the length of time to complete the contract. Given the significance of the estimation processes and judgments described above, it is possible that materially different amounts of expected sales and contract costs could be recorded if different assumptions were used, based on changes in circumstances, in the estimation process. When a change in expected sales value or estimated cost is determined, changes are reflected in current period earnings.

Results of Operations

Net sales for the three months ended September 30, 2007 were $6,301,786 as compared to $6,071,906 for the same period in 2006, representing a 3.8% increase. Generally, this increase can be attributed to the contract specific nature of the Company's business. The Company continues to deliver product on its single largest order for power supplies and the increase in sales for the quarter is largely attributable to an increase in shipments on this order. New orders received in the first three months of fiscal 2008 were approximately $4.2 million compared to approximately $3.9 million in the first three months of fiscal 2007. The sales order backlog has been over $30 million for ten quarters in a row and expectations are this trend will continue.

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

For the three months ended September 30, 2007 and 2006 gross profits were $ 1,349,110 and $1,397,308, respectively. Gross profit as a percentage of sales was 21.4% and 23%, for the three months ended September 30, 2007 and 2006, respectively. The reduced gross profit percentage in the three months ended September 30, 2007, was the result of higher overhead expenses including supervisory labor for quality control and production, ESOP contribution, production supplies and maintenance. Management continues to evaluate the Company's workforce to ensure that production and overall execution of the backlog orders and additional anticipated orders are successfully performed. Employment at September 30, 2007 was 182 compared to 173 people at September 30, 2006.

Selling, general and administrative expenses were $667,553 for the three months ended September 30, 2007, a decrease of $59,427 compared to the three months ended September 30, 2006. The decrease is primarily due to the decreased labor for administrative purposes and lower selling costs due to reduced headcount.

Other income for three months ended September 30, 2007 increased as compared to the three months ended September 30, 2006, due to increased interest income on the Company's cash and cash equivalents and short-term investments due to higher interest rates. The Company does not believe that there is a significant risk associated with its investment policy, since at September 30, 2007 all of the investments are primarily represented by short-term liquid investments including certificates of deposit and money market funds.

The effective income tax rate at September 30, 2007 and 2006 was 34.1% and 33.7% respectively. The effective tax rate for September 30, 2006 is less than the statutory tax rate mainly due to the foreign exportation benefit the Company receives on its international sales, the Qualified Production Activities benefit, and the benefit derived from the ESOP dividends paid on allocated shares.

Net income for the three months ended September 30, 2007, was $591,583 or $.29 and $.28 per share, basic and diluted, respectively, compared to $543,050 or $.27 and $.26 per share, basic and diluted, respectively, for the three months ended September 30, 2006. The increase in net income per share was due to the decrease in selling, general and administrative expenses, increased interest income, offset partially by reduced gross profit as a percentage of sales.

Liquidity and Capital Resources

The Company's working capital is an appropriate indicator of the liquidity of its business, and during the past three fiscal years, the Company, when possible, has funded all of its operations with cash flows resulting from operating activities and when necessary from its existing cash and investments. The Company did not borrow any funds during the last three fiscal years. Management 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. This line of credit expires on November 30, 2007.

The Company's working capital as of September 30, 2007 was approximately $28.5 million. During the three months ended September 30, 2007 and 2006 the Company repurchased 16,743 and 1,766 shares, respectively, of its common stock from the Company's ESOP, for a total purchase price of $370,857 and $31,126, respectively. Under existing authorizations from the Company's Board of Directors, as of September 30, 2007, management is authorized to purchase an additional $1,629,143 of Company stock.

	Three Months Ended September 30, 2007	2006
Net cash provided by operating activities	$ 533,506	$ 1,560,125
Net cash used in investing activities	(72,359)	(397,933)
Net cash used in financing activities	(521,179)	(170,456)

Net cash provided by operating activities fluctuates between periods primarily as a result of differences in net income, the timing of the collection of accounts receivable, purchase of inventory, level of sales and payment of accounts payable. Net cash used in investing activities decreased in the first three months of fiscal 2008 due to the increase in maturities of short-term investments. The increase in cash used in financing activities is due primarily to the purchases of treasury stock during the current quarter.

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 three months ended September 30, 2007 and 2006, the Company expended $72,359 and $109,933, respectively, for plant improvements and new equipment. The Company has budgeted approximately $400,000 for new equipment and plant improvements in fiscal 2008. Management presently anticipates that the funds required will be available from current operations.

The Company at certain times enters into standby letters of credit agreements with financial institutions primarily relating to the guarantee of future performance on certain contracts. Contingent liabilities on outstanding standby letters of credit agreements aggregated to zero at September 30, 2007.

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

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

Item 3. Controls and Procedures

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

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

PART II: Other Information and Signatures

Item 1. Legal Proceedings

None

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

(a) None

(c) Securities Repurchased

Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Program	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plan or Program (1)
August 1 to August 31, 2007	16,743	$22.15	16,743	$1,629,143

(1) Pursuant to a prior Board of Directors authorization, as of September 30, 2007 the Company can repurchase up to $1,629,143 of its common stock pursuant to an ongoing plan.

Item 3 Defaults on Senior Securities

None

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

None

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/ Howard Pinsley

Howard Pinsley, President and
Chief Executive Officer

/s/ David O'Neil

David O'Neil, Treasurer and
Principal Financial Officer

November 12, 2007

Date